

Embracing change

Driving growth by taking a fresh approach
to running your family business

PwC's Family Business Survey 2019
PNG findings



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Introduction



Family businesses in PNG have big plans. They want to increase profitability, professionalise the business, attract and retain the best talent, build their digital capabilities and at the same time, create a positive impact in the community.

These goals are similar to the goals of larger, more established, corporate businesses, which, in most cases, are also the competitors of local family businesses. These corporates are quick to adapt to the changing business environment, especially in the digital space. On the other hand, in most cases, family businesses in PNG are still operating the way they have for many years. To remain competitive, our findings suggest that family businesses in PNG have much to gain from embracing change.

While a significant number of PNG family firms have grown over the last 12 months and are expecting to grow in the next two years, they stand to benefit from further growth opportunities that could arise from doing things differently in the following areas:

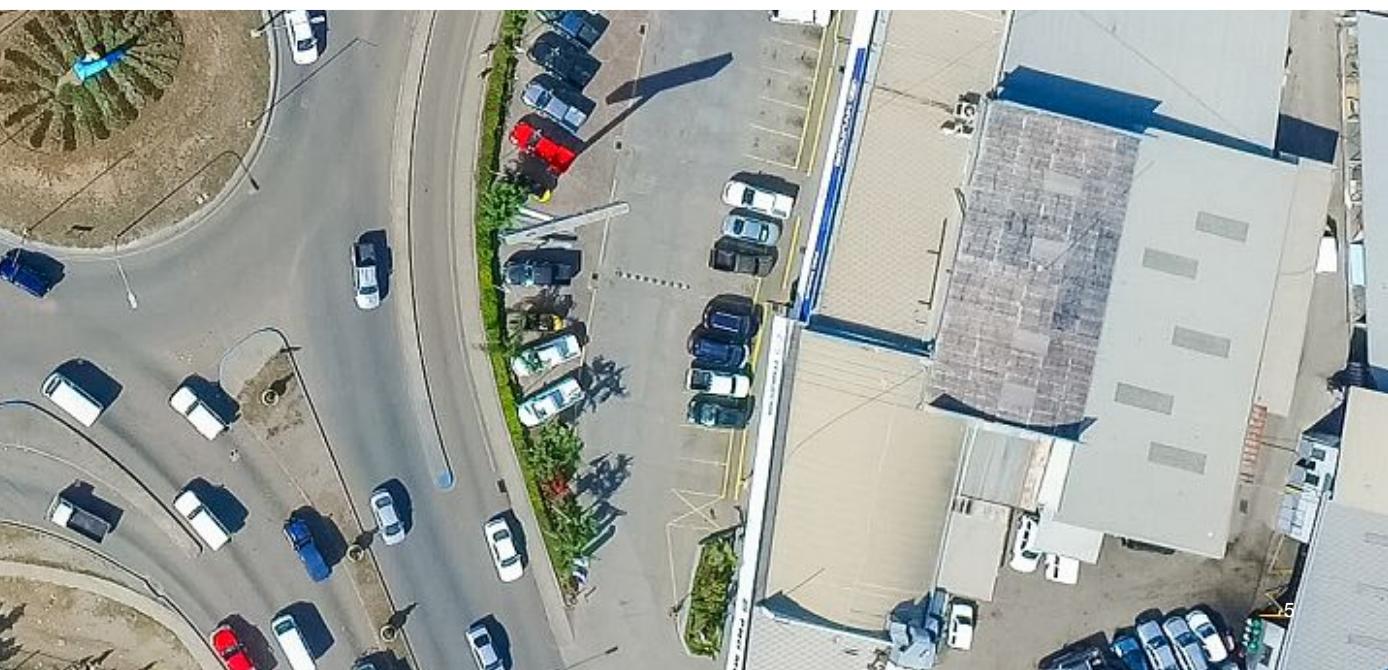
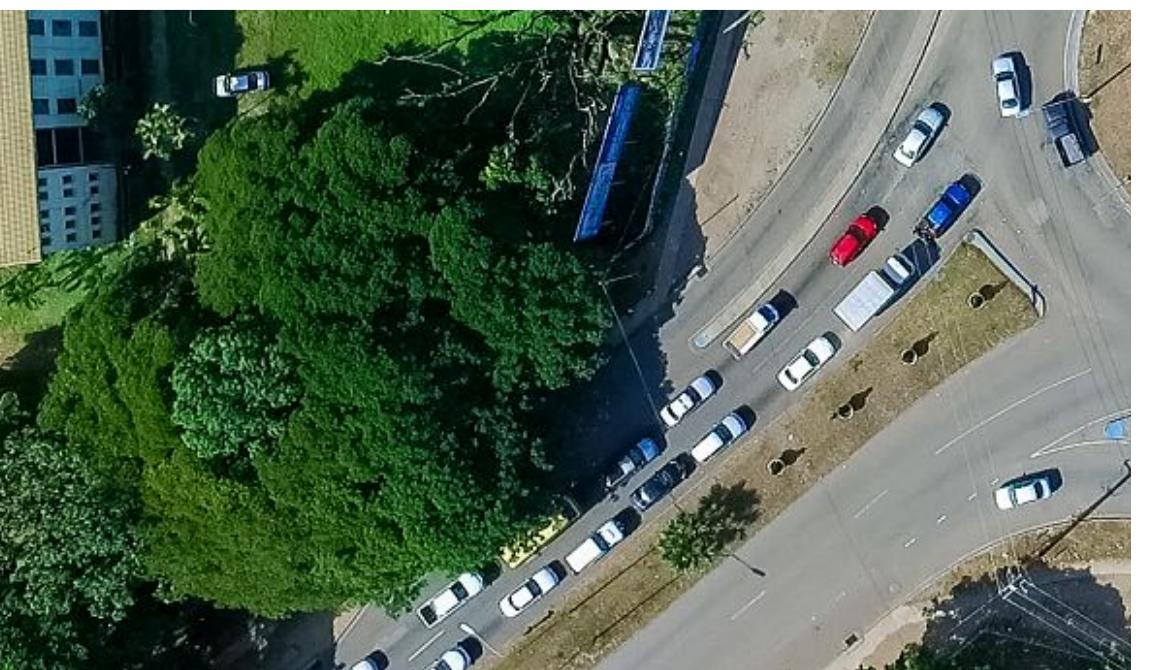
- having a more strategic approach to sustainably grow the business
- driving innovation through digital capabilities
- professionalising the business
- formalising values and purpose to create greater impact in the community.

The use of digital tools, which are easily accessible nowadays, is a great place to start driving change. Digital technology can empower family businesses, thus creating a level playing field even when competing with corporates.

Echoing the global findings of this survey, there is a strong opportunity for family businesses to turn their values and purpose into a valuable asset that could help them generate real gains if they're able to formalise these and incorporate them into their strategy.

PwC's first Family Business Survey report for PNG digs deep into these opportunities and provides suggestions on what family firms can do differently to maximise potential gains.

Sustaining profitability and growth



Survey findings show that a significant proportion of local family firms have a generally positive sentiment towards the business environment. More than half (58%) have grown over the last 12 months, 23% of which have experienced double-digit growth. They are also confident about short-term business growth, with 68% expecting to grow in the next two years.

This anticipation of growth can be associated with a number of significant resource projects nearing the development stage, such as Papua LNG, PNG LNG expansion, Wafi Golpu and Frieda River.

On the other hand, improving profitability is high on the priority list of family business leaders in PNG. In fact, more than eight out of ten cited this as their key goal for the next two years. This core business priority can be attributed to the uncertain economic environment in recent years, with family businesses experiencing reduced turnover and profitability amidst a challenging backdrop.



PNG family firms' top personal and business goals



84%
To improve profitability



68%
To professionalise the business



68%
To contribute to the community and leave a positive legacy



68%
To achieve work-life balance

65%

To attract and retain the best talent for the business

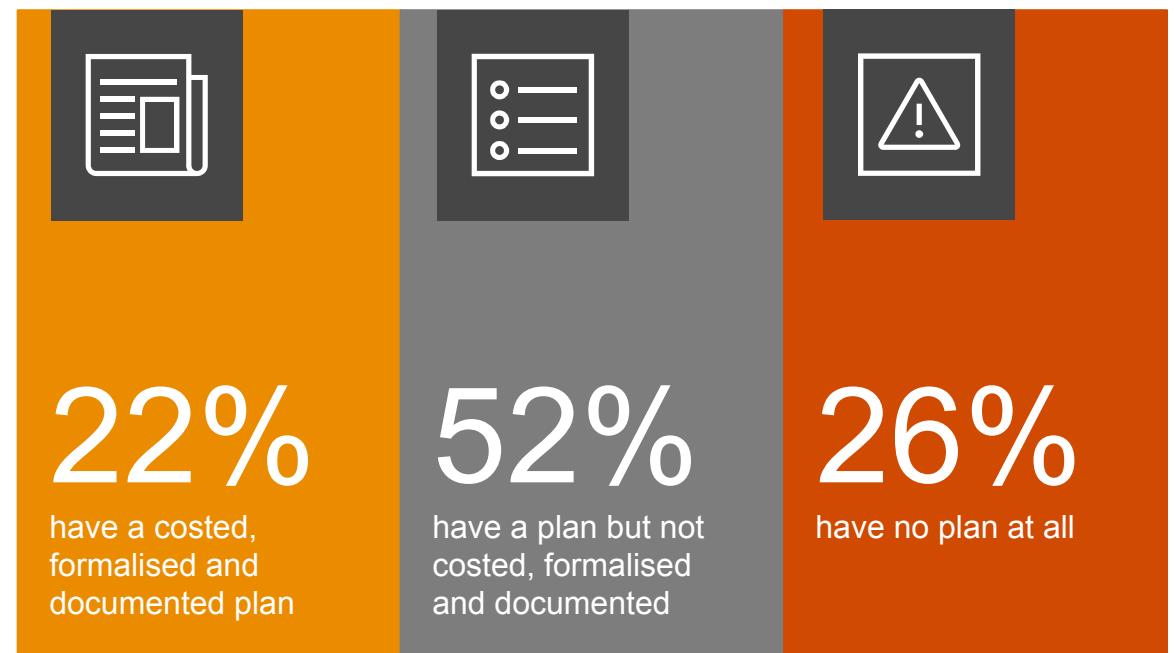


While it's imperative for family businesses to improve profitability, it is equally important to have a big-picture approach to achieve growth and longevity. Essential to this is a mid-term strategic plan. The global findings of this survey reveal that 55% of companies that have recorded at least 10% annual growth have a costed, formalised and documented strategic plan for the next three to five years.

Yet, in PNG, only 22% have a costed, formalised and documented strategic plan, and 26% have no plan at all. To put these figures in perspective, globally, almost half of family firms have such a plan.

The findings underline the need for family businesses to create a proper mid-term strategic plan that is not only costed, formalised and documented, but also communicated with the company's management team.

Do PNG family firms have a mid-term strategic plan?



Creating a winning mid-term strategic plan

Decide on the direction that you want to take

Analyse where your business is right now. Do you have a unique competitive advantage? What needs to change? Then think about where you want to be in the next three to five years. Be clear about what you want to achieve, and then work out what you need to do to get there - from your products and services to your human resources and balance sheet.

Delegate responsibilities

Let family members and managers drive some aspects of the plan. Support them with the resources they need.

Involve your family and trusted advisors

Ask for input from your family, especially the next generation, your managers and your external advisors. The more input you get, the more robust your strategic plan will be.

Measure, monitor and adapt

As you implement your plan, evaluate how well it's working, and modify it where necessary. Monitor your progress using objective KPIs.

Translate the strategic plan into a business plan

Think about your tactics. Come up with an action and implementation plan for the next 12 months to support the first phase of your strategic plan.



Building
digital capabilities
and human capital



Increasing profitability (84%), professionalising the business (68%) and attracting and retaining the best talent (65%) are among the top business goals of family firms in PNG.

However, realising these goals also means overcoming the key challenges they face - accessing talent with the right skills and capabilities (61%), and driving innovation to stay ahead of the competition (52%).

To overcome these challenges and eventually help them achieve their goals, it is crucial for family firms to focus on building these two areas - digital capabilities and human capital. Among other things, they need to get started on what they said they would like to achieve in two years - that is to significantly enhance their digital capabilities (48%) and to bring experienced professionals from outside the family to help run the business (39%).

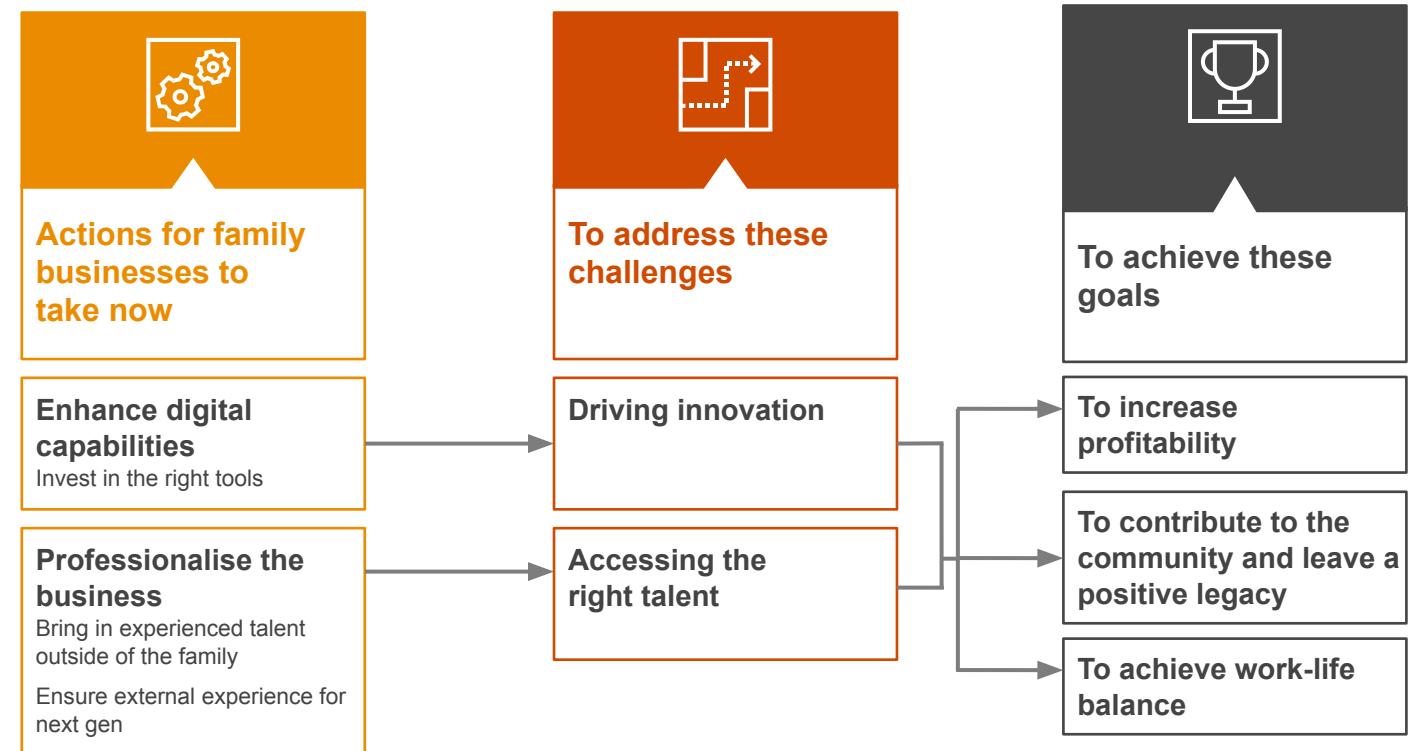
Deemed as a growth enabler for businesses the world over, digital technology can help increase operational efficiency and productivity, and therefore, drive profitability. It can also kickstart innovation.

For instance, family businesses need to invest in the right tools that will help employees to get their job done more quickly and accurately, and the management to see the real-time status of the business' health. With a large portion of the National Transmission Network, which includes the Coral Sea Cable System and the Kumul Submarine Network, expected to be complete by 2020, now is an opportune time for family businesses to make significant steps to boost their digital capabilities.

Professionalising the business is also a pathway to attracting and retaining the best talent. Bringing in experienced talent outside of the family who can provide fresh insights on business strategy, processes and systems is vital to professionalising the business. Another way to professionalisation is ensuring that the next generation of business leaders gain some experience by working for other organisations prior to joining the family enterprise.

On the other hand, recruiting and retaining the right talent has been a constant challenge for PNG businesses in general. Domestically, family businesses may even find this more challenging because they have to compete for talent with large multinationals. Therefore, to recruit and retain the right talent, family firms need to invest in training its people, and create an environment that challenges, nurtures and develops them.

What can PNG family businesses do now to achieve their business goals?



Boosting digital capabilities and human capital to achieve business goals

Be open

Accept the fact that the digital revolution has transformed the way we work and do business. You might have to rethink your assumptions about the way your business creates value.

Educate yourself

Take time to learn about emerging technologies that could help you revolutionise your business. As a start, have a look at our take on the [Essential Eight](#) technologies that matter most for business today.

Engage your next gen

Millennials are extremely tech-savvy so leverage this to get their views on how to use digital technology in the business.

Keep your people in mind while digitalising your business

Your people should be at the centre of your digitalisation journey. Train them and help them adapt to the changes in your business.

Ensure external work experience for your next gen

Having the next generation of family business leaders work for other organisations before joining the business can bring a new perspective to running the company and professionalise the business.

Bridging the gaps in succession planning



PNG family firms are looking to keep the business within the family



71%

want to pass on management and/or ownership to the next generation (57% globally)



39%

are looking to bring in professionals from outside the family (53% globally)

Transitioning from one generation to the next is a crucial phase in the life cycle of family businesses, making succession planning vital for success and longevity.

Succession planning also helps to ensure that the family is able to navigate business and personal relationships without risking the firm, and develop the next generation family members to hold leadership roles in the business.

In PNG, more than six out of ten family-owned enterprises have next generation family members working in the business.

Survey findings also suggest that PNG family firms are looking to keep the business within the family, with 71% intending to pass on management and/or ownership to the next generation, much higher than 57% globally. Additionally, only 39% say that they will bring in professional expertise from outside the family, compared to the global average of 53%.

Despite the direction that local family businesses want to take, only 13% have a robust, formalised and communicated succession plan, and more than half have no plan in place. In addition to this, nearly four out of ten cited succession as a key business challenge in the next two years.

Therefore, current owners have a lot to do if they want to realise their vision of continuing to grow and passing on the family business.

PNG family businesses fall behind their global counterparts when it comes to processes and procedures around family governance and involvement in the family business. While 65% have some form of family governance process in place, this is well below the global response of 84% and is predominantly just having a last will or testament.

Best practice indicates that family businesses should also have, among others, a shareholders agreement, a family constitution and conflict resolution mechanisms. Yet in PNG, less than 20% of family businesses have established such processes.

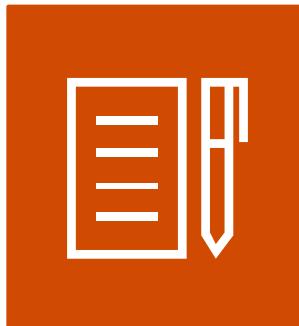
Although just under 50% of local family business owners indicated that they have a testament or a last will, our interactions with them reveal that most of these documents are not up to date.

To ensure that these documents effectively cover the current state of the owner's business, assets and family, as well as reflect up to date regulations and tax laws, it is important for a testament or last will to be updated on a regular basis.

Despite these gaps, it seems that family businesses realise that this needs to change and there is a lot of work to be done in this space. When asked about their key personal and business goals for the next two years, 68% said to professionalise the business, which placed second to improving profitability.

It is critical for family firms to act sooner rather than later. They need to start crafting their succession plans and putting together family governance mechanisms, which are essential to help them achieve their goals of keeping the business within the family.

PNG family firms fall behind their global peers when it comes to having family governance processes



19%

of local family businesses have shareholders agreement (56% globally)

Getting succession planning started

Consult the family

Start the conversation early and involve the family, especially the next generation, in creating a succession plan.

Document and communicate

Document the plan, communicate it with the family and ensure that they understand the goals of the plan.

Invest in your people

Develop and train high potential talent and the next generation to take on leadership roles.

Look outside the family

Put together an advisory board that are not part of the business nor the family to get a fresh and objective perspective on key decision areas.

Agree on vision, mission and values

Make sure that the next generation understand and put into practice the business' vision, mission and values.

Aligning business, values and purpose



Having a documented purpose and mission that is communicated to the rest of the business is an essential growth driver for family firms. In fact, global survey findings reveal that companies that have documented their family values and purpose (or mission statement) are also more likely than average to:

- have a formal succession plan in place
- have a fully costed, formalised and communicated mid-term strategic plan in place
- have grown in the last two years
- expect growth in the next two years.

Among local family firms, 65% have a clear sense of agreed values and purpose as a company, lower than the global average of 79%. Yet only 29% have their values and purpose in written form, much lower than the global average of 49%.

These findings reveal that PNG respondents are well behind their global peers when it comes to documenting and formalising their business and family values. However, this also means that there is an opportunity for local family firms to harness the positive impact of institutionalising their values and purpose, once they get this done right.

PNG family firms on values



65%

Have a clear sense of agreed business values and purpose (79% globally)

Despite the absence of documented values and purpose, there is alignment between PNG family firms' long and short-term goals with respect to creating legacy and having an impact in the community. In the long term, almost three out of four want to create a legacy; and more than two out of three want to protect the business as the most important family asset; and about the same proportion want to create employment for the wider community.



29%

Have documented their values and purpose (49% globally)

In the next two years, they are looking to improve profitability (84%), professionalise the business (68%) and contribute to the community and leave a positive legacy (68%, which is higher than the global response of 60%).

When it comes to philanthropic activities, more than nine out of ten said that they provide financial support to good causes and the local community, while more than half offer voluntary services to the local community. Care for, and close involvement in local community matters is a unique attribute of PNG family businesses, which have a long and distinguished history of helping to close the gap in government services.

The key long and short-term goals of PNG family businesses have common underlying themes that also highlight the kind of legacy that they want to create: to build a high-performing business that will enable them to create a positive impact to the community.

PNG family business leaders on the legacy they want for their business



To be associated with ethics, passion and the benchmark of great business leadership. Striving to make a positive impact in the community through business and charitable efforts.



To leave something behind which the community is proud of; the family's contribution to the growth of the town.



A business that is viewed as trustworthy, and a leader in our particular field. A business that our customers and others would naturally think of first.



Maintaining strong relations with the community and our customers, and providing good customer service while providing quality products at competitive prices.

Creating value from your values and purpose

Craft your values and purpose

Family businesses need to put together their values and purpose statement and document them.

Ensure the company is all on the same page

Everyone in the firm must understand the company values and purpose and know how to apply them.

Practice them

The business' values and purpose must be its guiding principles on how employees do their work and make decisions daily.

Integrate them to the business

Use your values and purpose to shape your non-financial KPIs and business reporting.

Make it a priority

To ensure that the business and its values are aligned, discuss it during family meetings and consider appointing someone in the family to drive this.

Getting Price Rite's management reporting right



Peter Seeto
Managing Director, Price Rite

Setting the scene

Price Rite is Popondetta's largest group of retail stores, selling a wide range of products from grocery items to furniture and hardware. The family business was established after the second World War and is now managed by Peter Seeto from the third generation.

Since the 1980s, PwC has been working with Price Rite primarily on their tax return preparation. However, PwC started helping Price Rite more broadly in 2014 when Peter became the first participant of Come Think With Us, our free brainstorming session that aims to help family enterprises identify business issues and a course of action to address these.¹

During the session, we helped identify a number of key areas that needed improvement, including management reporting, business processes and controls, and human capital.

Peter was only receiving financial information on an annual basis, which prevented him from making business decisions quickly. Business processes were not documented, so controls were weak and the staff relied heavily on Peter's guidance. The company also found it difficult to attract and retain the right talent.

¹ For more information on our Come Think With Us sessions, visit <https://pwc.to/2LdNYkp>.

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The advice that PwC has given me over the years has enabled me to look at the business from a different perspective and allowed me to see issues that were previously unseen and unnoticed.

Because of this, I was able to strategically plan the future direction of Price Rite to suit the changing business environment and family needs.

It is for this reason that we have continued to maintain our close association with PwC.

Peter Seeto
Managing Director, Price Rite

How we helped

With the nature of Price Rite's business issues, our Entrepreneurial and Private Business team knew that addressing these would entail collaboration across our teams.

Following the road map produced at the Come Think With Us session, our Entrepreneurial and Private Business team started doing quarterly, and more recently, monthly financial x-rays and management reports for Price Rite.

Our Assurance team did a business review to test Price Rite's controls and help them be 'audit ready'. Our Advisory team was also engaged to address the talent gap, working as an outsourced finance function and shaping the roles and responsibilities of the company's financial controller.

Impact and potential

Thanks to the periodic financial x-rays and improved management reporting process, Peter now has better visibility of his business' financial health on a regular basis. This information also empowers him to take a proactive approach in managing the business, including potential issues and opportunities. In fact, this helped him make a decision to proceed with a capital investment that would significantly expand his business.

Price Rite has also made significant steps to start documenting its processes, enabling employees to follow policies and minimise business risk.

Overall, Price Rite experienced revenue growth, with improving margins, which helped the business to be more resilient to the boom and bust cycle that is common in a resource-driven economy. This has allowed Price Rite to be in a strong position to take advantage of opportunities which will present themselves in future years.

Conclusion



PNG family businesses are lagging behind their global counterparts in many of the dimensions explored in the survey. While this means that they have some work to do in areas such as strategic planning, digital, professionalisation and values, it also means that there is room to grow, and when leveraged, these opportunities can drive the success and longevity of their business.

One area in which PNG family firms ranked higher than their global peers is creating an impact in the community, which is also among the top priorities of local family firms over the next two years. This finding suggests that PNG family enterprises have a strong sense of values and purpose.

When coupled with documented values and purpose and a commitment to practice them consistently, this can make local family businesses well-placed to grow and thrive. Based on the global findings, family businesses that have documented values and purpose are more likely than average to have grown in the last two years, and expect growth in the next two years.

To be fully equipped to capitalise on the opportunities discussed in this report, we offer family businesses the following recommendations:

- **Put together a mid-term strategic plan** that will guide your key business decisions in the next three to five years. Discuss this with the family and get their buy-in.

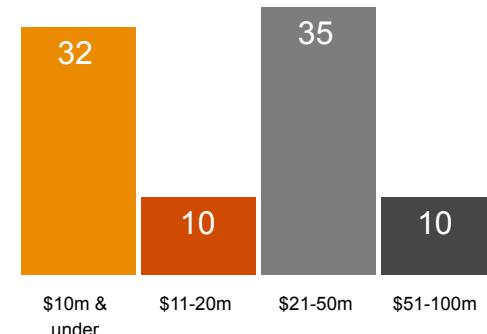
- **Invest in your human capital.** Train, nurture and challenge your employees and bring in professionals from outside the family to provide an independent perspective on managing the business.
- **Boost your digital capabilities** by investing in the right tools.
- **Plan for succession.** Engage the next generation of family business leaders, while ensuring that they get the external experience they need.
- **Document your business values and purpose.** More importantly, use these as your guiding principles on how the management and staff do their work and make decisions.

Methodology and respondents

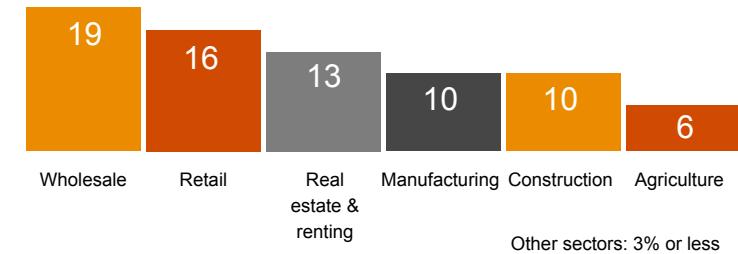
PwC's Family Business Survey 2019 was conducted between 20 April 2018 and 10 August 2018 through semi-structured telephone, online and face-to-face interviews with 2,953 senior executives from family businesses in 53 territories worldwide.

Of the respondents, 31 are from PNG. All of them responded to the survey through an online questionnaire.

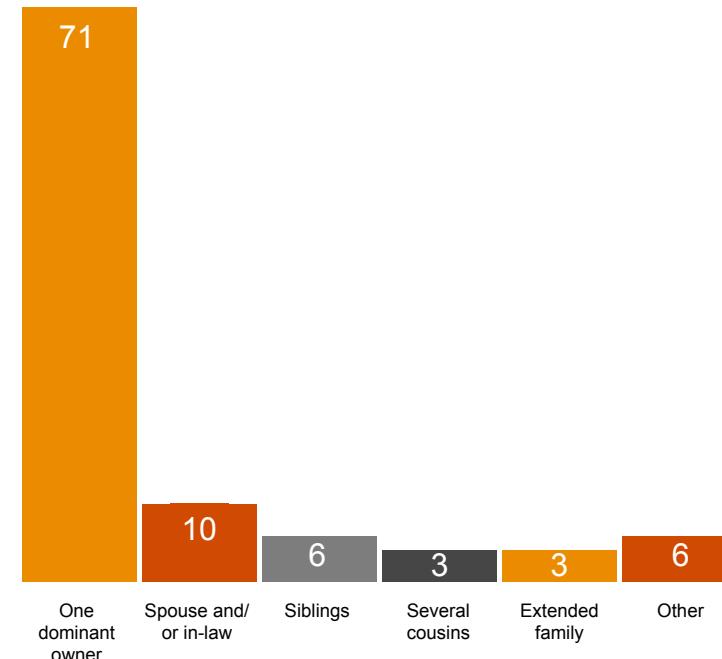
Turnover (sales), %



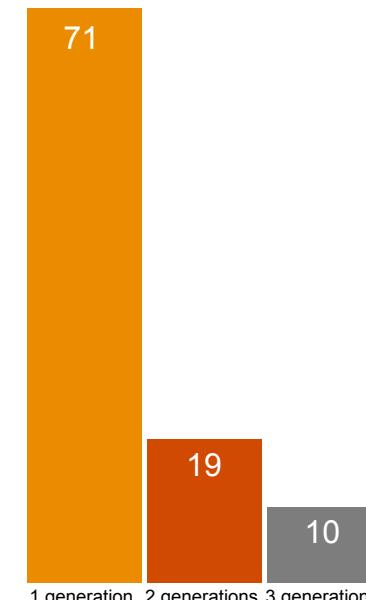
Sector, %



Ownership structure, %



Number of generations, %



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