Chapter 30

The Sustainability of Resource-Sharing Family Business in Relation to Family Non-Economic Goals

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ABSTRACT

Small and medium family businesses have distinct characteristics that differ from large corporations, with distinct challenges to their owner-managers. Many entrepreneurial families seek to achieve non-economic goals and share familial resources without compensation, not necessarily maximization of their sustainable value. As a consequence, traditional financial reporting is of limited use to them, as it does not reflect their priorities. This article introduces sustainability elements in the socio-emotional-wealth theory; identifies a family business type called resource-sharing; proposes a financial ruleset to quantify the sustainable financial position of the company regarding the achievement of non-economic goals of the family; and introduces an integrated mechanism to identify strategic implications for both family and business. Concepts are applied to family businesses from three countries, to verify applicability and usefulness.

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INTRODUCTION

Given the complexity of the family business system where there are emotional and rational components in their decision making, the study of its sustainability is not simple. Current literature shows recent advances on the inclusion of emotional issues based on Socio Emotional Wealth (SEW) (Gómez-Mejía, Takács, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007) while quantitative elements are borrowed from different sources of corporate economics and finance. Family business literature shows scant treatment about sustainability at large in this topic, and particularly in financial terms. Owner-managers of small- and medium-sized family business have demonstrated patterns of financial management based on the premise that the business is part of the family (Chrisman, Chua, Pearson, & Barnett, 2012; Damodaran, 2012; Doria, 2012) and its assets and benefits are for the family to use for their own agenda (Debicki, Kellermanns, Chrisman, Pearson, & Spencer, 2016; Gómez-Mejía, Takács Hynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007).

Recognizing the complexity of family businesses, this paper focuses on Small and Medium Sized Private Companies (SMPC) only. They are defined in economic terms as companies with less than 250 employees, and in financial terms as entities that do not trade equity or debt in public markets nor publish financial reports for external users (IASB, 2015). Following the family business typology proposed by Gimeno, Baulenas, & Coma-Cross (2010), those are companies led by a single person or a family team, with centralized decision-making processes and little or no use of standardized financial reports or formal strategy planning processes. The main purpose of this paper is to relate financial information with owner-manager decision making and its relationship with the long-term financial sustainability of the company.

Evidence from literature on private family businesses (Andersson, Carlsen, & Getz, 2002; Gallo, Tàpies, & Cappuyns, 2004; Jaouen & Lasch, 2015) indicate that in some cases:

- Company funds are intentionally used for family purposes, for example: home expenses paid with company's checks, or firm's vehicles used by offspring to attend school. To be able to do this, family business owner-managers (FBOM) register those expenses in company's financial records and thus report a higher cost unrelated to the firm's operations;
- These observations led to finding that the company also uses assets owned by family members, being shareholders or not, without any compensation, either rent or recognition as capital increases. Cost does not reflect the use of those assets.

For this article, companies that practice both will be called "*resource sharing family business"* (RSFB) as it is the main concept of this research.

Family business owner managers (FBOM) of such companies then make strategic and operational decisions based on financial information that could be distorted by the possible presence of cost and/or expenses not related to the company, and the lack of recognition of the cost of using those family assets.

To address these issues, this work is centered on three research questions:

1. What are the financial consequences of family business' decision to transfer their expenses to their company, and use their assets for company's benefit?
2. What are the consequences on company's strategic decisions that are based on distorted financial reports?

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