

### Case Study Part 3 – “People”

#### 3.4 Investing in Family Business

Borrowing and investing can often be sources of unwelcome and needless frictions, especially among family members, relatives and close friends. When asked, it can be difficult to say no to someone who wants to borrow, either because we ourselves do not have the spare cash, or we do not agree with the reasons for borrowing, or we have apprehensions about the money not being repaid. At times, loyalty and family bonds may pressure us to consider investing in businesses we would easily decline if asked by outsiders, yet find it hard to refuse when approached by family or relatives.

How do we manage such situations? How can we lovingly turn down offers to invest or pressures to lend?

**Luke 6:30** “Give to everyone who asks you, and if anyone takes what belongs to you, do not demand it back. **31** Do to others as you would have them do to you.” (NIV)

**1 John 3:17** “If anyone has material possessions and sees a brother or sister in need but has no pity on them, how can the love of God be in that person? **18** Dear children, let us not love with words or speech but with actions and in truth.” (NIV)

**Jeremiah 12:6** “Your relatives, members of your own family – even they have betrayed you; they have raised a loud cry against you. Do not trust them though they speak well of you.” (NIV)

#### Case Study

Andrew, a Christian, age 60, runs a small family business and has carefully saved and set aside money for his retirement when he turns 70.

One day, his wife Sally came and pleaded with him to help her brother, Simon, age 40, who has a family of four and has been retrenched, unable to find alternative employment for more than 12 months. Simon wanted to start a contract manufacturing company producing goods, having been the Sales and

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Marketing Director in his last job. However, he did not have sufficient start-up capital and had asked for help.

Andrew was apprehensive about using his retirement nest egg to invest in a manufacturing business, especially a start-up company. However, out of compassion, after several months of persistent pleas, he finally relented and helped fund the company, Silicon Products Pte Ltd (SP), using almost 30% of his retirement savings. For his capital contribution, Andrew was given 45% shareholding, while Simon and his wife held 55%. Andrew declined to take on a directorship in SP and left the management of the business to Simon. Andrew felt it was unwise to get involved in the day-to-day management of a family business and thought it best to keep his distance to ensure peace and harmony.

Over the years, Andrew received annual reports that SP had been performing well, with business expanding and requiring additional working capital. The local bank was willing to provide loans to SP but required that all the shareholders and directors to guarantee the loan. Simon persuaded Andrew that acting as a guarantor was merely a formality and posed no risk, as SP had been profitable and the business outlook was bright. Andrew steadfastly refused but was pressured into making an unsecured loan of US\$250,000, repayable when SP had sufficient liquidity.

Over the years, SP made no dividend distributions, as Simon maintained that all the profits were tied up in building inventories and accounts receivables; therefore, SP did not have the liquidity to declare and pay dividends. However, Andrew observed that Simon had begun to indulge in a luxurious lifestyle with conspicuous spending- driving an expensive car and moving into an up-market apartment in a sought-after neighbourhood.

Andrew finally reached the age of 70. He sold his business and retired, looking forward to a carefree retirement and doing the things he had never found time for. In reviewing his financial affairs, he felt the investment in SP had been a disappointment, yielding no income, and he wanted proper closure. Andrew had a discussion with Simon and offered to sell his 45% shareholding in SP at market price based on a professional valuation of SP. However, Simon said he had no extra cash to buy the shares, but would not object to Andrew selling to anyone who was willing and able to buy.

Andrew requested repayment of the interest-free loan of US\$250,000, but was again told by Simon that SP was cash-tight and needed more time to repay. However, no fixed date was provided.

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Andrew tried to sell his share without success, even at a price lower than what he originally paid. No one he knew was interested in buying a minority stake in a private family business, given the lack of liquidity for shares in private companies.

Andrew was upset, felt stuck, manipulated, and used. He then began to investigate the affairs of SP and found out the following: -

1. SP had been buying the basic raw materials from a company called "Metallic Supply Pte Ltd" (MS) for several years, instead of buying from several known, trustworthy suppliers. Andrew also learned that SP had been paying MS 20% above the market price for these raw materials.
2. From a search in the Official Company Registry, Andrew ascertained that Simon and his wife were shareholders and directors of MS.
3. The reason why SP had been barely breaking even was that the profits had been transferred to MS through higher raw material costs and inflated salaries paid to Simon's siblings. Additionally, business had not grown for the past 18 months.
4. With the economy entering a recession, SP, while not losing money, had been unable to pay the term loans from the bank and had been in arrears for 4 months. The bank was becoming impatient and had threatened to call for full loan repayment.

### Discussion

We are now to consider and discuss the following: -

1. Should Christians invest in a family, non-publicly traded business?
2. What lessons can we learn from Andrew's saga of investing in a relative's business?
3. It is always good to be able to help a friend, relative or family member. Indeed, the Bible records many instances of helping someone in need – the virtues of generosity, mercy and compassion are highly exalted. To what extent should we help without harming our own interests and those of our family?