
Does financial knowledge influence sustainability in the family business? The mediating role of process innovation

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Abstract

Research on the importance of sustainable enterprises, understood as those in which the creation of economic and social value and the protection of the natural environment are in harmony, is on an upward trend. Family business financial knowledge is also an area of growing interest, but studies on the relationship between financial knowledge and sustainability in the family business are still developing. Moreover, no studies show an association between financial knowledge and sustainability in family businesses.

This work aims to demonstrate financial knowledge's positive effect on family businesses' sustainability. Financial literacy enables SMEs to use funds devoted to investing in projects with a significant social and/or environmental impact. In addition, SMEs may participate in the sustainability strategy of fund issuers by using them to adapt to regulations that penalize exposure to carbon-intensive activities. In turn, we introduce process innovation as a mediating factor to better understand the results obtained from the influence of financial knowledge on sustainability. Financial knowledge may improve business innovation through its positive impact on creativity, cost and revenue management, and attention to long-term financial goals. In short, SMEs' financial knowledge can boost innovation because of the reduction in financial constraints and the improvement in corporate governance that comes with it. The action of both enables more sustainable enterprises through more significant efforts to contribute to environmental protection.

Based on the above, this research explores the influence of family business financial knowledge on sustainability, through process innovation's mediating effect. To do so, we have applied structural equation modeling (SEM) to a sample of 203 Spanish family firms. The results show that financial knowledge positively influences sustainability directly and indirectly through process innovation. This study builds on the existing literature on SMEs by identifying the extent of the impact of financial knowledge on the sustainability of the family business. The practical implications of the study are also numerous. A higher level of financial knowledge can improve management and business decision-making, enhancing the definition of public policies in line with sustainability strategies. Financial knowledge fosters the creation of entrepreneurial projects that promote the sustainability of the family business by improving process innovation.

Keywords: Financial Knowledge, Process Innovation, Sustainability.