POLITECNICO DI MILANO
DEPARTMENT OF MANAGEMENT ENGINEERING
PH.D. IN MANAGEMENT, ECONOMICS AND INDUSTRIAL ENGINEERING

FAMILY BUSINESS PERFORMANCE. THE PERCEPTION EFFECT: EXPLORING THE INTERNAL POINT OF VIEW.

Doctoral Dissertation
Sanson Roberto Gonzalez Mosso
XXV Cycle
September 2014

Supervisor:
Professor Marco Giorgino

Tutor and Chair of the Doctoral Program:
Professor Mariano Corso

To my family

Index

List of Tables

List of Figures

Acknowledgments

Thinking about all the people involved in some way in the development of this thesis, many names come to mind. As it is not possible to mention all of them, I just want to say thank you to those who directly or indirectly were part of it.

I'm grateful to Professor Mariano Corso, who was a key person in all this process; Professor Alfredo De Massis for helping me with his suggestions that gave shape to the research; Professor Marco Giorgino and Professor Marica Arena, for their comments and support in the development of my work. Special thanks to Professor Eric Abrahamson, for hosting me at Columbia Business School and sharing his invaluable knowledge on research.

I can't conclude without mentioning the great support, the lessons, ideas, games, comments, funny pictures, especial ingredients, cookies, "lunches", "alsos" and "so on and so forths" from Xtingu, Guita and her friend with the difficult name, you will always be in my heart. Thank you Italy for the colors, flavors and experiences during this time.

Milan, September 2014

Abstract

The main contribution of this research project is the identification of the conceptual framework called “perception effect” in the family business performance, in the particular case of family business without the obligation to submit audited financial statements.

The perception effect will define the tendency of the future business performance due to the influence on the current behavior. The contribution of this work is the identification of a conceptual framework useful for the decision-making process aiming to a better management of scarce resources. The construct of perception effect comes from the analysis of empirical evidence from Mexican case studies and interviews with independent business advisors.

Mexico is considered an emerging market. In recent years emerging markets represent an important component of the world economic growth. Emerging markets are highly dominated by family businesses, whose performance improvement would benefit the economy in general. Family firms (FF) are very important for the economy to which they belong: placed in different sectors, they vary in size, age, objectives and nationality, among others.

Different theoretical bases have been applied to explain the complexity of family firm performance. The principal theories used in the literature to explain the family business performance are the Agency Theory, the Stewardship Theory and the Resource Based View Theory (Chrisman, et al., 2005; Debicki, et al., 2009). The Agency Theory deals with one of the more common characteristics of family firms: the overlap of ownership and management; the Stewardship Theory calls for the altruism of family managers following the benefits of the organization rather than their own; the Resource Based View (RBV), looks into the particular resources coming from the family involvement. Those theoretical efforts have been useful to identify some of the complex dynamics that are present into the different types of family business. The influence the family brings into the business affects its performance through the coexistence of both

financial and non-financial goals (Stafford, et al., 1999), although, in the literature, the assessment of family business performance is mainly based on financial measures.

The literature on this topic is still growing and evolving. The current studies are mainly related to succession, corporate governance and strategic management, leaving a gap for more research in other related topics, as in the case of business performance – particularly, the use of financial information provided by family managers, as well as the system utilized to assess the business performance.

Perception has an important influence in the decision making process of family managers. This is true particularly in the case of family businesses without the obligation to submit financial statements due to the lack of control of information – both financial and non-financial: family managers take core decisions under the perception effect.

The financial reports are part of the performance measurement system (PMS) of a firm: knowing the current performance, it is possible to take decisions in order to keep or improve the business' position. That is why it is important to understand how much of this information represents the real financial situation of a family firm, in the particular case of firms that do not have the legal obligation to submit audited financial statements. When a family firm is not obligated to submit such statements, the financial information they deliver might not represent a priority, leading to the replacement of the financial assessment with selected measures for the "perception" of performance.

Little research exists about performance measurement system design and implementation in family firm. The current studies pay attention to the analysis of financial outcomes, leaving aside the reliability of this information, specifically for those family firms that, not being public companies, are not obligated to present audited financial statements. Companies that pursue accurate financial reports, base their decisions on financial information; companies that don't, base their decisions on perception. The present work has the objective to contribute filling the gap by analyzing how the performance measurement system is implemented as well as how the financial information coming from this system is employed in order to take internal decisions.

The arrival of a new generation into the family firm might trigger changes in the performance measurement system. This ingredient might increase the complexity of the situation. Goals, perceptions and personal necessities are considered during this analysis. This thesis aims to provide family managers with some insight on the importance of an adequate use of financial information and of a formal performance measurement system that might be useful to lead the company to the desired place, in terms of business performance. The academic community will achieve a perspective that extends the literature about family business performance, with particular reference to the use of financial information and the establishment of a performance measurement system, by pointing out the important effect of perception into the business performance. The limitation of this work consists in the absence of a measurement of the actual impact of a structured PMS. The use of complete and accurate financial information would influence the decision making process but, at the same time, will entail other costs, as tax payments and the implicit cost of control. Another important limitation is that the study considers only the Mexican environment, although it might be representative of the general conditions faced by family firms in emerging markets.

Family firms without the obligation to submit audited financial statements may not have an established and organized PMS. The lack of an organized PMS does not mean that they don't need it. This kind of family firms might consider as a PMS a set of activities aiming to collect, process and analyze information on the actual situation of the company, as well as the trends in some core areas of the business. The informal activities deal with incomplete information, with the consequence of low quality decisions. The use of automated systems and technological tools might be underexploited. Raw financial data can be confused with processed reports, preventing the creation of historical information. As the performance cannot be analyzed across time, decisions are taken on a day-to-day basis. This study points out the importance of the PMS establishment in a FB in order to improve the quality of the decision making process and of the business performance.

The family and business goals are not necessarily established in an explicit way, translated into financial and non-financial measures and followed for their accomplishment. Family and business goals are clearly "perceived", implicitly translated into financial and non-financial "measures", the accomplishment of which are easy to be "felt" by the main shareholders. Family goals might represent the main objective of some FBs, but they might also compromise the business survival. A clear and objective PMS, designed and implemented according to the necessities of the business, might help to improve the quality of the decisions, leading to a better business performance over time.

This research contributes also to the FB literature and business practice in understanding the possible benefits of the establishment and implementation of a formal PMS in a FB during a generational change. It highlights the importance of a formal PMS in creating a history on different indicators that permits the tracking of the business performance, helping FBs overcome their weaknesses and generate better financial and non-financial outcomes, with positive effects within the general economy.

Future research may be focused on the presence of multiple family nucleuses with conflicting goals inside a single FB, affecting the design of the PMS, as well as the selection of measures and consequently influencing the business performance. A multiple case study may be conducted to confirm or reject some of the findings of this work regarding the influence that the family goals exert on the PMS design of the business. For future research, it would be important to understand the impact of formal and established PMS in the FB assessment because, if the process to collect and analyze information is not reliable, the assessment might lose its validity. Regarding the same topic, are the FBs using valid and complete information into their decision making process? If FBs provide incomplete information, the validity of the assessment of good or bad performance might be compromised.

This research has been conducted at the Politecnico di Milano, Italy, under the supervision of Prof. Marco Giorgino; during the period abroad, at the Columbia Business School, New York City, USA, under the supervision of Prof. Eric Abrahamson. The empirical research was conducted in Puebla, Mexico.

Introduction

Chapter 1. Introduction

The present work is focused on the study of financial information and performance measurement system from the internal point of view, pointing out the influence of the perception effect into the business performance. The perception effect can be defined as the cognitive process by which family managers assess the current performance of the company on the base of their own feelings, beliefs and experiences. Family businesses with the lack of obligation to prepare audited financial statements might have other priorities and motives to control the financial information. The financial information is a key element of the performance measurement system. The lack of accurate financial control might lead to a misperception of the financial situation of the company, generating decisions under the perception effect that will influence the future financial outcomes.

The fact of complete and accurate financial information based on accountant principles can be given for granted, but for family firms without the obligation to submit audited financial statement the reality might be slightly or completely different. This research considers the more common financial ratios found in the literature, classified in four different categories for their analysis. The financial information is one of the main elements of the performance measurement system of any company and might be the more important element to assess the financial performance internally; but, for companies without an accurate control of this information the use of perception might play a key role. This research analyzes the influence perception has in the different group of ratios as well in the performance measurement system.

1.1 Why research in family business?

The importance of the perception effect for the business performance is a very interesting topic as it might influence the future financial outcomes of a company that doesn't take decisions on complete and accurate financial information, avoiding an established performance measurement system. The perception will influence the current behavior that, in consequence, will be reflected into the future financial outcomes.

Family business has the attention of scholars and practitioners due to the importance of the phenomenon and its relevance for the economy. Researchers highlight the important presence of FBs in the different countries and continents (Shepherd, 2009; MassMutual., 2003); as the main type of businesses in a variety of industries, they play an important role within the world's economy (Muñoz-Bullón & Sánchez-Bueno, 2011).

The complexity of the family business phenomenon makes it difficult to fully answer even some of the more basic questions involved in the development of a theory, making more related research necessary (Chrisman, et al., 2007). Research on family business has been growing, but it's still considered an emerging field (Chrisman, et al., 2008).

FBs represent at the same time the main type of business (Ducassy & Prevot, 2010; Arosa, et al., 2010; La Porta, et al., 1999) and the weakest player in the economy, due to their peculiarities related to their managerial, financial, technological and structural conditions in general. The lack or scarcity of resources they possess bring to light their weaknesses, affecting their performance. To improve the latter and help FBs survive within unstable economic environment, it's important to have a better understanding, first of the implicit elements of such performance and then of the way these elements behave under the presence of family members. The interaction between the family and the business engenders a wide range of positive and negative influences. As a consequence, the economy too would benefit of the improvement of the family business performance.

1.2 Literature gap

The current studies concerning family business performance are based on different financial indicators and on comparisons with non-family businesses; only few consider non-financial measures. This leaves open the question how the financial information is managed and used by family managers, when belonging to a family firm with no obligation to prepare audited financial statements; and how the financial information is produced following a systematic process, especially if the firm is undergoing a generational change. A generational change might raise the necessity of a useful and understandable PMS for both generations, ranging from small adaptations to a complete new system during the generational transition.

The performance of family firms has gained attention because of the significant role it plays for the different economies around the world. To position this research, first it is important to identify the subject under study and to face the classic definition dilemma; following Chua et al (1999), the definition chosen includes the presence and/or influence of family members in the governance and/or management, with the purpose to shape and pursue their vision of a better future for the family, considering the sustainability across generations (Cassia, et al., 2012) without the obligation to submit audited financial statements.

The current knowledge is still ambiguous and not enough to determine how business performance is affected by the family, without focusing on the way financial information is used and the whole system works to generate this and other kind of reports to take decisions. The few examples about the study of business performance raise the necessity to keep working on this topic in order to explain the particular conditions it develops within a family firm.

The steps this research follows begin with a literature review to understand the current state of the art of the topic, with particular focus on the use of financial information and the design and change of a PMS within a family firm; it continues in a real case scenario to analyze both elements, the use of financial information and the practice followed to design and utilize a PMS by which the financial reports are generated; it's within the frame of the analysis of this information that the existence of the perception effect is generated into the different financial ratios: the family managers who do not base their decision on financial information will do it under the perception effect.

The perception effect within the family business management might have an important influence on the future outcomes. The use of financial ratios is the more common way to assess the business performance; financial ratios can be organized in four groups, considering the operation of the business, its profitability, the leverage and the liquidity of the company. There are different decisions that managers take based on the financial information; at the same time, these decisions will be reflected in the future ratios; when merely based on perception, the financial information won't influence the company current behavior but the behavior will influence the future financial outcomes.

According to Hirsch et al (1987), sociologists and economists start from different points of view, when it comes to the study of organizations. Economists try to create predictive models, without considering the complexity of reality, using few variables and only quantitative data. They assume markets to be dominated by individuals with fixed preferences. On the other hand, sociologists seek explanations, rather than predictions, giving greater emphasis to reality. They deal with the environment's complexity considering many variables and assuming the human nature to be complex, flexible and fluid. Both elements are present in organizations, the complex nature of the human being and the quantitative data. Family firms add family needs and desires, sometimes putting in second place the financial data, as in the case of family firms with no obligation to submit audited financial statements, which, in many cases, might be considered responsible for the lack of desire and willingness to control the financial information according to the accountant rules. As a consequence, perception acquires the role of moderator in their decisions.

Following the contingency theory, organizations exist in a pluralistic environment with forces, events and values that compete and collide to gain control and that can be internal or external (Van de Ven & Poole, 1995). Under this theory, the cognitive process of the main manager in a family firm would handle the different external events according to the perception effect, which in turn will define his behavior when taking decisions. Those decisions will influence the future financial outcomes.

In family firms managers will be directed to cover both, the family needs and the business necessities. When using complete financial information is possible to determine the financial necessities of the business; when accurate financial information is not available or when family managers do not use that information at all, perception will play an important role in the decision making process. The study of the internal use and implementation of a performance measurement system as well as the use of the financial information generated from its implementation will permit to understand how important the role of perception is in this kind of family firm.

1.3 Audience

This work intends to extend the literature on family business performance, studying the particular case of the internal use of financial information and the system by which financial information is generated, as it represents the main way, nowadays, family business performance is assessed.

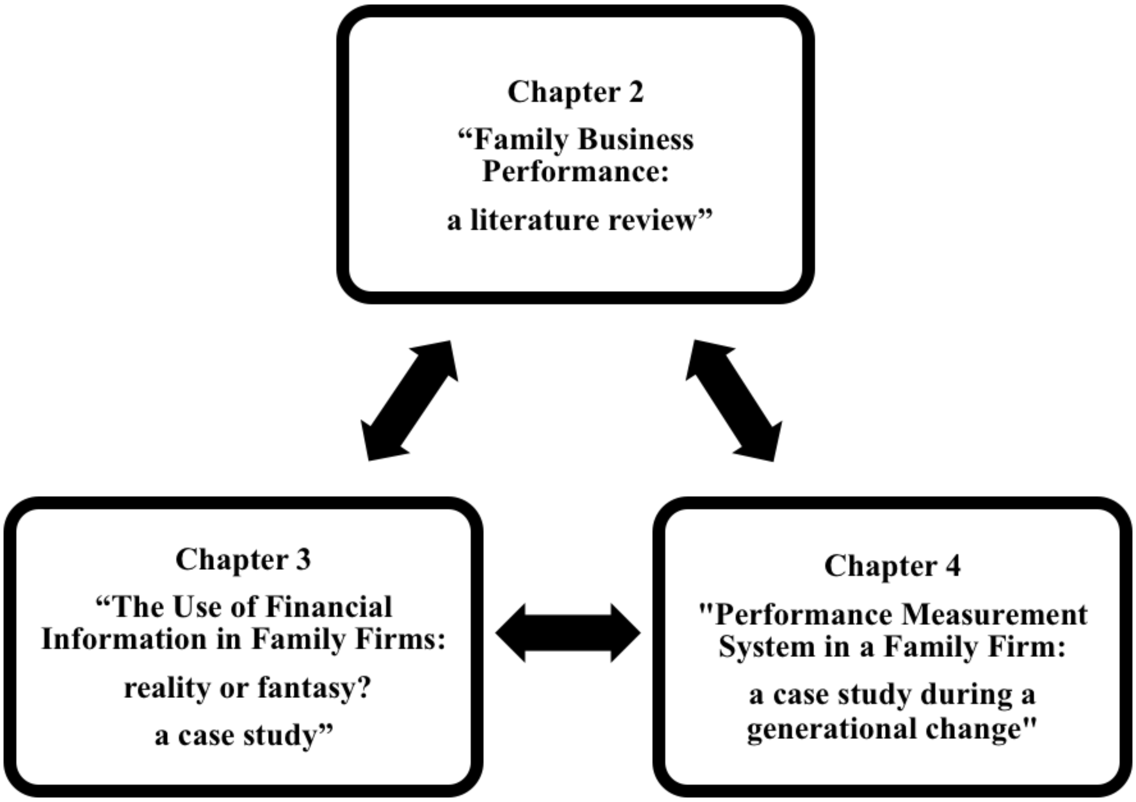
Family managers might benefit from the perspective provided by this work on the use of complete financial information and the establishment of a formal PMS, recognizing the importance to complement business perception and empirical knowledge with accurate financial information for the decision making process. Knowing the current financial position of the company would allow them to move to the desired position. The academic community will achieve a perspective that extends the literature of family business performance. The relevance of this study for the academic community is based on the characteristics of the family firm under study, the generational change as a particular event that influences not only business performance, but also the way to measure it and the willingness of the company to share all the required information for this study.

1.4 The structure of the thesis

This thesis is mainly composed by three related papers, which are represented in **figure 1:** Chapter 2 presents the current state of the art on the topic of family business, with particular regard to the use of financial information and the use of a performance measurement system within the family business management; chapter 3 explores the gap identified in chapter 2: in the literature, the use of financial information represents the main way to assess family business performance and ROA seems to be the indicator more used for this purpose; this chapter tries to capture how the financial information is utilized within a family firm that fits into the definition employed; a lack of use of accurate financial information is recognized and the existence of the perception effect raises up. A reason for this deficiency might be found in the way the PMS is employed: this issue is addressed in chapter 4, through the study of the ways a PMS is designed and used in a family firm, under the particular conditions of a generational change.

Figure 1.1

Structure of the thesis



Chapter 1, “Introduction”, includes the general information regarding the work, with the motives for the research and other antecedents, presenting a general perspective of the topic.

Chapter 2, “Family Business Performance: a literature review”, goes throughout the research literature on the topic and identifies ownership, management positions and continuity across generations as the main dimensions to define a family firm. After the definition dilemma of the subject under study, succession, corporate governance and strategic management represent the main topics on which researchers have been working, with only few examples regarding the PMS; even if the financial information is the main measure utilized in the literature to assess business performance, the use and processing of financial information within a family firm still needs more attention.

Chapter 3, “The Use of Financial Information in Family Firms: reality or fantasy? A case study”, studies how and why the financial information is used within the family firm. The non-financial motives play an important role within the family business goals. The perception of the financial situation of the firm as the main indicator of the business performance tends to substitute the use of complete financial information, leaving ROA - the main financial indicator on research studies - far from the priorities of family managers when controlling and using the financial information, leaving a premium position to the perception effect.

Chapter 4, “Performance Measurement System in a Family Firm: a case study during a generational change”, investigates the whole process with which the business performance is assessed, studying how the PMS is employed and modified during a generational change and why the whole process of implementation does not gain importance for the main managers. Family managers take decisions on the base of the perception of business performance and not on reliable reports, raising the issue not only of the lack or scarcity of resources, but also of the under-exploitation of the ones they possess.

Chapter 5, “Conclusions”, presents the main findings of this work. The lack of agreement on a general definition might only allow the establishment of different categories of family firms based on their main characteristics as ownership, management, business or family centered, generation in charge, and the desire of continuity across generations. For those family firms that do not have the legal obligation to submit audited financial statements, the use of financial information might be far from the priorities of control, where ROA might be switched for “perception” as the more important financial indicator. The lack of use of complete and accurate financial information might be based on the absence of a formally established PMS. The informal and unclear activities to generate reports are conceived as the actual process of PMS: the family firms face not only scarce resources in different areas, but also the fact that the ones they possess might be underexploited.

Chapter 2

Family Business Performance: a literature review

The Spanish version of this chapter was presented at the International Conference held at the European Parliament, Strasburg, France, in November 2012, organized by the Mexican-French organization CUFM (Casa Universitaria Franco-Mexicana).

Chapter 2. Family Business Performance: a literature review

Abstract

The family business (FB) phenomenon is a growing field of study characterized by a lack of agreement on the definition of its subject, with the consequent impossibility to compare outcomes from different studies. The main topics under study are succession, corporate governance and strategic management. Another important topic that might need attention is represented by the family business performance, with particular reference to the use of financial information for internal purposes and the establishment of a formal PMS. The use of financial ratios is a common practice to define the good or bad performance among family firms and in the comparisons with non-family ones. ROA is the main measure for this purpose. The study of PMS in FBs needs more attention from researchers in order to understand the main drivers of the family business performance (FBP) and the best way to improve it. The use of financial information to measure the good or bad performance of a Family Firm (FF) is common in the literature, unlike the analysis of the ways this information is prepared and utilized within the family firm.

2.1 Introduction

FB is a field of study that has attracted growing interest from researchers and practitioners in the last decade and the literature on this topic is still growing (Chrisman, et al., 2008) and evolving (Sharma, 2004). In particular, in 2003, 2006 and 2008 it's possible to notice a peak in the publications (Benavides-Velasco, et al., 2011), with a focus on different topics, such as succession (Zahra, 2004; De Massis, et al., 2008), corporate governance (Gabrielsson, 2004; Colarossi, et al., 2008; Bartholomeusz & Tanewski, 2006; Brenes, et al., 2011) and strategic management (Chrisman, et al., 2005).

The attention of researchers on this topic can be explained considering the widespread diffusion of this phenomenon and its relevance for the economy (Shepherd, 2009; MassMutual, 2003). In the literature, researchers highlight the important presence of FBs in the different countries and continents (Basco & Perez Rodriguez, 2011; Chen & Yu, 2011; Hearn, 2011; Leung & Horwitz, 2010; Floren, et al., 2010; Colarossi, et al., 2008; Alpay, et al., 2008; Cubico, et al., 2010; Smyrnios, 2006). In general, FBs represent the main type of business around the world (Arosa, et al., 2010; Ducassy & Prevot, 2010; La Porta, et al., 1999), they play an important role within the world's economy (Lee, 2006; Debicki, et al., 2009; Saito, 2008; Olson, et al., 2003; Muñoz-Bullón & Sánchez-Bueno, 2011; Shepherd, 2009) and are present in a variety of industries (Leenders & Waarts, 2003). In the last years, emerging economies have been a major stimulus for world economic growth (Kozan, et al., 2011) and FBs are one of the most important factors of this growth (Danes, et al., 2007). On average, the 19% of listed firms around the world belongs to FB groups, reaching 40% in the emerging markets (Masulis, et al., 2011). Their main contributions to the economy are in the GDP and employment (Basco & Perez Rodriguez, 2011; Athanassiou, et al., 2002; MassMutual, 2003).

The study of the FBP may help us answer one of the more basic questions of the topic: why do FBs exist? (Chrisman, et al., 2005). We may find a list of different reasons corresponding to the wide range of the FBs type. FBs pursue both financial and non-financial benefits (McGuire, et al., 2011), due to the coexistence of both type of goals, those of the family and those of the business (Stafford, et al., 1999); the behavior of FBs in the process to achieve these goals implies a mix of elements that must be studied in order to help them improve their performance, assigning measures of efficiency and efficacy useful to determine the good accomplishment of goals with the management of scarce resources (Chrisman, et al., 2007; Ford & Schellenberg, 1982; Sirmon & Hitt, 2003).

Some family and business goals are mutually exclusive. Therefore, the criteria to assess business performance may not be applicable to the particular characteristics of FBs (Collis & Montgomery, 1995), also considering the wide range of types (Silva & Majluf, 2008; Silva, et al., 2006; Leenders & Waarts, 2003; Alsos & Carter, 2006) by which they display their presence within the economy.

FBs represent at the same time the main type of business (Arosa, et al., 2010; Ducassy & Prevot, 2010; La Porta, et al., 1999) and the weakest player in the economy, due to their peculiarities related to their managerial, financial, technological and structural conditions in general. Unstable market conditions bring out their weaknesses, affecting their performance. To improve the latter and help FBs survive, it's important to have a better understanding, first of the implicit elements of such performance and then of the way these elements are managed by family managers. As a consequence, the economy too could benefit from the improvement of the FBP.

Measures to assess performance have been growing and evolving (Meyer & Gupta, 1994). The necessity to measure specific areas in an effective way brings a proliferation of approaches in the design of measures (Chenhall & Langfield-Smith, 2007), leaving the performance open to different interpretations that can be adapted to different contexts into the FB environment. There are different opinions about what performance is (Ford & Schellenberg, 1982; Folan, et al., 2007), without any agreement on the best way to measure it (Carley & Lin, 1997). The selected measures to assess performance may change with the experience (Malina & Selto, 2004). Also, each economical sector has its own conditions for success (Reichel & Haber, 2005) and its way to measure it. Performance measures have obtained the contribution of many disciplines, among which management accounting plays a key role (Chenhall & Langfield-Smith, 2007).

Although it's being suggested that accounting researchers should consider ideas from authors coming from different fields, the current knowledge is still too ambiguous and not enough to determine how business performance is affected by the family (Basco & Perez Rodriguez, 2011; O'Boyle Jr, et al., 2012) and by family characteristics as altruism, control concentration, participative strategy process and relationship conflict (Eddleston & Kellermanns, 2007). Due to the difficulty to get data from small private companies (Cucculelli & Micucci, 2008), studies on this topic are mainly based on large, publicly traded companies. Small and large firms may indeed have different perspectives on performance (Miller, et al., 2003). Therefore, it is not possible to generalize results coming only from large firms (Miller, et al., 2007). Small businesses may have other relevant dimensions of performance, not based only on financial measures (Reichel & Haber, 2005).

The interaction between the family and the business engenders a wide range of positive and negative influences (Block, et al., 2011; He, 2008): the study of the FBP will help us enlighten the line between the positive and the negative aspects of this influence.

2.1.1 Objective

This paper is aimed to analyze the current state of the art of the research about business performance in family firms. The two specific areas aiming to map the current state of the art within the family business performance are: the use of financial information and the performance measurement system employed for the assessment of the business performance. In particular, a systematic literature review is performed in order to determine the main factors to study the business performance in the context of family firm, with specific reference to the use of financial information and the establishment of a PMS within the firm. The definition issue is described as well as the main dimensions employed to define it; this research describe the different characteristics that define a family firm in order to situate the definition chosen for this work.

2.1.2 Articulation of the paper

The composition of this paper begins with the definition of the main concepts related to the subject under study; the second part presents the state of the art in the FBP measurement literature; the third part discusses the findings described in the previous sections; conclusions will then take place.

2.1.3 Definitions

i. **Family Firm/Family Business**

Following Chua et al. (1999), the definition chosen includes the presence and/or influence of family members in the governance and/or management, with the purpose to shape and pursue their vision of a better future for the family, considering the sustainability across generations (Cassia, et al., 2012) without the obligation to submit audited financial statements.

ii. **Business Performance**

There are different opinions about what performance is (Ford & Schellenberg, 1982), without any agreement on the best way to measure it (Chrisman, et al., 2005). The goal's approach defines performance in terms of goal accomplishment; the system resource's approach defines performance in terms of secure valuable and scarce resources; the process' approach defines performance in terms of the behavior of organizational participants; and the constituent's approach defines performance in terms of the particular evaluation given by each constituent, considering efficiency, effectiveness or other criteria (Ford & Schellenberg, 1982).

Two fundamental dimensions of performance are efficiency and effectiveness (Neely, et al., 2005). The process to assess efficiency and effectiveness makes use of other elements as the measurement action, the use of metrics and the reports utilized to define the performance.

iii. Financial Information

The financial information is a set of quantitative metrics useful to represent the financial performance of the company; the information, organized in categories, can be observed in different financial statements. Financial measures can show precisely the current situation of the company (Malina & Selto, 2004) when using complete and reliable data, but are not enough, alone, to assess business performance (Kaplan & Norton, 1992). Financial measures consider historical information and not necessarily indicate the future performance (Kennerley & Neely, 2003).

iv. Performance Measurement System

The PMS is a system of a whole set of procedures and metrics interrelated and hierarchically organized to obtain, prepare and analyze information from the different areas of the business (Garengo, et al., 2005; Garengo & Bititci, 2007). The main elements part of the PMS are: (i) procedures, the way the company gathers and organizes information and prepares the outcomes; (ii) metrics, to measure the accomplishment of goals; (iii) reports, organized and easy-to-read outcomes derived from the use of process and metrics; (iv) systems, tools used to process information; (v) people, persons with knowledge to process and prepare the reports.

v. Perception effect

The perception effect can be defined as the cognitive process by which family managers assess the current performance of the company on the base of their own feelings, beliefs and experiences, overlooking the formal procedures to gather information for the decision making process. The perception effect will influence the current behavior that will be reflected in the future financial outcomes.

2.2 Theoretical background

Different theoretical bases have been applied to explain the complexity of family firm performance. The principal theories used in the literature to explain the family business performance are the Agency Theory, the Stewardship Theory and the Resource Based

View Theory (Chrisman, et al., 2005; Debicki, et al., 2009). The Agency Theory deals with one of the more common characteristics of family firms: the overlap of ownership and management; the Stewardship Theory calls for the altruism of family managers following the benefits of the organization rather than their own; the Resource Based View (RBV), looks into the particular resources coming from the family involvement. Those theoretical efforts have been useful to identify some of the complex dynamics that are present into the different types of family business. The influence the family brings into the business affects its performance through the coexistence of both financial and non-financial goals (Stafford, et al., 1999), although, in the literature, the assessment of family business performance is mainly based on financial measures.

2.2.1 Agency Theory

Research on Agency Theory is mainly focused on the relationship between owners and managers and majority and minority shareholders (Chrisman, et al., 2005), (O'Boyle Jr, et al., 2012). Agency problems between majority shareholders and minority shareholders arise in the presence of higher levels of managerial ownership that exceed levels of control (Chen & Yu, 2011). Agency cost comes from the conflict of interest between the managers and shareholders and between majority and minority shareholders. One particular condition within family firm is the common presence of family owners as family business managers. Loyalty, communication and long investment time horizon reduce agency cost (Bartholomeusz & Tanewski, 2006), while the asymmetric information and conflict of interest increase it. According to some authors, when the owner and the manager are the same person, the agency problem doesn’t exist (Chrisman, et al., 2007; Silva & Majluf, 2008). He (2008) argues that agency problems come from the separation between ownership and control (Randøy & Goel, 2003), therefore there are less agency problems in concentration of ownership and control (Leung & Horwitz, 2010); the concentration of ownership and control might be accomplished when family owners are at the same time the managers of the business. The cost of supervision is lower when the owners and managers share interests (Garcıa-Ramos & Garcıa-Olalla, 2011); the supervision might be suppressed if the interest belongs to the same person. Nevertheless, the process of monitoring in family business remains important (Randøy & Goel, 2003). Controlling shareholders are positive to monitor management and are usual in countries with poor shareholder protection (La Porta, et al., 1999). Under good regulation, family ownership doesn't affect minority shareholders (Maury, 2006). Family managers acting as agents improve business performance by establishing control mechanisms for agency cost. (Chrisman, et al., 2007). According to Andres (2008), family businesses are able to balance the two agency problems of minority shareholders: owner-manager conflict and minority shareholder expropriation. In developed economies, the agency problem is focused on owner-manager's relationship; in emerging economies is focused on majority-minority shareholder's relationship (Silva & Majluf, 2008). Both kind of conflict of interest might affect the business performance. Different conflicts arising from the separation between ownership and management seem to disappear when both are concentrated in the same person, but other kind of problems might arise. Again, the different types of family business and the characteristics of family managers will favor or prevent the emergence of this kind of problems. The latters are not always measured by the performance measurement system, but may be reflected in the financial outcomes.

2.2.2 Stewardship Theory

The Stewardship Theory affirms that the family influences the business positively, when the family promotes a deeper relationship with the business, acting as stewards; which means that the family looks for the benefit of the business, instead of its own (Andres, 2008). When comparing family versus non family firms the steward behavior might explain the superior performance of family firms (Eddleston & Kellermanns, 2007). The managers' actions are more oriented to the business' interest than to their personal one (Ducassy & Prevot, 2010). Mutual altruism is an intangible resource that may lead to a steward behavior (O'Boyle Jr, et al., 2012). The performance improves because of the existence of mutual trust, involvement and empowerment focused on the business' success (Eddleston & Kellermanns, 2007). The steward behavior towards a common benefit of the firm might be based on the non-financial motives family owners-managers have. The establishment of a formal performance measurement system within the family management might consider both financial and non-financial aspects of the firm for a better control of goal's achievement, considering the mix of family and business goals present into the family firm.

2.2.3 Resource Based View

The Resource Based View is useful to identify and understand the complex, intangible and dynamic resources of a particular family business within a particular environment. It's possible that many of the resources remain hidden, so that it's difficult to explain the reason of the success of a family firm (Habbershon & Williams, 1999). Experiences, assets, skills and culture differ in each business (Collis & Montgomery, 1995). Each firm has its own particular resources: physical, human, organizational and procedural, which may give the advantage of a higher performance (Habbershon & Williams, 1999). The Resource Based View argues that the business will benefit from diversification, as the use of specific assets, share brand name, managerial skills, consumer loyalty and technological innovation; but diversification could also bring some disadvantages (George & Kabir, 2012). Alsos and Carter (2006), under the same theory, argue that resources, as capital assets, organizational resources and other intangibles as knowledge, influence performance. Resources and capabilities might be considered as the main income for the waited outcomes in a business (Pansiri, 2008). Advantages and disadvantages in the presence or absence of specific resources can be reflected into the performance measurement system, specifically into the financial measures applied and controlled by family managers.

The use of different theories is useful to explain the business performance considering the wide range of family firm types. The establishment of a formal PMS within the family firm will allow the measurement and control for a better performance; the more common way to measure it is the use of financial indicators, even if for family firms both financial and non-financial goals are important.

2.3 Overview of the literature about PMS and the use of financial information.

A systematic theoretical review was conducted for a further understanding of the state of the art regarding the topic of family business performance in general and the use of a performance measurement system and of financial information within the family business management, in particular. The first issue presented is related to the definition of the subject with the goal to support the definition chosen for this research. The main purpose of the review is related to the existence of a formal PMS and to the use of financial information to assess business performance in family firms.

2.3.1 Family business definition

2.3.1.1 Heterogeneity in the various definitions of FB

There is not much agreement about the definition of what a FB is (Miller, et al., 2007; Ducassy & Prevot, 2010; Leenders & Waarts, 2003; Cucculelli & Micucci, 2008; Mazzi, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; O'Boyle Jr, et al., 2012), because of the diversity of involvement and interaction between the family and the business. The complex concept of FB cannot be explained in a simple way (Chrisman, et al., 2005). Each author has his own reasons for the definition chosen (Habbershon & Williams, 1999). In the literature it is possible to identify a wide range of definitions about FB, from the one simply based on the respondent's perception (Miller, et al., 2003; Neubaum, et al., 2012), to more complex ones based on different characteristics of a business. A common definition would be an ideal starting point, but all the definitions are fragmented and focused on some component of the interaction between the family and the business, as ownership, governance, management and succession (Chrisman, et al., 2005). The analysis of the involvement of a family into the business on the base of its power, experience and culture is one of the possible ways to understand what a FB is (Cubico, et al., 2010; Rantanen & Jussila, 2011).

2.3.1.2 Highlighting the main dimensions underlying the definitions

The main dimensions used in the different definitions may be considered as follows: the percentage of shares in hands of family members, (Chrisman, et al., 2007; Basco & Perez Rodriguez, 2011; Olson, et al., 2003; Tagiuri & Davis, 1996; Cubico, et al., 2010), the cut off ranging from as low as 5% (Andres, 2008; Garcıa-Ramos & Garcıa-Olalla, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; Sacristán-Navarro, et al., 2011; Athanassiou, et al., 2002; McGuire, et al., 2011), to more than 50% with a majority of ownership of control shares (Ducassy & Prevot, 2010; Arosa, et al., 2010; Hutton, 2007; Saito, 2008; European Commission, 2009); the presence and influence of the family in the management (Muñoz-Bullón & Sánchez-Bueno, 2011; Athanassiou, et al., 2002; Basco & Perez Rodriguez, 2011; Brenes, et al., 2006; Olson, et al., 2003; Chrisman, et al., 2007; European Commission, 2009), from the influence and presence in the management with control of daily operations (Ruiz Gonzalez, et al., 2007), to the influence and presence in the executive and/or supervisory board (Andres, 2008), to the influence and presence in the top management and/or board of directors (Garcıa-Ramos & Garcıa-Olalla, 2011; Ducassy & Prevot, 2010; Arosa, et al., 2010; McGuire, et al., 2011; Saito, 2008; Hutton, 2007; Ruiz Gonzalez, et al., 2007); the continuity of the business, where the intention to continue the business in the next generations (Chrisman, et al., 2003; Chrisman, et al., 2007; Ruiz Gonzalez, et al., 2007; Athanassiou, et al., 2002; Chrisman, et al., 2005) may be paired or not with the actual presence of a subsequent generation (Ducassy & Prevot, 2010; Ruiz Gonzalez, et al., 2007); finally, the participation of members of the family (Sacristán-Navarro, et al., 2011; Arosa, et al., 2010; Andres, 2008) from one member, differentiated from a lone founder (Miller, et al., 2007), to multiple members inside the business (McGuire, et al., 2011; Cubico, et al., 2010; Tagiuri & Davis, 1996).

2.3.1.3 Implications for the process of performance assessment

The lack of a shared definition of FB has different implications from a research perspective. The diversity among definitions makes it difficult to compare results obtained from previous studies; for the same reason, results cannot be generalized (Mazzi, 2011). The context of the FB, as the country where the study is made, may bring different outcomes too (Ducassy & Prevot, 2010). Miller et al (2007) highlight that the outcomes from studies differ in the way in which FBs are defined and in the nature of the sample gathered for the study. Actually, the chosen definition affects the selection of the sample of the study (Westhead & Cowling, 1998).

2.3.2 Financial information for the assessment of business performance

2.3.2.1 The use of financial measures

Each economical sector within the economy has its own standards for the assessment of the business performance (Fama & French, 1995; Randøy & Goel, 2003; Reichel & Haber, 2005; Olson, et al., 2003; Cruz, et al., 2012; George & Kabir, 2012; Cucculelli & Micucci, 2008; Chung, 2011; O'Boyle Jr, et al., 2012). In FB, those standard measures are also complemented by the accomplishment of family objectives, even if these last ones are not always systematically set up, but only implicitly followed.

As a consequence, the assessment of the business performance will be shaped by the established objectives and the objectives, as well as the criteria to assess them, will be determined by each stakeholder (Ford & Schellenberg, 1982); the influence of each stakeholder in this process will be based on its percentage of ownership (Miller, et al., 2003), its managerial position and other conditions (Chrisman, et al., 2007; Sacristán-Navarro, et al., 2011; Zellweger, et al., 2010; Anderson & Reeb, 2003; Jaskiewicz & Klein, 2007; Lefort & Urzúa, 2008; Loscocco, et al., 1991; Deniz, et al., 2011; Olson, et al., 2003). The particular elements related to the family involvement would help to understand the performance in a family firm (De Massis, et al., 2012).

Although financial measures alone will not assess business performance accurately (Kaplan & Norton, 1992), they represent the main parameter to assess business performance and the business will function accordingly with their accomplishment (Kennerley & Neely, 2003). To help the business follow a good performance according to its objectives, the right mix of measures has to be set, considering that financial measures are precise (Malina & Selto, 2004) only if the data information is adequate and real.

2.3.2.2 Main measures to assess performance in the literature

Different authors have made reference to different financial measures to assess FB, the more mentioned being: gross sales (Miller, et al., 2003), sales growth (Homburg, et al., 2010; Neubaum, et al., 2012), return on assets - ROA - (Andres, 2008; He, 2008; Cruz, et al., 2012; Leung & Horwitz, 2010; Maury, 2006; Muñoz-Bullón & Sánchez-Bueno, 2011; Pombo & Gutiérrez, 2011; Sacristán-Navarro, et al., 2011; Silva & Majluf, 2008) which is the most used measure (Mazzi, 2011; O'Boyle Jr, et al., 2012), return on equity - ROE - (Ducassy & Prevot, 2010; Hamelin, 2011; Kellermanns & Eddleston, 2007; Sacristán-Navarro, et al., 2011), return on sales - ROS - (Chrisman, et al., 2007; George & Kabir, 2012), Tobin's Q (Miller, et al., 2007; Garcıa-Ramos & Garcıa-Olalla, 2011; Lefort & Urzúa, 2008; Maury, 2006; Pombo & Gutiérrez, 2011; Randøy & Goel, 2003; Saito, 2008; Silva & Majluf, 2008; Silva, et al., 2006), market share (Alpay, et al., 2008; Neubaum, et al., 2012), growth on employees, profitability, profit margin on sales and fund from profits (Eddleston & Kellermanns, 2007). Danes et al. (2007) and Olson et al. (2003) utilize gross revenue to measure financial performance. Another measure is represented by the market adjusted stock returns (Leung & Horwitz, 2010). The accuracy of the data to determine right ratios about the business performance is always to be considered an important factor.

A cross analysis between ratios of different aspects of the business might help to determine the assessment of business performance in a more accurate way. Financial measures are about historical data and, though they not necessarily indicate the future performance (Kennerley & Neely, 2003), they might help to improve it; they are useful to analyze the past actions of the firm (Kaplan & Norton, 1992), improving the quality of the decisions based on the information they provide. Authors as Arosa et al. (2010) consider ROA with EBIT and EBITDA and ROE. Bescos et al. (2007) consider turnover, productivity, stock price and operational income as main financial indicators. Cash flow is a variable to measure business performance (Jermias & Gani, 2005), relatively free from managerial manipulation (Chang & Shin, 2007). It considers different aspects of the business in its analysis, among which: operations, investment and financing. Chang and Shin (2007) analyze performance in a sample of Korean firms in terms of leverage, liquidity, capital expenditures, asset growth and sales growth. Muñoz-Bullón and Sánchez-Bueno (2011) analyze their sample in terms of size, leverage, liquidity, age, industry, time and country. Others, as Basco and Perez Rodriguez (2011), take into account sales growth, market share, net profit, cash flow, profit sales ratio, return on investment, product development, market development, adapting to client needs, reduction of costs, staff development, environmental protection, customer satisfaction and service quality, to measure business performance. The previous examples give an idea of the wide range of ratios employed to assess business performance, considering that the data should be accurate and complete. ROI and Economic Value Analysis have been widely promoted by scholars, accountants and consultants (Chenhall & Langfield-Smith, 2007) as important ways to assess business performance.

Some measures might be adequate to assess the business performance only under certain circumstances or for specific purposes. Saito (2008) employs Tobin's Q in his research to assess potential growth, but this ratio is related to business market value and is influenced by investors' perceptions, expectations (Miller, et al., 2007) and stock market variations (Chen & Yu, 2011). In conclusion, the internal business performance might not be completely correlated to its market performance.

Financial measures are important as much as financial goals: meaning, from the profits point of view, a firm that does not produce profits can survive only until its resources are depleted or if it has zero or positive outcomes (Makadok, 2003); but businesses can have other reasons than profits for leaving or staying in the market. Although researches on FB mainly deal with economic performance, non-economic performance is important as well (Chrisman, et al., 2005): a firm pursuing a non-financial goal may also reach financial benefits, for example taking care of the environment, as in the case of waste disposal (Redmond, et al., 2008); again, strategic planning, rather than operational thinking, can bring positive economic outcomes (Redmond, et al., 2008). In a more general sense, when the business is focused on one set of goals, others might be ignored (Kaplan & Norton, 1992).

2.3.3 Formal PMS in family firms

2.3.3.1 Lack of literature of PMS in FB

Performance is open to different interpretations (Ford & Schellenberg, 1982). It is rarely defined (Neely, et al., 2005) and there is not agreement about the best way to measure it (Carley & Lin, 1997). There are different frameworks of PMS in the literature, as for example the Balance Scorecard (BSC) of Kaplan and Norton (1992). The BSC links the strategy's development with the use of financial and non-financial indicators (Craig & Moores, 2010), but this and other frameworks don't consider the particularities of the family businesses.

The different concepts and approaches about the assessment of business performance are related to two fundamental dimensions: efficiency and effectiveness, as to say the process, the measures and the set of metrics to quantify efficiency and effectiveness (Neely, et al., 2005). PMS in FB is a topic still not well explored in the literature (Payer-Langthaler, et al., 2012), with just few examples regarding its study (Craig & Moores, 2010; Nudurupati, et al., 2011; Garengo & Bititci, 2007; Garengo, et al., 2007).

2.3.3.2 Identification of the dimensions of PMS

The PMS is linked to the business' strategy. It brings support to the decision making process (Garengo, et al., 2005; Garengo & Bititci, 2007), it is subjected to the stakeholder's influence, it is operationalized with the use of financial and non-financial measures. Its design must be clear and the data collection should be simple, bringing more benefits on its use than costs in the data preparation and analysis. PMS supports the strategic decision process, planning and control (Busco, et al., 2008). The implied elements in the PMS are especially influenced by the particular conditions of a FB and each FB has its own optimum performance (Chenhall, 2003); therefore, it's important to study this phenomenon under the particular conditions of a FB.

i. Strategy

The PMS gathers financial and non-financial information of different aspects of the company (Busco, et al., 2008); the main reports are related to the financial activities, as the profitability of sales and efficiency in the use of the available resources as capital, debt and assets. With its analysis, the company can support its decision making process (Garengo, et al., 2005). In the strategy development, the PMS lets the company know its actual position and helps it establish the future objectives.

ii. Stakeholders and goals

There are diverse stakeholders linked to a FB and they have diverse objectives and motivations. Family, managers, employees and the community are some of the main stakeholders. The position held by the main stakeholders will influence the objective goals. The stakeholder's goals influence the PMS (Cubico, et al., 2010) in its design and its operational process. The family may not necessarily base its motivations on financial results (Chrisman, et al., 2003). Managers and other employees may be more worried for the economic growth of the company. The community, on the other hand, might be focused on social aspects of the business. The characteristics of each constituent, as well as the objectives, will influence the PMS.

iii. Measurement's characteristics

Another important dimension of the PMS is the characteristic of the measures and metrics. The way to assess performance in FB is mainly based on the use of financial and non-financial measures (Kaplan & Norton, 1992; Reichel & Haber, 2005; Abdel-Maksoud, et al., 2010), including market measures. The established measures represent targets to be accomplished and improved (Chenhall, 2003). The use of certain measures may put some pressure, fostering change and innovation (Garengo & Bernardi, 2007), reshaping the PMS. The use of financial measures is the main way to assess business performance, from the analysis of the profits to the assessment of efficiency in the activities and the use of debt.

iv. Clarity and simplicity

Clarity and simplicity must be properties of the PMS design. This aspect is important for the operationalization of the PMS. The task, already complex in itself, must be facilitated with the use of an appropriate PMS; to be easily implemented and managed by the people involved in the process, the process as well as the outcomes should be easy to understand and followed by, for example, a new manager or a new generation.

2.4 Methodology

The first step in the development of the present work was the planning of the research, considering resources, process and timing. During the planning of the literature review the source of articles were established, along with the keywords, the focus on the use of financial information for the business performance assessment and the focus on the use of a formal performance measurement system.

The issue regarding the family business' definition was considered important, as it affects the results of the research, because the sample will be selected according to the definition chosen; a description of the main characteristics was planned to situate the definition chosen that was utilized for the empirical part of the subsequent research.

The systematic literature review was conducted employing Google Scholar. Google Scholar allows the search in other databases as ABI - Proquest, ScienceDirect, Jstor and Elsevier. Google Scholar is a free database where, by using the keywords: "family business" and "family firms" during the period 1980 - March 2014, 11,850 titles were found. From those titles the search was narrowed to "family business performance" and "family firm performance", resulting in 823 articles. The keywords for this process were: family firm, family business, family firm performance, family business performance, business performance and performance measurement system.

During the development of the literature review, the studies of family firms related to business performance were identified with specific reference to those that were focused on the use of financial information and the use and implementation of a performance measurement system. For this purpose, the listed keywords were employed. A lack of agreement on the definition was found, although some common elements to define a family firm were identified by the different studies.

In the case of the use of financial information, it was possible to observe the more common financial ratios selected for the performance assessment and the main elements that correspond to a formal PMS. A general review of the abstract took place before the full reading of the selected papers was done.

The research period considers the last 34 years of publications, from 1980 to March 2014, although the major publications were released in the last 10 years. Publications in English and Spanish were considered; the different studies correspond to research in the USA, Europe, Asia and Latin America. The descriptive statistics from those papers are shown in this section.

2.4.1 Keywords

The key words employed in the searching for articles within the family business literature were: family firm, family business, family firm performance, family business performance, business performance and performance measurement system. Those keywords are representative of the topic under study, there might be other similar keywords that deal with the topic, but this study does not pretend to be an exhaustive literature review, but to map the current state of the art regarding the use of financial information and the performance measurement system of family firms.

2.4.2 General statistics

After the reading, 25 articles were identified as relevant for the focus on the use of financial indicators in family business performance and 21 for the focus on performance measurement system. The general statistics of the period of time corresponding to the different articles that are part of this literature review are summarized in Table 2.1 and Table 2.2

Table 2.1

Distribution of articles for the focus on financial information

Journal /Year	99	02	03	06	07	08	10	11	14	TOTAL
Academy of Management Journal							1			1
Family Business Review	1			1						2
International Business Review								1		1
Investigaciones Europeas de Dirección y Economía de la Empresa					1					1
Journal of Business Research					2	1		1		4
Journal of Business Venturing			1		1	1				3
Journal of Corporate Finance				1	1	2				4
Journal of Family Business Strategy							1	3		4
Journal of Small Business Management									1	1
Journal of World Business		1				1		1		3
The Journal of Finance			1							1
TOTAL	**1**	**1**	**2**	**2**	**5**	**5**	**2**	**6**	**1**	**25**

Table 2.2

Distribution of articles for the focus on performance measurement system

Journal / Year	82	92	94	97	99	00	03	04	05	07	08	09	11	12	TOTAL
Computers in Industry										2					**2**
European Management Journal										1					**1**
Family Business Review													1		**1**
Harvard Business Review		1													**1**
International Journal of Operations & Production Management					1	1	1		1	1					**5**
International Journal of Productivity and Performance Management										1					**1**
International Journal of Strategic Management														1	**1**
Journal of Business Strategies								1							**1**
Journal of Management in Engineering								1							**1**
Management Accounting Research				1				1			1	1			**4**
Research in Organizational Behavior			1												**1**
The Academy of Management Review	1														**1**
Total Quality Management										1					**1**
TOTAL	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**3**	**1**	**6**	**1**	**1**	**1**	**1**	**21**

The period of time considered for this research is a window of publications within the last 34 years; the initial period considered was from 1980 to 2012, but an updated search of articles up to 2014 was done in March 2014.

What was found is that the main topics of the papers related to family business performance are based on the comparison with non-family firms, with the use of financial information, the use of non-financial information and the good and bad influence of the family into the business performance.

The main theories considered in each work are the Agency Theory, the Stewardship Theory and the Resource Based View Theory, as described in Table 2.3

Table 2.3

Main theories employed

Reference	Agency	Stewardship	RBV	Others
Anderson & Reeb, 2003.				Discussion about elements of agency and stewardship
Andres, 2008.	Agency			
Arosa et al., 2010.	Agency	Stewardship		
Block et al., 2011.	Agency			
Chen & Yu, 2011.	Agency			
Cruz et al., 2010.	Agency			
De Massis et al., 2014.	Agency			Behavioral Theory
Eddleston & Kellermanns, 2007.		Stewardship		
Garcia de la Borbolla et al., 2007.	Agency			
Garcıa-Ramos & Garcıa-Olalla, 2011.	Agency			
Habbershon & Williams, 1999.			RBV	
He, 2008.	Agency	Stewardship		
Payer-Langthaler et al., 2012.	Agency	Stewardship	RBV	Contingency Theory.
Malina & Selto, 2004.			RBV	Management control, Systems Theory & Contingency Theory.
Randoy & Goel, 2003.	Agency			

2.5 Main Findings

The current work describes the definition's issue about the family business and presents the general context to which the definition chosen belongs, giving attention to the existence and implementation of a formal PMS within the family business management and the use of financial information.

2.5.1 Main dimensions of the FB's definition

The lack of agreement on what a FB is (Miller, et al., 2007; Ducassy & Prevot, 2010; Leenders & Waarts, 2003; Mazzi, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; O'Boyle Jr, et al., 2012; Cucculelli & Micucci, 2008), is caused by the different approaches used to define it (Miller, et al., 2003; Habbershon & Williams, 1999; Neubaum, et al., 2012; Chrisman, et al., 2005), with the consequent impossibility to compare the different researches and generalize their results (Ducassy & Prevot, 2010; Mazzi, 2011).

The different approaches are based on one or more dimensions of the relation between the family and the business. (Miller, et al., 2007; Cubico, et al., 2010; Rantanen & Jussila, 2011; Chrisman, et al., 2005).

One dimension is the ownership of a percentage of the business' shares (Chrisman, et al., 2007; Tagiuri & Davis, 1996; Olson, et al., 2003; Athanassiou, et al., 2002; Cubico, et al., 2010; Basco & Perez Rodriguez, 2011) selected in an arbitrary way: 5% (McGuire, et al., 2011), 10% (Sacristán-Navarro, et al., 2011; Muñoz-Bullón & Sánchez-Bueno, 2011), 25% (Andres, 2008; Garcıa-Ramos & Garcıa-Olalla, 2011) or more than 50%, which represents a majority of ownership held in the hands of family members (Ducassy & Prevot, 2010; Arosa, et al., 2010; Saito, 2008; Hutton, 2007; European Commission, 2009).

Another dimension is represented by the presence and influence of one or more family members in the different levels of management (Athanassiou, et al., 2002; Olson, et al., 2003; Brenes, et al., 2006; Muñoz-Bullón & Sánchez-Bueno, 2011); from the influence and presence in the management with control of daily operations (Ruiz Gonzalez, et al., 2007), to the influence and presence in the executive and/or supervisory board (Andres, 2008), to the influence and presence in the top management and/or board of directors (Chrisman, et al., 2007; Ruiz Gonzalez, et al., 2007; Hutton, 2007; Saito, 2008; Arosa, et al., 2010; Ducassy & Prevot, 2010; Garcıa-Ramos & Garcıa-Olalla, 2011; Basco & Perez Rodriguez, 2011; McGuire, et al., 2011).

A further dimension is related to the level of generations present into the business, from the desire of the founder to continue the business in the next generations (Chrisman, et al., 2003; Chrisman, et al., 2007; Athanassiou, et al., 2002; Ruiz Gonzalez, et al., 2007; Chrisman, et al., 2005), to the actual presence of a subsequent generation (Ducassy & Prevot, 2010; Ruiz Gonzalez, et al., 2007).

Also, one more dimension is related to the presence of family members in terms of quantity (Sacristán-Navarro, et al., 2011; Arosa, et al., 2010; Andres, 2008), from one member, differentiated from a lone founder (Miller, et al., 2007), to multiple members inside the business (Tagiuri & Davis, 1996; Cubico, et al., 2010; McGuire, et al., 2011).

Finally, in the literature some authors consider the self-perception of the businesses as FB as a criterion to include them in their studies (Westhead & Cowling, 1998).

The different dimensions found in the literature don't allow for a general definition but may be useful to generate a hierarchical classification of family firms; the difficulty to achieve a single definition is based on the complexity of its constitutive elements and the wide range of characteristics generated by the interaction between the family and the business.

2.5.2 The use of financial information to assess business performance

2.5.2.1 Financial measures

Different standards of financial measures correspond to different industries and economic sectors (Fama & French, 1995; Randøy & Goel, 2003; Reichel & Haber, 2005; Olson, et al., 2003; Cruz, et al., 2012; George & Kabir, 2012; Cucculelli & Micucci, 2008; Chung, 2011; O'Boyle Jr, et al., 2012). In FB, those standards are not always implemented.

Financial measures represent the main parameter to assess business performance (Kaplan & Norton, 1992) and the business will function accordingly with their accomplishment (Kennerley & Neely, 2003). That is why it's important to establish the right mix of measures; financial measures are precise (Malina & Selto, 2004) only if the financial data is complete.

Different authors employ different financial measures to assess FB performance, the more utilized being: gross sales (Miller, et al., 2003), sales growth (Homburg, et al., 2010), gross revenue (Danes et al. 2007), return on assets - ROA - (Andres, 2008) which is the most utilized measure (O'Boyle Jr, et al., 2012), return on equity - ROE - (Ducassy & Prevot, 2010), return on sales - ROS - (Chrisman, et al., 2007); growth on employees, profitability and profit margin on sales (Eddleston & Kellermanns, 2007). The right use of financial ratios will provide a clear idea of the current performance of the company; problems begin when the information to calculate this ratios is incomplete or is not real.

Other measures are related to the market performance as: Tobin's Q (Miller, et al., 2007), market share (Alpay, et al., 2008) and market adjusted stock returns (Leung & Horwitz, 2010). Market measures are influenced not only by the current internal performance of the company but also by the performance of the market, including the feeling of the investors; as those elements are not controlled by the company, their use might not be functional for internal purposes.

Financial measures indicate the past performance and, though they not necessarily predict the future performance (Kennerley & Neely, 2003), they are useful to analyze the past actions of the firm (Kaplan & Norton, 1992), in order to improve it when establishing the future goals.

Cash flow can be applied to measure business performance (Jermias & Gani, 2005). The elements that constitute the analysis of the cash flow are operations, investment and financing. It is helpful to analyze one of the major assets of company: the cash.

Firms must have zero or positive outcomes to survive over time (Makadok, 2003). Family firms might base their existence not only on profits, but they need profits to stay in the market. Non-economic performance is important for family firms (Chrisman, et al., 2005) and might be partly related to the family performance. When a family firm pays attention to non-economic performance, it might ignore other core goals (Kaplan & Norton, 1992), putting the business survival at risk.

The financial information employed in the literature to assess the business performance can be organized in four clusters for an easier interpretation and analysis. Those clusters are: liquidity, operation activities, profitability and leverage.

i. Liquidity

This group of measures is useful to determine the feasibility to pay debts in the short term. For this purpose the data employed are the short-term debts and the current assets. The basic ratios considered in this cluster are: liquidity and liquidity acid test.

ii. Operating activities

This group of ratios is useful to determine the efficiency in the proper use of the assets. Those ratios are mainly used to assess the management of clients, suppliers and inventory, using a mix of data from the balance sheet and the income statement. The basic ratios considered in this cluster are: inventory turnover, clients' turnover, accounts payable turnover, operation cycle and cash conversion cycle.

iii. Profitability

This group of ratios is employed to assess the profitability of the operations from different angles; the capital of shareholders, the assets under the use of the company or the sales during a specific period. The basic ratios considered in this cluster are: return on assets – ROA –, return on sales – ROS – and return on equity – ROE.

iv. Leverage

With those ratios the firm assesses the level of outside financing, the degree of dependency on those credits and the possibility to increase them. The basic ratios considered in this cluster are: leverage over assets, leverage over capital and financial expenses over operational incomes.

2.5.3 PMS in family business

The PMS is a whole set of metrics interrelated and hierarchically organized. It is a system that allows the company to obtain, prepare and analyze information (Garengo, et al., 2005; Garengo & Bititci, 2007) coming from the different areas of the business. The more used outcomes from the functions of the system are the financial reports, mainly used to assess the good or bad performance according to different financial ratios. In the specific case of FB, the owners represent a key element in the definition of the PMS. The PMS will be shaped by the age, size and industry sector of the company (Silva, et al., 2006; Maury, 2006; Andres, 2008; Saito, 2008; Silva & Majluf, 2008; Mazzi, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011). According to the size of the business, it is possible to find different perspectives on performance (Miller, et al., 2003): small businesses might have other priorities than big companies in measuring the performance of different aspects of the firm. Each economical sector has its own conditions for success (Olson, et al., 2003; Reichel & Haber, 2005; Fama & French, 1995; Randøy & Goel, 2003; Chung, 2011; Cruz, et al., 2012; George & Kabir, 2012; O'Boyle Jr, et al., 2012; Cucculelli & Micucci, 2008) and its way to measure it. The economic cycle, the particular economic conditions of the region, the legal regulations or the intensity of competition, among other environmental elements (Rollins, et al., 2012; Hamelin, 2011; Deniz, et al., 2011; Chen, 2010), will determine the best composition of the PMS in the family business.

The different dimensions of FBP under study are assessed in different ways, according to the different disciplines and theories boarding the topic (Habbershon & Williams, 1999; Chrisman, et al., 2005; Alpay, et al., 2008; Debicki, et al., 2009) and the management technique employed by the business (Folan, et al., 2007). Also, the PMS will influence the management technique used in a business (Folan, et al., 2007).

There are some elements that will shape the PMS under operation, which are: the *strategy*, which is a plan to achieve the objectives and, in the case of family firms, to deal with both the family and the business objectives that are not necessarily established but implicitly followed; *stakeholders' characteristics and objectives*, as gender, age, academic background and even personal desires; *measurement's* *characteristics* that will vary according to the industry, the objectives and other necessities of the company; *clarity and simplicity* in the PMS design: the control in reasonable terms might be more productive than an exhaustive control that can generate more costs.

i. Strategy

FBs face the difficult task to match family and business objectives. That match is important for the strategy development; the lack of alignment can put them out of market, with consequent failure (Craig & Moores, 2010). PMS helps organizations rapidly adapt to changes in both external and internal environments and reshape the strategies for continuous improvement. Also, the PMS helps determine if the objectives coming from the strategy were achieved and the strategy was appropriate (Garengo & Bernardi, 2007). Malina & Selto (2004) argue that the appropriate performance measurements permit to effectively implement strategy, guide employee behavior, assess managerial effectiveness and provide the basis for rewards. For strategy development, both financial and non-financial information are equally important (Bhimani & Langfield-Smith, 2007).

ii. Stakeholders' characteristics and objectives

The different stakeholders will define performance in their own particular terms, considering efficiency, effectiveness or other criteria (Ford & Schellenberg, 1982). Each constituent has its own goals: owners may be oriented to profits, managers to efficacy and family members to welfare and unity of the family (Cubico, et al., 2010), evaluating the FBP in different ways. Also, the behavior of managers and employees will be affected by the measurement system (Kaplan & Norton, 1992; Meyer & Gupta, 1994). In order to avoid confusion between symptoms and causes, it is important to understand the interests of the stakeholders involved in a FB and to identify their objectives' drivers (Chrisman, et al., 2005).

The level of ownership and control (Sacristán-Navarro, et al., 2011; Zellweger, et al., 2010), the different positions held in the management (Anderson & Reeb, 2003; Jaskiewicz & Klein, 2007; Lefort & Urzúa, 2008), as well as their characteristics as age, gender, previous entrepreneurial experience (Miller, et al., 2003; Chrisman, et al., 2007; Loscocco, et al., 1991; Olson, et al., 2003; Deniz, et al., 2011), education and managerial skills (Loscocco, et al., 1991), will influence the objectives, the way to manage the resources, the way to measure the performance and, in general, the PMS in the FB. Masculine and feminine leadership establishes the business performance measurement in different ways, not only on the base of financial indicators; they present different levels of commitment, strategic and competitive behavior and resistance to change (Bird & Brush, 2002; Danes, et al., 2007).

Family objectives are related to employment opportunities for the family members, funds for family members' education, short or long term family welfare (Athanassiou, et al., 2002), financial independence, family harmony (Garcıa-Ramos & Garcıa-Olalla, 2011), lifestyle of the family (Muñoz-Bullón & Sánchez-Bueno, 2011) and identity (Cruz, et al., 2010), among others. The objectives may be related to other dimensions, as control and continuity of the company (Cruz, et al., 2010; Garcıa-Ramos & Garcıa-Olalla, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011). The mix and importance of the goals pursued will influence the mix and importance of resources and capabilities (Chrisman, et al., 2003) and this will shape the PMS in the assessment of goals' accomplishment. Some of the non-financial goals are called socio-emotional wealth, which is a value based on feelings of identification, membership and preservation of family values and dynasty (Gómez-Mejía, et al., 2007). The family can influence the organization in different ways, on the base of the commitment or the involvement of its members (Rantanen & Jussila, 2011) that may improve communication, coordination, trust (Silva, et al., 2006), social control, employee motivation and management control (Leenders & Waarts, 2003; Frank, et al., 2010; Basco & Perez Rodriguez, 2011).

iii. Measurement's characteristics

The selected measures and metrics will come from the strategy pursued and the stakeholder's influence and objectives. Once the goals are determined and selected, the PMS assesses their aim (Ford & Schellenberg, 1982; Pansiri, 2008; Debicki, et al., 2009; Chrisman, et al., 2005). To assess the aim of the established goals (Folan, et al., 2007), these must be translated into specific measures (Kaplan & Norton, 1992), which, in turn, should be adequate to the established goals. As the main measures are financial and can be calculated using the financial statements, the use of complete, reliable financial data is crucial. Once the ratios are calculated, their analysis and tracking are important activities within the assessment of the business performance. When the performance measures are selected, the business will direct its efforts to gain the objectives implied in those measures (Kennerley & Neely, 2003). During that process, if the behavior is focused on one set of goals, others might be ignored (Kaplan & Norton, 1992).

The assessment of FBP is mainly based on the use of financial and non-financial measures (Kaplan & Norton, 1992; Reichel & Haber, 2005; Abdel-Maksoud, et al., 2010). Those measures are employed in the process to evaluate if the financial and non-financial goals were achieved, as FBs pursue both type of goals (Chrisman, et al., 2005; Pansiri, 2008). Financial measures alone are not enough to assess business performance (Kaplan & Norton, 1992), but we must keep in mind that non-financial measures are less precise than financial ones (Malina & Selto, 2004). Financial measures are mainly quantitative, non-financial measures are qualitative (Bescos, et al., 2007). In order to accomplish the complex task of performance measurement, the use of objective and subjective measures must necessarily be considered (Miller, et al., 2003; Dess & Robinson, 1984).

iv. Clarity and simplicity in the PMS design

In the use of PMS, specific resources are required. The cost of those resources, as well as the complexity of the task, should not be more important than the utility of the outcomes. Some processes and measures can be useless for determined purposes; the clarity and simplicity of the PMS will facilitate the understanding of a new user, a new manager or a new generation that, although not possessing all the empirical knowledge of the business, will be able to utilize it.

2.6 Discussion and conclusions

2.6.1 Discussion

2.6.1.1 Definition issues

The lack of a shared definition is reflected in the lack of a framework for the integration of the different approaches that study FB, so to define which should be the unit of analysis. The integration of elements as intention, vision, behavior and familiness could lead to the development of a FB theory (Chrisman, et al., 2003). FB research should focus on applying mainstreams theories to identify the particularities that a FB has and a non-FB has not, answering one of the main questions of the topic: why do they exist? (Chrisman, et al., 2005).

A dynamic definition for FB

The contexts in which FBs evolve are getting more complex every day. The changes in the economic conditions, regulations, customer needs and behavior, as well as the particular context of each family and business, make a dynamic definition of FB necessary. This definition must consider different general elements, with the possibility to be adapted to the particular conditions this kind of firm face, allowing for a classification of the FB according to different categories, for a more accurate study. Instead of an agreed definition, a set of levels of interaction between the family and the business (Mazzi, 2011) would be more useful. The level of control through ownership and management may be helpful for the classification.

According to the literature review, the main dimensions to classify a FB may be: (cf. **Table 2.4**)

Table 2.4

Main dimensions to classify a family firm

Dimension	Specifics
Ownership	Measured as a percentage of shares.
Management	Different levels of management positions.
Continuity	Intention to continue and/or actual presence of more than one generation.
Family involvement	Presence of family members in terms of quantity.
Self-perception	The self-perception of being a family business.

2.6.1.2 The use of financial information to assess business performance

Some criticisms against financial measures are related to their short-term focus, their obliviousness of other core elements of performance, their encouragement of local optimization and their attachment to standards rather than continuous improvement, without interest in customers and competitors (Neely A. , 1999).

The establishment of standard ratios according to each economical sector are useless if not followed by family managers or if the information employed for its calculus is incomplete. The definition of objectives, as a first step, will define the best measures to assess their accomplishment, considering both financial and non-financial measures. The objectives will be established by the different stakeholders. The influence of each stakeholder will be based mainly on the percentage of ownership (Miller, et al., 2003) and/or managerial position (Chrisman, et al., 2007; Sacristán-Navarro, et al., 2011; Anderson & Reeb, 2003).

Financial measures alone might not assess business performance accurately (Kaplan & Norton, 1992), but are the main parameter nowadays to assess business performance. Financial measures are precise (Malina & Selto, 2004) only if the financial data employed is complete.

Among the main financial ratios employed in the literature, ROA seems to be the more used by researchers (Mazzi, 2011; O'Boyle Jr, et al., 2012) for the assessment of family business performance, but for family managers ROA might not be the more important ratio when assessing the business performance. This ratio can be ignored by family businesses that don't have the legal obligation to submit audited financial statements: instead of financial ratios, managers' perception of the financial reality might take place. A right mix of ratios and a cross analysis might be useful for a better evaluation of the past of the company, as financial information represents the past actions of the firm (Kennerley & Neely, 2003); even if it doesn't necessarily indicate the future outcomes, it is useful to improve future decisions. (Kaplan & Norton, 1992).
Tobin's Q is another common ratio used by researchers, but it might be influenced by investors' perceptions, expectations (Miller, et al., 2007) and stock market variations (Chen & Yu, 2011), making of it a more appropriate measure for market investments and not for internal purposes.

2.6.1.3 PMS in family business

FBP implies a multidimensional perspective including financial and non-financial measures (Reichel & Haber, 2005). The study of business performance in FB is determined by the constituents linked to the business (Cubico, et al., 2010); the level of analysis (Folan, et al., 2007); the different disciplines and theories boarding the topic (Habbershon & Williams, 1999; Alpay, et al., 2008; Debicki, et al., 2009; Chrisman, et al., 2005); the management technique employed (Folan, et al., 2007); and the focus on the family, the business or the performance measures.
Family performance is a concept gaining attention among researchers; the measures of family performance are just in their first stage of development, fostering the study of family goals and of the way the business contributes to their accomplishment (Basco & Perez Rodriguez, 2011). Research on non-financial goals will help develop a FB theory and the way those goals are formulated, as well as their type and importance, may help to explain success and failure (Debicki, et al., 2009). As the base of business performance relies on the use of financial information, it is important to consider how

this information is employed within the family business management. The financial reports are one important element of the PMS and the PMS will shape the way the financial information is collected, processed and presented. The study of both elements may facilitate a better understanding of the FBP, encouraging the improvement of the current performance.

A multi-perspective performance measurement system

Performance measurement involves management accountants, using budgets and financial indicators (Chenhall, 1997). In the comparison between studies from different countries, we must consider differences on financial reporting standards (Leung & Horwitz, 2010). The need to measure specific areas in an effective way brings a proliferation of approaches in the design of measures (Chenhall & Langfield-Smith, 2007). The selection of measures may change with the experience, allowing to identify the more accurate measures for the company. Choosing and designing the attributes of performance measures is even more important than their use and goes beyond the implementation of financial and non-financial measures (Malina & Selto, 2004). One more step that FB must face is the implementation of a PMS: not an easy process (Garengo & Bernardi, 2007).

Performance is closely associated with progress and its assessment may represent the past or the present of the business (Folan, et al., 2007). By understanding the past it would be possible to take advantage of the future (Habbershon, et al., 2003), choosing a direction to aim the desired goals; then, the FBP can be measured in order to determine if the goals were achieved. The business will direct its efforts towards the accomplishment of the selected measures (Kennerley & Neely, 2003). When behavior is focused on one set of goals, others might be ignored (Kaplan & Norton, 1992). Even when focused on specific goals, it’s important not to ignore other core areas of the business.

2.6.2 Conclusions

FBs are recognized by different researchers as the more important player in the economy of different countries around the world, especially in emerging markets. Due to their weaknesses in facing the market conditions, the study of their performance is important in order to foster their improvement. The FBP can be perceived or qualified as good or bad, depending on the assessor, the established goals, the measures utilized and other elements, as the proper interpretation of those measures and metrics. Studying the FBP would encourage a better understanding of the drivers that facilitate the efficiency in the use of their own unique resources.

The degree of family involvement, the characteristics of the family – and of the business – its dynamics, financial and non-financial goals, its context or internal and external environment and a long list of other different elements, affect in some degree the performance of a FB. Research in FBP has been focused on some of those elements, but without an agreement on a unique definition of FB, the outcomes become not comparable. That is why one of the basic points related to the present topic should be the convergence of researchers towards a possible general definition; and then, towards the development of classifications of FBs. To begin with, it is important to clearly identify the specific type of family business on which each research is positioned, allowing the comparison between different studies regarding the same type of family business under study.

The definition not only affects the delimitation of the subject, but also the configuration of the sample selected. Trying to determine a perfect definition represents an almost impossible task and the complexity of the topic becomes a limitation for the research (Ducassy & Prevot, 2010). Each concept of FB has dynamic elements and the relation between them is also dynamic: to capture the actual and future essence of a FB determined by those dynamic elements of its performance, a dynamic definition with different levels of classification could represent a better solution.

The constant changes on the FB's elements affect the goals, the performance and the way the performance is assessed. Considering financial and non-financial goals and measures, it would be possible to propose different dimensions to measure the family business performance.

Currently, the use of financial reports and financial ratios as ROA, ROE and ROI represents the main way to assess business performance. The financial reality of FB might be assessed through the family managers' perception. Family managers might give more importance to the perception rather than the use of the appropriate financial ratios, but the use of financial ratios is necessary in order to estimate the current situation of the company emerging from past decisions. Certainly, family managers who invest their time in the development of their business will have a perception closer to reality, but the lack of track in the financial history of the company can cause difficulties in the improvement of the current performance: although it's always possible to improve the current financial situation of the company without a detailed awareness of its actual performance, the dimension of this improvement would still remain unclear. Understanding how the financial information is managed and used under the family management may help cast some light on the possibilities to improve the family business performance.

Other considerations are related to the PMS and to the selected measures to assess performance, which may affect the behavior within the FB aiming to accomplish the desirable outcomes. There may exist a reciprocal and chain effect between the family goals, the business goals, the PMS and the way the PMS and the financial information is employed, with its direct effect on business performance. As a consequence, it is necessary to study not only the use of financial information under the family management, but the whole system employed to assess the family business performance. For future research it would be useful to understand how the financial information is managed and utilized under the family management. As the financial information is one of the main outcomes from the PMS it is necessary to understand how the PMS is designed and employed.

2.7 References

Abdel-Maksoud, A., F, C., Ricceri, F. & Velayutham, S., 2010. Employee morale, non-financial performance measures, deployment of innovative managerial practices and shop-floor involvement in Italian manufacturing firms. *The British Accounting Review,* pp. 36-55.

Alpay, G. et al., 2008. Performance implications of institutionalization process in family-owned businesses: Evidence from an emerging economy. *Journal of World Business,* pp. 235-448.

Alsos, G. A. & Carter, S., 2006. Multiple business ownership in the Norwegian farm sector: Resource transfer and performance consequences. *Journal of Rural Studies,* pp. 313-322.

Anderson, R. C. & Reeb, D. M., 2003. Founding-Family Ownership and Firm Performance: Evidence from the S&P 500. *The Journal of Finance,* pp. 1301-1328.

Andres, C., 2008. Large shareholders and firm performance: An empirical examination of founding family ownership. *Journal of Corporate Finance,* pp. 431-445.

Arosa, B., Iturralde, T. & Maseda, A., 2010. Outsiders on the board of directors and firm performance: Evidence from Spanish non-listed family firms. *Journal of Family Business Strategy,* pp. 236-245.

Athanassiou, N., Crittenden, W. F., Kelly, L. M. & Marquez, P., 2002. Founder centrality effects on the Mexican family firm's management group: firm culture, strategic vision and goals, and firm performance. *Journal of World Business,* pp. 139-150.

Bartholomeusz, S. & Tanewski, G. A., 2006. The relationship between family firms and corporate governance. *Journal of Small Business Management,* pp. 245-267.

Basco, R. & Perez Rodriguez, M. J., 2011. Ideal types of family business management: Horizontal fit between family and business decisions and the relationship with family business performance. *Journal of Family Business Strategy,* pp. 151-165.

Benavides-Velasco, C. A., Quintana-Garcia, C. & Guzman-Parra, V. F., 2011. Trends in Family Business Research. *Small Business Economics.*

Bescos, P.-L., Cauvin, E., Decock-Good, C. & Westlund, A. H., 2007. Characteristics of Performance Measures for External Reporting. *Total Quality Management,* pp. 1055-1074.

Bhimani, A. & Langfield-Smith, K., 2007. Structure, formality and the importance of financial and non-financial information in strategy development and implementation. *Management Accounting Research,* pp. 3-31.

Bird, B. & Brush, C., 2002. A gendered perspective on organizational creation. *Entrepreneurship Theory and Practice,* pp. 41-65.

Block, J., Jaskiewicz, P. & Miller, D., 2011. Ownership versus management effects on performance in family and founder companies: A Bayesian reconciliation. *Journal of Family Business Strategy,* pp. 232-245.

Brenes, E. R., Madrigal, K. & Molina-Navarro, G. E., 2006. Family business structure and succession: Critical topics in Latin American experience. *Journal of Business Research,* pp. 372-374.

Brenes, E. R., Madrigal, K. & Requena, B., 2011. Corporate governance and family business performance. *Journal of Business Research,* pp. 280-285.

Busco, C., Giovannoni, E. & Scapens, R. W., 2008. Managing the tensions in integrating global organisations: The role of performance management systems. *Management Accounting Research,* pp. 103-125.

Carley, K. M. & Lin, Z., 1997. A Theoretical Study of Organizational Performance under Information Distortion. *Management Science,* pp. 976-997.

Cassia, L., De Massis, A. & Pizzurno, E., 2012. Strategic innovation and new product development in family firms: An empirically grounded theoretical framework. International Journal of Entrepreneurial Behaviour & Research., pp. 198-232.

Chang, J. J. & Shin, H.-H., 2007. Family ownership and performance in Korean conglomerates. Pacific-Basin Finance Journal, pp. 329-352.

Chen, C.-J. & Yu, C.-M. J., 2011. Managerial ownership, diversification, and firm performance: Evidence from an emerging market. *International Business Review,* pp. 1-17.

Chenhall, R. H., 1997. Reliance on manufacturing performance measures , total quality management and organizational performance. *Management Accounting Research,* pp. 187-206.

Chenhall, R. H., 2003. Management control systems design within its organizational context: findings from contingency-based research and directions for the future. *Accounting, Organizations and Society,* pp. 127-168.

Chenhall, R. H. & Langfield-Smith, K., 2007. Multiple Perspectives of Performance Measures. *European Management Journal,* pp. 266-282.

Chen, X., 2010. Modes of state intervention and business group performance in China's transitional economy. *The Journal of Socio-Economics*, pp. 619-630.

Chrisman, J., Chua, J., Kellermanns, F. & Chang, E., 2007. Are family managers agents or stewards? An exploratory study in privately held family firms. *Journal of Business Research,* pp. 1030-1038.

Chrisman, J. et al., 2008. Management Journals as Venues for Publication of Family Business Research. *Entrepreneurship Theory and Practice*, pp. 927-934.

Chrisman, J., Chua, J. & Sharma, P., 2005. Trends and Directions in the Development of a Strategic Management Theory of the Family Firm. *Entrepreneurship Theory and Practice,* pp. 555-575.

Chrisman, J. J., Chua, J. & Litz, R., 2003. A unified systems perspective of family firm performance: an extension and integration. *Journal of Business Venturing,* pp. 467-472.

Chrisman, J. J., Sharma, P. & Taggar, S., 2007. Family influences on firms: An introduction. *Journal of Business Research,* pp. 1005-1011.

Chua, J. H., Chrisman, J. J. & Sharma, P., 1999. Defining the family business by behavior. Entrepreneurship Theory and Practice, pp. 19-32.

Chung, H. F. L., 2011. Market orientation, guanxi, and business performance. *Industrial Marketing Management,* pp. 522-533.

Colarossi, F., Giorgino, M., Steri, R. & Viviani, D., 2008. A Corporate Governance Study on Italian Family Firms. *Corporate Ownership and Control,* pp. 93-103.

Collis, D. J. & Montgomery, C. A., 1995. Competing on resources: Strategy in the 1990s. *Harvard Business Review,* pp. 118-128.

Craig, J. & Moores, K., 2010. Strategically aligning family and business systems using the Balanced Scorecard. *Journal of Family Business Strategy,* pp. 78-87.

Cruz, C. C., Gómez-Mejía, L. R. & Becerra, M., 2010. Perceptions of Benevolence and the Design of Agency Contracts: CEO-TMT Relationships in Family Firms. *Academy of Management Journal,* pp. 69-89.

Cruz, C., Justo, R. & De Castro, J. O., 2012. Does family employment enhance MSEs performance? Integrating socioemotional wealth and family embeddedness perspectives. *Journal of Business Venturing,* pp. 62-76.

Cubico, S., Togni, M. & Bellotto, M., 2010. Generational transition guidance: support for the future of family firms. *Procedia Social and Behavioral Sciences,* pp. 1307-1311.

Cucculelli, M. & Micucci, G., 2008. Family succession and firm performance: Evidence from Italian family firms. *Journal of Corporate Finance,* pp. 17-31.

Danes, S. M., Stafford, K. & Teik-Cheok Loy, J., 2007. Family business performance: The effects of gender and management. *Journal of Business Research,* pp. 1058-1069.

De Massis, A., Chua, J. & Chrisman, J., 2008. Factors Preventing Intra-Family Succession. Family Business Review, XXI (2), pp. 183-199.

De Massis, A., Frattini, F. & Lichtenthaler, U., 2012. Research on Technological Innovation in Family Firms: Present Debates and Future Directions. Family Business Review, pp. 10-31.

De Massis, A., Frattini, F., Pizzurno, E. & Cassia, L., 2014. Product Innovation in Family versus Nonfamily Firms: An Exploratory Analysis. Journal of Small Business Management.

Debicki, B. J., Matherne III, C. F., Kellermanns, F. W. & Chrisman, J. J., 2009. Family Business Research in the New Millennium An Overview of the Who, the Where, the What, and the Why. *Family Business Review,* pp. 151-166.

Deniz, N., Boz, I. T. & Ertosun, Ö. G., 2011. The Relationship between Entrepreneur's Level of Perceived Business-Related Fear and Business Performance. *Procedia Social and Behavioral Sciences,* pp. 579-600.

Dess, G. G. & Robinson, J. R. B., 1984. Measuring organizational performance in the absence of objective measures: the case of the privately held firm and conglomerate business unit. *Strategic Management Journal,* pp. 265-273.

Ducassy, I. & Prevot, F., 2010. The effects of family dynamics on diversification strategy: Empirical evidence from French companies. *Journal of Family Business Strategy,* pp. 224-235.

Eddleston, K. A. & Kellermanns, F. W., 2007. Destructive and Productive Family Relationships: A Stewardship Theory Perspective. *Journal of Business Venturing,* pp. 545-565.

European Commission, F. R. o. t. E. G., 2009. *Overview of family-business-relevant issues: Research, Networks, Policy Measures, and Existing Estudies.,* s.l.: Enterprise and Industry Directorate-General..

Fama, E. F. & French, K. R., 1995. Size and Book-to-Market Factors in Earnings and Returns. *The Journal of Finance,* pp. 131-155.

Floren, P. D. R., Uhlaner, P. D. L. & Berent-Braun., M. M., 2010. *Family Business in the Netherlands Characteristics and Success Factors,* Breukelen, The Netherlands.: Centre for Entrepreneurship Nyenrode Business University.

Folan, P., Browne, J. & Harinder, J., 2007. Performance: Its Meaning and Content for Today's Business Reserach. *Computers in Industry,* pp. 605-620.

Ford, J. D. & Schellenberg, D. A., 1982. Conceptual Issues of Linkage in the Assessment of Organizational Performance. *The Academy of Management Review,* pp. 49-58.

Frank, H., Lueger, M., Nose, L. & Suchy, D., 2010. The concept of ‘‘Familiness’’ Literature review and systems theory-based reflections. *Journal of Family Business Strategy,* pp. 119-130.

Gabrielsson, J. &. H. M., 2004. Context, Behaviour, and Evolution. Challenges in Research on Boards adn Governance. *International Studies of Management and Organization,* pp. 11-36.

Garcıa-Ramos, R. & Garcıa-Olalla, M., 2011. Board characteristics and firm performance in public founder- and nonfounder-led family businesses. *Journal of Family Business Strategy,* pp. 220-231.

Garengo, P. & Bernardi, G., 2007. Organizational capability in SMEs Performance measurement as a key system in supporting company development. *International Journal of Productivity and Performance Management,* pp. 518-532.

Garengo, P., Biazzo, S. & Bititci, U. S., 2005. Performance measurement systems in SMEs: A review for a research agenda. *International Journal of Management Reviews,* pp. 25-47.

Garengo, P. & Bititci, U., 2007. Towards a contingency approach to performance measurement: an empirical study in Scottish SMEs. *International Journal of Operations & Production Management,* pp. 802-825.

Garengo, P., Nudurupati, S. & Bititci, U., 2007. Understanding the relationship between PMS and MIS in SMEs: An organizational life cycle perspective. *Computers in Industry,* pp. 677-686.

George, R. & Kabir, R., 2012. Heterogeneity in business groups and the corporate diversification–firm performance relationship. *Journal of Business Research,* pp. 412-420.

Gómez-Mejía, L. R. et al., 2007. Socioemotional wealth and business risks in family-controlled firms: evidence from Spanish olive oil mills. *Administrative Science Quarterly* , pp. 106-137.

Habbershon, T. G. & Williams, M. L., 1999. A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms. *Family Business Review,* pp. 1-25.

Habbershon, T. G., Williams, M. & MacMillan, I. C., 2003. A unified systems perspective of family firm performance. *Journal of Business Venturing,* pp. 451-465.

Hamelin, A., 2011. Small business groups enhance performance and promote stability, not expropriation. Evidence from French SMEs. *Journal of Banking & Finance,* pp. 613-626.

Hearn, B., 2011. The performance and the effects of family control in North African IPOs. *International Review of Financial Analysis,* pp. 140-151.

He, L., 2008. Do founders matter? A study of executive compensation, governance structure and firm performance. *Journal of Business Venturing,* pp. 257-279.

Homburg, C., Klarmann, M. & Schmitt, J., 2010. Brand awareness in business markets: When is it related to firm performance?. International Journal of Research in Marketing, pp. 201-212.

Hutton, A. P., 2007. A discussion of ‘corporate disclosure by family firms’. *Journal of Accounting and Economics,* pp. 287-297.

Jaskiewicz, P. & Klein, S., 2007. The impact of goal alignment on board composition and board size in family businesses. *Journal of Business Research*, pp. 1080-1089.

Jermias, J. & Gani, L., 2005. Ownership structure, contingent-fit, and business-unit performance: A research model and empirical evidence. The International Journal of Accounting, pp. 65-85.

Kaplan, R. S. & Norton, D. P., 1992. The Balanced Scorecard: Measures That Drive Performance. *Harvard Business Review*, pp. 172-180.

Kellermanns, F. W. & Eddleston, K. A., 2007. A family perspective on when conflict benefits family firm performance. Journal of Business Research, pp. 1048-1057.

Kennerley, M. & Neely, A., 2003. Measuring performance in a changing business environment. *International Journal of Operations and Production Management.*, pp. 213-229.

Kozan, M. K., Oksoy, D. & Ozsoy, O., 2011. Owner sacrifice and small business growth. *Journal of World Business.*

La Porta, R., Lopez-de-Silanes, F. & Shleifer, A., 1999. Corporate Ownership Around the World. *Journal of Finance*, pp. 471-517.

Lee, J., 2006. Family Firm Performance: Further Evidence. Family Business Review, pp. 103-114.

Leenders, M. & Waarts, E., 2003. Competitiveness and Evolution of Family Businesses: The Role of Family and Business Orientation. *European Management Journal*, pp. 686-697.

Lefort, F. & Urzúa, F., 2008. Board independence, firm performance and ownership concentration: Evidence from Chile. *Journal of Business Research*, pp. 615-622.

Leung, S. & Horwitz, B., 2010. Corporate governance and firm value during a financial crisis. *Review of Quantitative Finance and Accounting*, pp. 459-481.

Loscocco, K. A., Robinson, J., Hall, R. H. & Allen, J. K., 1991. Gender and Small Business Success: An Inquiry into Women's Relative Disadvantage. *Social Forces*, pp. 65-85.

Makadok, R., 2003. Doing the right thing and knowing the right thing to do: Why the whole is greater than the sum of the parts. Strategic Management Journal, pp. 1043-1055.

Malina, M. A. & Selto, F. H., 2004. Choice and change of measures in performance measurement models. *Management Accounting Research,* pp. 441-469.

MassMutual., F. G., 2003. *New Nationwide Survey Points to Bright Spot in American Economy-Family Owned Business,* s.l.: s.n.

Masulis, R. W., Pham, P. K. & Zein, J., 2011. Family Business Groups Around the World: Financing Advantages, Control Motivations, and Organizational Choices. *The Review of Financial Studies,* pp. 3556-3600.

Maury, B., 2006. Family ownership and firm performance: Empirical evidence from Western European corporations. *Journal of Corporate Finance*, pp. 321-341.

Mazzi, C., 2011. Family Business and Financial Performance: Current State of Knowledge and Future Research Challenges. *Journal of Family Business Strategy.*, pp. 166-181.

McGuire, J., Dow, S. & Ibrahim, B., 2011. All in the family? Social performance and corporate governance in the family firm. *Journal of Business Research.*

Meyer, M. W. & Gupta, V., 1994. The performance paradox. *Research in Organizational Behavior,* pp. 309-369.

Miller, D., Le Breton-Miller, I., Lester, R. H. & and Cannella Jr, A. A., 2007. Are family firms really superior performers?. *Journal of Corporate Finance,* pp. 829-858.

Miller, N. J., Besser, T. L., Gaskill, L. R. & Sapp, S. G., 2003. Community and managerial predictors of performance in small rural US retail and service firms. *Journal of Retailing and Consumer Services,* pp. 215-230.

Muñoz-Bullón, F. & Sánchez-Bueno, M. J., 2011. Do family ties shape the performance consequences of diversification? Evidence from the European Union. *Journal of World Business.*

Neely, A., Gregory, M. & Platts, K., 2005. Performance measurement system design: A literature review and research agenda. *International Journal of Operations and Production Management.,* pp. 1228-1263.

Neubaum, D. O., Dibrell, C. & Craig, J. B., 2012. Balancing natural environmental concerns of internal and external stakeholders in family and non-family businesses. *Journal of Family Business Strategy.*

Nudurupati, S., Bititci, U., Kumar, V. & Chan, F., 2011. State of the art literature review on performance measurement. *Computers & Industrial Engineering,* pp. 279-290.

O'Boyle Jr, E. H., Pollack, J. M. & Rutherford, M. W., 2012. Exploring the relation between family involvement and firms' financial performance: A meta-analysis of main and moderator effects. *Journal of Business Venturing,* pp. 1-18.

Olson, P. D. et al., 2003. The impact of the family and the business on family business sustainability. *Journal of Business Venturing,* pp. 639-666.

Pansiri, J., 2008. The effects of characteristics of partners on strategic alliance performance in the SME dominated travel sector. *Tourism Management,* pp. 111-115.

Payer-Langthaler, S., Duller, C. & Feldbauer-Durstmúler, 2012. Performance measurement in family firms: evidence from Austrian medium -and large- sized companies. *International Journal of Strategic Management.*

Pombo, C. & Gutiérrez, L. H., 2011. Outside directors, board interlocks and firm performance: Empirical evidence from Colombian business groups. Journal of Economics and Business, pp. 251-277.

Randøy, T. & Goel, S., 2003. Ownership structure, founder leadership, and performance in Norwegian SMEs: implications for financing entrepreneurial opportunities. *Journal of Business Venturing,* pp. 619-637.

Rantanen, N. & Jussila, I., 2011. F-CPO: A collective psychological ownership approach to capturing realized family influence on business. *Journal of Family Business Strategy,* pp. 139-150.

Redmond, J., Walker, E. & Wang, C., 2008. Issues for small businesses with waste management. Journal of Environmental Management, pp. 275-285.

Reichel, A. & Haber, S., 2005. A three-sector comparison of the business performance of small tourism enterprises:an exploratory study. *Tourism Management,* pp. 681-690.

Rollins, M., Bellenger, D. N. & Johnston, W. J., 2012. Does customer information usage improve a firm's performance in business-to-business markets?. *Industrial Marketing Management.*

Ruiz Gonzalez, M., Sessarego Aranda, A. R. & Guzman Sanza, R. L., 2007. *A Research about of Family Firm Definition,* Cataluña, Spain.: s.n.

Sacristán-Navarro, M., Gómez-Ansón, S. & Cabeza-García, L., 2011. Large shareholders' combinations in family firms: Prevalence and performance effects. *Journal of Family Business Strategy,* pp. 101-112.

Saito, T., 2008. Family firms and firm performance: Evidence from Japan. *Journal of the Japanese and International Economies,* pp. 620-646.

Sharma, P., 2004. An Overview of the Field of Family Business Studies: Current Status and Directions for the Future. *Family Business Review,* pp. 1-35.

Shepherd, D. A., 2009. Grief Recovery From the Loss of a Family Business: A multi -and meso- Level Theory. *Journal of Business Venturing,* pp. 81-97.

Silva, F. & Majluf, N., 2008. Does family ownership shape performance outcomes?. *Journal of Business Research,* pp. 609-614.

Silva, F., Majluf, N. & Paredes, R. D., 2006. Family ties, interlocking directors and performance of business groups in emerging countries: The case of Chile. *Journal of Business Research,* pp. 315-321.

Sirmon, D. G. & Hitt, M. A., 2003. Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship Theory and Practice,* pp. 339-358.

Smyrnios, K. &. D. L., 2006. *The MGI Family and Private Business Survey.,* Melbourne: RMIT.

Stafford, K., Duncan, K. A., Dane, S. & Winter, M., 1999. A research model of sustainable family business. *Family Business Review,* pp. 197-208.

Tagiuri, R. & Davis, J., 1996. Bivalent Attributes of the Family Firm. *Family Business Review,* pp. 199-208.

Walder, A. G., 1995. Local governments as industrial firms: an organizational analysis of China’s transitional economy. American Journal of Sociology, pp. 263-301.

Westhead, P. & Cowling, M., 1998. Family Firm Research: The Need for a Methodological Rethink. *Entrepreneurship Theory and Practice,* pp. 31-56.

Zahra, S. A. &. S. P., 2004. Family Business Research: A strategic Reflection. *Family Business Review,* pp. 331-346.

Zellweger, T. M., Eddleston, K. A. & Kellermanns, F. W., 2010. Exploring the concept of familiness: Introducing family firm identity. *Journal of Family Business Strategy,* pp. 54-63.

Chapter 3

The Use of Financial Information in Family Firms: reality or fantasy? A case study.

A modified version of this chapter was presented at the European Business Research Conference held in Rome, Italy, in September 2013, organized by the Australian organization World Business Institute.

Chapter 3. The Use of Financial Information in Family Firms: reality or fantasy? A case study.

Abstract

Family Firms (FFs) that don’t have the legal obligation to submit audited financial statements might not prepare and analyze their financial information according to the accountant rules. Instead, common sense and empirical knowledge may be employed in the decision making process. Although ROA seems to be the financial ratio more utilized by researchers to analyze the business performance, family managers of family firms that fit into the definition chosen for the study might be more inclined to substitute this measure for “perception”. The selected case shows that the financial information does not always represent the real financial situation the business is facing. The reasons behind this behavior are not only based on environmental conditions, but also involve personal and family motivations. Considering future research, it would be possible to investigate the motives businesses have to avoid both the disclosure and the analysis of their complete financial information and to explore how the performance measurement system is employed to accomplish their decisions.

3.1 Introduction

FBs not only constitute an important presence into the economy (La Porta, et al., 1999; Shepherd, 2009; Cubico, et al., 2010; Floren, et al., 2010; Basco & Perez-Rodriguez, 2011; Hearn, 2011; Leung & Horwitz, 2010; Arosa, et al., 2010; Smyrnios, 2006; MassMutual., 2003), they also represent an emerging topic within the business management research. Considering their weak structural conditions, especially in the financial arena, the study of their financial reality has become increasingly important in order to improve their performance.

While large public companies constitute the main source of information for the research field (Cucculelli & Micucci, 2008), the data obtained from their study is of little use for small businesses, which might have different ways to assess their performance (Miller, et al., 2003). Therefore, FFs need to be given specific attention and interest. To do so, and independently of the size, it is first necessary to clearly identify the subject under study, considering the different dimensions used in the research literature. This would allow for comparability between results coming from different studies, dealing with the problem in the field (Habbershon & Williams, 1999; Chrisman, et al., 2005; Miller, et al., 2007; Ducassy & Prevot, 2010; Mazzi, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; O'Boyle Jr, et al., 2012; Leenders & Waarts, 2003).

Currently, the use of financial information represents the main way to assess family business performance, where ROA seems to be the more common financial ratio considered for this purpose (Andres, 2008; He, 2008; Cruz, et al., 2012; Maury, 2006; Muñoz-Bullón & Sánchez-Bueno, 2011; Sacristán-Navarro, et al., 2011; Silva & Majluf, 2008). There is still the necessity to give more attention to the use of financial information in the family business management: the personal and family motivations might provide another perspective for the use of this data for strategic purposes and promote a better understanding of the use of financial information in the family business management. ROA might not be the more important measure to assess the family business performance and perception could take over the stage.

3.1.1 Paper's objective

The objective of this research is to achieve a better understanding on the "hows and whys" the financial information is utilized within the family business management for internal purposes, where financial information might not represent a priority in the decision making process and decisions may be taken on a day-to-day basis, employing raw and incomplete financial data: the ROA, as a main measure for the assessment of business performance, might be left aside when the perception effect leads family managers in the accomplishment of their task.

3.1.2 Paper's articulation

The paper is articulated beginning with the theoretical framework: the more utilized financial ratios in the literature have been initially collected and then clustered for and easier analysis; a subsequent part is dedicated to the research methodology, describing a case study with multiple source of evidence; the main findings are presented and discussed; finally, conclusions and propositions for future research are summarized.

3.2 Theoretical Background

3.2.1 Delimitation of the subject under study

As already mentioned, the first step of any research project should consist in the clear identification of the subject under study. To define a FB, some dimensions have been specifically used in the literature (Chrisman, et al., 2003; Chrisman, et al., 2007; Ruiz Gonzalez, et al., 2007; Andres, 2008; Basco & Perez-Rodriguez, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; Sacristán-Navarro, et al., 2011; Garcıa-Ramos & Garcıa-Olalla, 2011; Arosa, et al., 2010), among which ownership, management positions and the continuity across generations seem to play a major role (Chua, et al., 1999; Olson, et al., 2003; Tagiuri & Davis, 1996; Athanassiou, et al., 2002; Brenes, et al., 2006; Hutton, 2007; McGuire, et al., 2011; Ducassy & Prevot, 2010; European Commission, 2009).

For this research the definition chosen considers Chua et al. (1999), who defined FB in terms of the presence and/or influence of family members in the governance and/or management, with the purpose to shape and pursue their vision of a better future for the family, considering the sustainability across generations (Cassia, et al., 2012) without the legal responsibility to submit audited financial statements.

3.2.2 Financial Information and Business Performance

To obtain a better assessment, the financial performance of a company needs to be compared with the performance of previous years and/or the standards of the corresponding economical sector (Fama & French, 1995; Randøy & Goel, 2003; Reichel & Haber, 2005; Olson, et al., 2003; Cruz, et al., 2012; George & Kabir, 2012; Cucculelli & Micucci, 2008; Chung, 2011; O'Boyle Jr, et al., 2012). The assessment of performance in family firms might be complemented by the accomplishment of family objectives. It might be possible that those last ones won't be explicitly set up, but implicitly followed.

The different shareholders can establish the objectives and the way to assess them, and the business performance will be defined through the accomplishment of those objectives (Ford & Schellenberg, 1982). For the establishment of objectives, the influence of each shareholder will be mainly based on its percentage of ownership (Miller, et al., 2003) and its managerial position (Chrisman, et al., 2007; Sacristán-Navarro, et al., 2011; Zellweger, et al., 2010; Anderson & Reeb, 2003; Jaskiewicz & Klein, 2007; Lefort & Urzúa, 2008; Loscocco, et al., 1991; Deniz, et al., 2011; Olson, et al., 2003).

The more common way to assess the business performance is through the use of financial measures (Kennerley & Neely, 2003), but non-financial measures would help to achieve a better appraisal (Kaplan & Norton, 1992). The family involvement can be measured in non-financial terms and its particular elements would help to understand the performance in a family firm (De Massis, et al., 2012). The employment of the more appropiate measures will allow a good performance, as the business will behave accordingly to the accomplishment of the established measures (Kennerley & Neely, 2003). Financial measures can give a precise assessment of the business performance (Malina & Selto, 2004) when based on complete and accurate data.

3.2.3. Main measures to assess performance in the literature

In the literature, some of the more common ratios to measure the business performance are: gross sales (Miller, et al., 2003), sales growth (Homburg, et al., 2010; Neubaum, et al., 2012), return on assets - ROA - (Andres, 2008; He, 2008; Cruz, et al., 2012; Leung & Horwitz, 2010; Maury, 2006; Muñoz-Bullón & Sánchez-Bueno, 2011; Pombo & Gutiérrez, 2011; Sacristán-Navarro, et al., 2011; Silva & Majluf, 2008) which is the most used measure (Mazzi, 2011; O'Boyle Jr, et al., 2012), return on equity - ROE - (Ducassy & Prevot, 2010; Hamelin, 2011; Kellermanns & Eddleston, 2007; Sacristán-Navarro, et al., 2011), return on sales - ROS - (Chrisman, et al., 2007; George & Kabir, 2012). Other ratios employed for the same purpose are: leverage, liquidity, capital expenditures (Chang and Shin, 2007; Muñoz-Bullón and Sánchez-Bueno, 2011), cash flow and reduction of costs (Basco and Perez Rodriguez, 2011). ROI and Economic Value Analysis have been widely promoted by scholars, accountants and consultants (Chenhall & Langfield-Smith, 2007) as important ways to assess business performance. Family managers that do not prepare financial statements for the decision making process might overlook those financial ratios; instead, they might trust their own perception of the current performance.

It is not possible to base internal decisions on market ratios as market share (Alpay, et al., 2008), market adjusted stock returns (Leung & Horwitz, 2010) or Tobin’s Q (Miller, et al., 2007), as market ratios are influenced not only by the internal performance, but also by external conditions as the economic cycle or even the investors’ fear or euphoria.

The analysis of single financial ratios might not give a complete picture of the current performance of the firm; to map the business performance in a more accurate way, it might be necessary to use a set of ratios related to different aspects of the operations. One criticism of the financial information says that this information corresponds to historical data and it does not necessarily indicate the future performance (Kennerley &

Neely, 2003); nonetheless, if the use of financial ratios is useful to analyze the past actions of the firm (Kaplan & Norton, 1992), it can facilitate the improvement of the decision making process.

The purpose of the assessment will influence the selection of measures. Market measures might not be adequate for the internal day-to-day decisions; one example of market measure is the Tobin's Q (Saito, 2008). Tobin's Q makes reference to the business market value and it is influenced by investors' perceptions, expectations (Miller, et al., 2007) and stock market variations (Chen & Yu, 2011).

The financial aspect of the company is important as it can compromise its survival in the market, even if businesses can have other reasons than profits for leaving or staying. Both financial and non-financial objectives are important: when the firm is focused on one set of goals, family managers should pay attention not to ignore other core areas of the business (Kaplan & Norton, 1992).

The different ratios employed to assess business performance in the literature can be clustered in four groups, as described in **Table 3.1**:

Table 3.1

Group of ratios for the financial assessment

Group	Description
Liquidity	This group of measures is useful to determine the feasibility to pay debts in the short term. For this purpose the data employed are the short term debts and the current assets.
Operating activities	This group of ratios is useful to determine the efficiency in the proper use of the assets. Those ratios are mainly employed to assess the management of clients, suppliers and inventory, using a mix of data from the balance sheet and the income statement.
Profitability	This group of ratios is employed to assess the profitability of the operations from different angles; the capital of shareholders, the assets under the use of the company or the sales during a specific period.
Leverage	With those ratios the firm assesses the level of outside financing, the degree of dependency on those credits and the possibility to increase them.

The particular characteristics of each ratio will depend on its utility for the company, the sector in which the firm is placed and the use given.

3.2.4 Gap in the literature

Among the studies concerning FBP, many are based on different financial indicators and on comparisons with non-family businesses, only few on non-financial measures. There is a clear lack of focus on the way the financial information is used within the family business management. ROA seems to be the more utilized financial ratio in the research literature when assessing the family business performance, but this ratio might be ignored in the use of the financial information for internal purposes. The historical financial information is useful to situate the current performance of the company and the use of this information might help family managers to take decisions that influence the future outcomes. That is why it is important to understand how the family managers employ the financial information.

3.3 Methodology

To answer “How” and “Why” questions in an exploratory research, Yin (2009) recommends the use of a case study. An exploratory case study was conducted to answer the research questions concerning how and why the financial information is used or ignored within the family business management. For an easier analysis the financial ratios were clustered in four groups; the groups of measures include the more common indicators in the research literature to assess the good or bad performance in FB; the clusters include ratios of liquidity, activity, profitability and leverage.

To capture the case-situation, a multiple source of evidence was gathered and analyzed: interviews to different stakeholders/shareholders, financial reports, financial data and on-site visits that allowed to perform a direct observation on the internal use of financial information. Formal and informal interviews were conducted with the main agents related to the company: the *shareholders,* the owner, the representative of the second generation and the wife of the founder, who is also a shareholder, but does not hold any direct position in the company; the *outside financial consultant group*, consisting in the person who processes the information and the responsible for the account; the *internal responsible* for the processing of the information. The on-site part of the research took place on different dates from March-2013 to February-2014; the information required was gathered through email, Skype sessions and phone conversations.

The company provided the internal financial statements of the last 10 years, from 2002-2012; the information from 2013 was not considered, due to the lack of comparability with the annual financial statements of previous years. To provide comparability, at the end of the year the financial outsourcing services proceed to close the accountant period registering the necessary adjustments and the information for the year 2013 was not been yet processed. The company provided the financial statements of the tax payments for the same period (2002-2012), prepared according to the fiscal rules, but this information was not considered in this research, whose objective is to analyze the internal use of financial information.

The interviews last approximately 2 hours each one: 10 direct interviews with the founder and 10 with the representative of the new generation; 2 direct interviews with the financial outsourcing services; additional inquiries were made through Skype sessions with the representative of the second generation.

The financial information provided allowed to determine the financial ratios according to the accountant rules, as described in the previous section of this paper. The results were discussed with the financial consultant of the company, as well as with other experts in the field of FB management, like bank advisors and external consultants. To begin with, it was necessary to understand how the financial information was collected and processed; then, how it was transformed into financial reports and analyzed to determine the tendency of its performance; eventually, it was possible to analyze how and why the financial information was employed by the family business manager.

The main manager during the interviews gave different examples on how the financial information was utilized to take decisions regarding different core activities of the business, which have a direct effect on some of the different financial ratios. The different examples the family manager was listing during the interviews, as well as the additional information he provided, were organized in categories for their analysis. The information was organized according to the different clusters of financial ratios to facilitate the connection between the uses of financial information with the related financial ratios. Experts in the field gave their opinion about the internal use of financial information by the managers of the FB. Bank advisors and private financial advisors where interviewed for this purpose. The experts gave examples of different real cases. The information coming from the experts was organized following the same procedure than the information coming from the family managers.

According to Yin (2009), the final draft of the study was reviewed by the main informants to ensure construct validity and the quality of the case (Gibbert, et al., 2008). The informants agreed in general terms with the case and provided additional information that helped to complement the analysis of the study; the final version of the case was discussed again.

3.3.1 The company

Three companies operating within the Mexican market were initially selected for the research. Their general information is summarized in **table 3.2**. Company A and Company B agreed for an initial interview that lasted approximately 2 hours and during which it was possible to gather the general information of the company, as well as to discuss the objectives and implications of the study. Although the three Mexican companies that were initially invited to join fit into the definition of family firm chosen for the study, only one company offered the necessary requirements to conduct a deeper research. Therefore, after the initial interview, company A and company B were discarded due to their reservations in disclosing the necessary financial information.

One of the main obstacles when conducting research on FB is the difficulty to access its information. The presented case, company C, was selected due to the company's willingness to share all the required data. The company was open to direct examination during the process of the daily operations and was also open to discuss it, giving its contribution on the "hows and whys" the information was employed during the development of those activities.

Mexico is considered an emerging market. In recent years, emerging markets are thought to represent an important component of the world economic growth. Because they are progressively dominated by the large presence of family businesses, the improvement of the performance in family business would bring major benefits to the economy in general.

Table 3.2

General information of the companies

	Company A	Company B	Company C
Location	San Andres, Puebla.	Santa Ana, Tlaxcala.	Puebla, Puebla.
Sector	Food	Textile	Hardware
Market	City	Regional	National
% of ownership	100%	99%	100%
Desire for continuity	N/A	YES	YES
Family manager?	YES	YES	YES
No. of employees	30	140	15
No. of generations	2	2	1 -2
Informant / First contact	Owner	Manager	2nd generation
Profession / Main manager	High school	Ind. Engineering	Accountant
Audited financial statements	NO	NO	NO
Financial services	YES	YES	YES
Software implementation	YES, But only for the outsourcing use	YES, with partial information of the operations	YES, with partial information of the operations
Open to share /Financial information	NOT SURE	NO	YES
/Participate to interviews	YES	YES	YES
/Discuss information	Only outsourcing services	NO	YES

Company C, the selected one, competes within the hardware industry as a wholesale intermediary in the Mexican territory, attending small cities where the big players do not have an important presence. The 3 biggest cities in the country are out of the market for this company: Mexico City, with more than 9 million of habitants; Guadalajara, Jalisco, with more than 4.5 million of habitants; and Monterrey, Nuevo Leon, with more than 4.0 million of habitants. The main suppliers are from Spain, Taiwan, China, Brazil, Argentina and India. The firm serves the market with almost 2,000 different articles, of which only the 30% of national origin. Company C has been in the market for 30 years. The first generation was part of the company only for legal purposes; the second generation is in practical terms the founder generation of the business. Currently, the company is undergoing a generational change. During the present work, the founder will be referred to as the generation in charge - as mentioned before, the previous generation appeared only in the legal documents of the company. The new generation does not have a formal role into the management, but exert an indirect influence: its representative is not taking decisions directly to affect the business performance, but is influencing the founder to implement some changes that might affect it. The new generation is working on different projects, where the main interest is focused on sales and marketing. Both the founder and the new generation have financial backgrounds and for this reason they were very familiar with the information required, the use of that information, as well as the questions asked during the different interviews.

In general terms, company C shared financial information regarding all the operations. They went through the different financial statements, including the source of the financial data and how it was employed for the decision making process. The company shared all the financial statements prepared from the financial outsourcing services that are working in place.

The outcomes of this study should be employed as comparable parameters with similar ones obtained from other studies using homogeneous definitions of FB. For this purpose, the definition employed followed Chua et al. (1999), who defined FB in terms of presence and/or influence of family members in the governance and/or management, with the purpose to shape and pursue their vision of a better future for the family, considering the sustainability across generations (Cassia, et al., 2012), without the legal obligation to submit audited financial statements.

3.3.2 Data collection

The data collection and the interviews were accomplished visiting the place where the main stakeholders were operating, as well as the place where the information was filed, through the period from March 2013 to February 2014. Semi-structured formal and informal interviews were conducted and electronic devices were employed to gather and process financial information. Not only was it possible to access the printed version of the financial statements; also the system where those financial statements were processed was available. The current systems possessed by the company are called COI and SAE. The flexibility of those programs allows the user to prepare and analyze the financial statements. Some of the information was retrieved only in printed evidence. The first analysis was discussed with the main shareholders to determine if the events were captured as they really were; eventually, a final discussion took place to review all the outcomes.

The owner shared private information about the operations, including: undeclared sales, pricing process, purchase cost of the articles, list of national and international suppliers, sales policies, the credit management and, in general, all the policies the company applies in the operations, the detail of customer purchases and all the other information requested. Part of the information was not analyzed due to the extensiveness of the data based on paper documents. Very important data was made available through electronic sources.

3.3.3 Analysis

Following Yin (2009), the qualitative analysis began with a narrative of the case. The interviews were conducted and the data collection was accomplished; the information was organized in categories for its analysis. The analysis included how the clusters of measures are used and calculated by accountant procedures and how they are perceived and used by the main stakeholders.

3.4 Discussion of the key findings

The use of financial indicators inside a FB might be more a fairy tale than a concrete information, promoted by the lack of the legal obligation to submit audited financial statements. FBs might not use accurate accountant processes (Carney, 2005): family managers are aware that the financial information is not accurate, so they do not use it.

In the case under study, the fairy tale begins with the determination of profit, which is based on an increment of 50% over the cost of acquisition. In the pricing process the family manager does not consider the market conditions, the competition, the product quality; the only element he considers is the cost of acquisition.

The total sales are not fully controlled in the income statement. The same can be said for the cost of acquisition and the expenses for the operations. This will affect the other elements of the statement and will be reflected in the tax determination, which might be one of the main reasons for the use of incomplete information.

Table 3.3

The use of financial statements and its financial measures

	Financial Advisor	**Bank Advisor**	**Founder**	**Second Generation**
Financial Statements	Prepared according to the accountant procedures, with incomplete information. Utilized to prepare tax payments.	Perceived as not useful. The business' owners prefer to take decisions on the base of their own perception.	*"I don't use this information to take decisions. Knowing the exact information might take out my sleep".*	They don't show the real situation of the company, they are not trustworthy. Complete information would be more useful for the company.
Financial Measures	Not calculated. Only tax ratios are calculated for tax purposes.	Some owners don't know how to determine and analyze them. They take decisions on the base of other elements.	*"I don't use this information. I have my own way to determine the financial performance".*	Might be helpful to adjust the activities in order to improve the outcomes, taking better decisions on the base of this information. Everything is mainly controlled empirically.

Family managers are used to take decisions under the effect of perception, not on the base of financial indicators. CEO's perception is a powerful tool that can affect the strategic management process in both positive and negative directions (De Massis, et al., 2013): the manager certainly possess a greater knowledge about the business, but the obliviousness of the concrete financial information inevitably produces the lack of a clear direction in the administration of the firm.

The financial information processed is used only for the external stakeholders, as in the case of firm A, where the manager was not interested on the financial information generated from the financial advisor. In his own words, *"That information is used by the advisor to pay taxes… I'm controlling the business and I know if I have problems or not"*; this situation was not far from the case of firm C, where the owner, although understanding the financial statements and possessing enough knowledge to analyze them and take decisions on their base, prefers to utilize his notes and his own perception of the business performance.

The experience and knowledge over the business allows family managers to "feel" how the business is performing. During the interviews it was possible to notice that the founder of firm C was conscious of the general situation of the company, but not of the exact configuration of it.

After the analysis, the founder agreed with the fact that more real and complete information was needed to take better decisions. Also, it was pointed out that, when the business was given enough cash flow, the problems coming from the lack of accurate financial information were not perceived; when the cash flow decreased, the owner began to notice the increase in clients' turnover, suppliers' turnover and the decline in purchase activity over time. The right controls can allow managers to identify the tendency of those ratios through the analysis of the financial statements.

The opinion about the financial reality on family firms is summarized in **Table 3.4**, where it is possible to observe the lack of accurate financial procedures in the data collection and processing.

Table 3.4 The use of financial ratios

	Financial Advisor	Bank Advisor	Founder	Second Generation
Liquidity	Not calculated.	Important ratio for credit purposes. FBs consider liquidity the amount of cash they possess.	*"I know my clients, I know who will pay, I can determine the feasibility to collect credits and the capacity to pay debts".*	No information possessed. Liquidity is inferred from the availability of money for the purchases.
Business Operation Activity	Not calculated.	The efficiency of the activity is inferred by the flow of operations.	*"I evaluate efficiency according to the number of trips made by each agent and the number of purchases and sales".*	Established according to sales' registers and collect control, but incomplete.
Profita-bility	Calculated for tax purposes only.	Not controlled, FBs might have good profits from some operations and losses from others.	*"I increase 50% over the purchasing price... I consider the expenses as the agent commission and other expenses".*	Inferred by the availability of money for vacation, shopping, luxury assets and the fulfillment of personal necessities.
Leverage	Not calculated.	Not controlled, FBs face difficulties in obtaining bank credits. Lenders are commonly other family members and suppliers.	*"My debts are with suppliers only, I ask credit only for the amount of money I think I can afford to pay back without compromising the available cash".*	Debts with suppliers are contracted according to the expectance of payments from clients and cash sales.

The founder was a little surprised with the results from the financial analysis, even though he had perceived the tendency in the business performance. With his own words: *"Lately, I don't have enough money to purchase inventory, my clients are taking more time to pay me… "*. Knowing the tendency the business is following in some ratios, it is possible to take action in order to gain the right direction. After the founder realized the financial situation the company was going through, he began to implement some measures to increase the cash flow. The decisions regarding such increase were only based on the perception of the business performance. With his own words: *"Now I'm buying things that I feel I'll sell soon"*.

3.4.1 Analyzing the collected data

Analyzing the data, it is possible to comment in respect to each group of financial ratios described in the theoretical background.

I) Liquidity. This group of measures is useful to determine the feasibility to pay debts in the short term. For this purpose the data employed are the short-term debts and the current assets (cf. table 3.5). In 2012 a liquidity ratio of 1.96 means that the company has the capacity to pay 1.96 times the short term debt with the current assets; the acid test of 1.17 for the same year means that the company still has the capacity to cover more than one time the short term debt without considering the inventory.

Table 3.5

Liquidity ratios 2008-2012

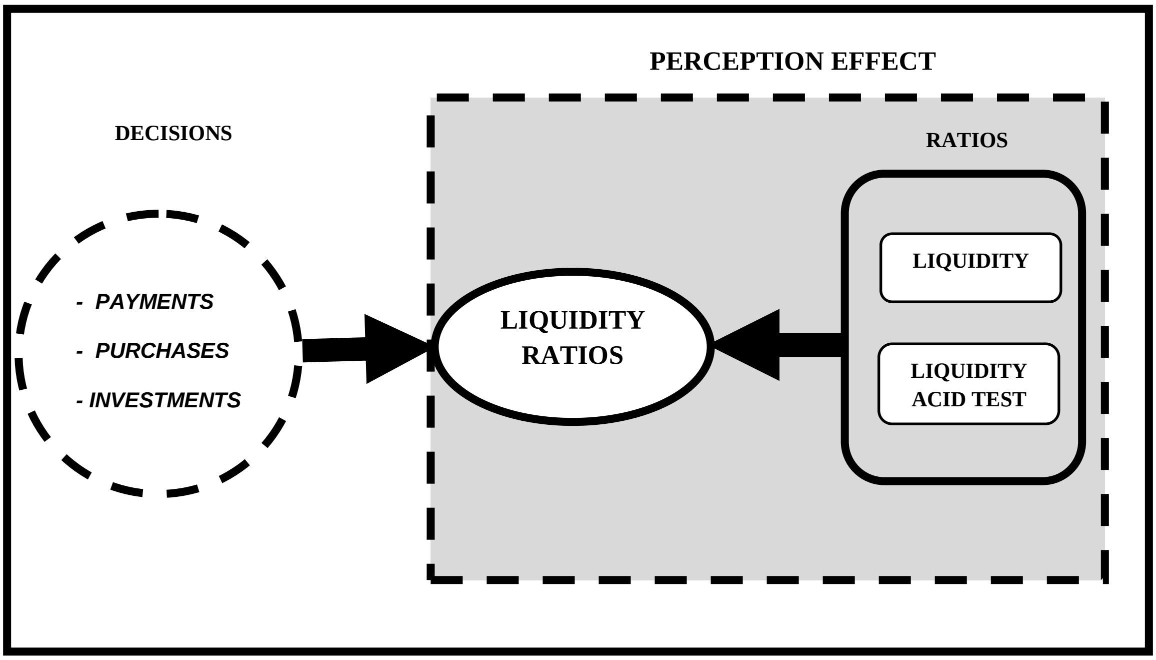
Liquidity	2008	2009	2010	2011	2012
Liquidity	2.68	2.92	2.30	1.89	1.96
Acid test	0.99	0.87	0.95	1.16	1.17

-Proportion of company's current assets against its current liabilities.

In practice, the owner summarizes the accounts more likely to be collected, plus the cash available in the bank; then, he compares that amount with the more urgent payments due to the suppliers. That is how he knows if he has enough "liquidity" for the payments. When discussing this ratio with the family manager, he mentioned that *"Liquidity is important because it lets me organize my payments to the suppliers, I can decide which products I can buy and the amount of them…"* he also mentioned: "*I know if I have enough liquidity, for example, now I have $000... in the bank, plus $000... that I THINK I'll collect during this week, plus the sales of this week in cash that MIGHT summarize $000..., with this simple procedure I KNOW my liquidity"*; he confirmed that he takes decision for payments, purchases and investments considering the current liquidity of the company. That liquidity is determined under the perception effect and not on the base of financial ratios coming from the financial statements.

Figure 3.1

Perception effect on liquidity



-This figure shows in the gray box the list of ratios corresponding to the liquidity of the company; outside of the box, an example of the different decisions that affect the liquidity ratios, while the opposite should be expected and the liquidity ratios should define the more appropriate decisions.

The perception effect might have an important influence in the determination of the ratios of liquidity. A company that does not possess a formal procedure to calculate the ratios won't be able to create a history of this indicator and to utilize it to analyze the tendency of the business performance. The incomplete information in the financial statements can generate a wrong analysis of the ratio. In the previous figure it's possible to identify some of the decisions family managers take under the perception effect, affecting the liquidity. While the liquidity ratios should be the ones to affect the decisions, the perception effect produces a movement in the opposite direction. Family managers might have a close perception about the liquidity due to their deep knowledge on the operations of the company, but this is not enough to create a financial history that follows the track of the business performance. The decisions will be taken with a lack of clear direction regarding the optimum level, consistent with the usual operations of the company.

II) *Operating activities. This group of ratios is useful to determine the efficiency in the proper use of the assets. Those ratios are mainly used to assess the management of clients, suppliers and inventory, using a mix of data from the balance sheet and the income statement (cf. Table 3.6). The meaning of the different ratios summarized in **Table 3.6** can be exemplified as follows, with reference to year 2012: the merchandise remains in inventory for 438 days; the clients take 292 days to pay; the payment to suppliers takes 218 days; the operations cycle takes 731 days; and the cycle of cash investment for the operations takes 513 days.*

Table 3.6

Ratios of activity 2009-2012

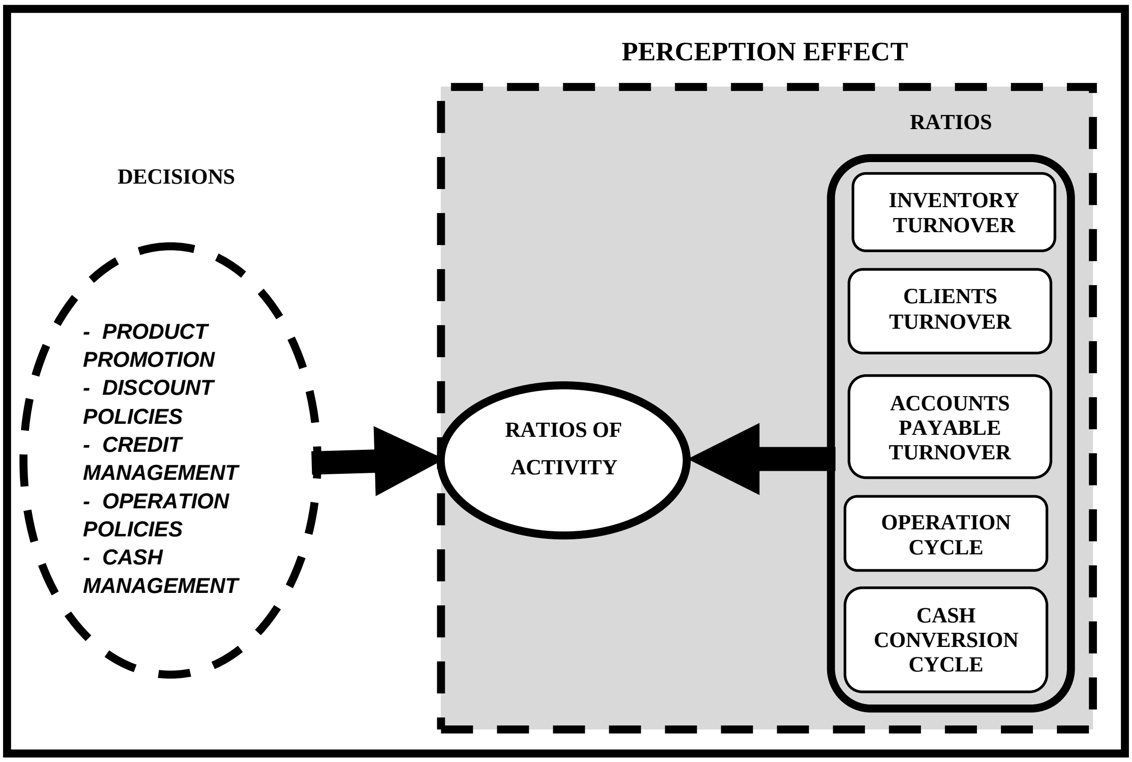
Activity	2009	2010	2011	2012
Inventory turnover	500	477	460	438
Clients turnover	92	119	194	292
Suppliers turnover	88	82	134	218
Operation cycle	592	597	654	731
Cash cycle	504	515	519	513

-The ratios are presented in number of days.

The founder controls the customer payments by route and there are around 10 routes covered by 4 agents. The time during which a product is part of the inventory is measured with handwriting notes on a notebook and a calendar is used to follow the payments to the suppliers. Customers, Inventories and Suppliers are not well controlled. The company does not have a control of tendency in the activity ratios of the business, which might help the company to evaluate the effectiveness of the business operations across time. For the family manager the efficiency in operations *"… can be observed by the amount of trips done by each sales agent, regarding the existence of products… I know which merchandise has been on inventory for more than one year, I'll lower the price to make it more attractive for the clients"*.

Figure 3.2

Perception effect on activity ratios



-This figure shows in the gray box the list of ratios corresponding to the operations of the company; outside of the box, an example of the different decisions that affect the activity ratios, while the opposite should be expected and the activity ratios should define the more appropriate decisions.

The family manager has in mind what products have been in the inventory for a long period of time, but he has not detailed knowledge of the time all the merchandise stays in the warehouse. Knowing the evolution of this ratio across time would help family managers to improve their decisions regarding: promotion policies for determined products; discount policies for products that remain unsold for a certain period of time; credit policies for clients; negotiation of credit policies with suppliers; and, in general, the different activities involved in the normal operations of the company. The financial control of operations activities will shape the decisions to improve the performance, whereas the lack of control over these ratios reverses the direction of influence: as shown in **Figure 3.2**, the decisions taken will affect the ratios of activities instead of being affected by them.

III) Profitability. This group of ratios is employed to assess the profitability of the operations from different angles; the capital of shareholders, the assets under the use of the company or the sales during a specific period (cf. Table 3.7). As described in the table, for 2012 the net profits over sales of the company – ROS – are 5.43%, 3.09% over the total assets – ROA – and 6.09 % over the capital – ROE –.

Table 3.7

Profitability ratios 2008-2012

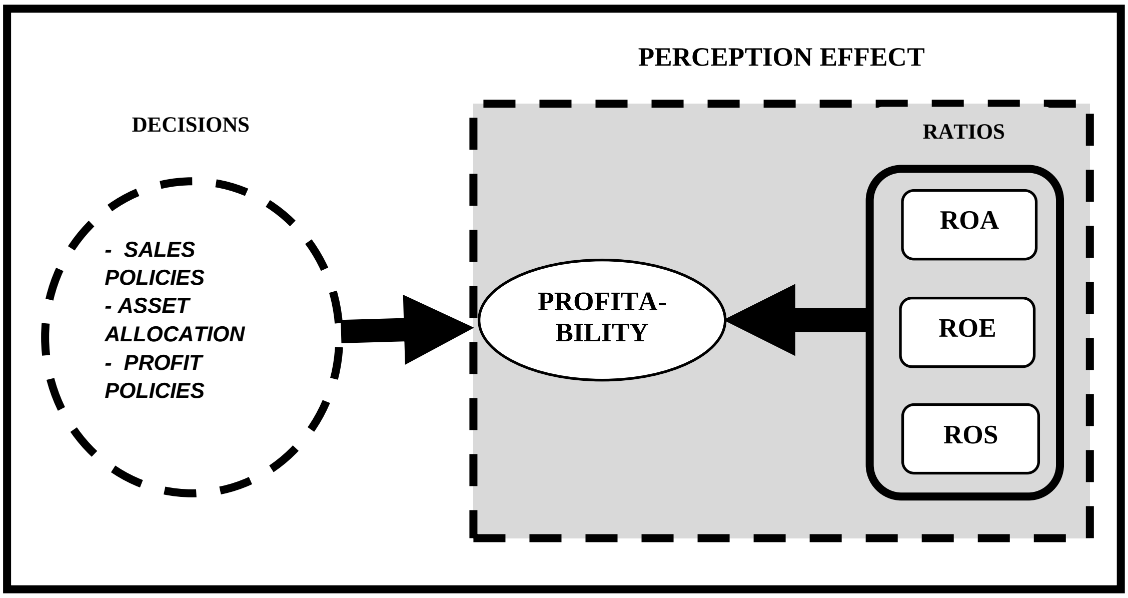
Profitability	2008	2009	2010	2011	2012
ROS	-3.82%	7.13%	-21.29%	8.56%	5.43%
ROA	-3.44%	5.85%	-13.93%	5.21%	3.09%
ROE	-5.31%	8.67%	-23.96%	10.52%	6.09%

-The ratios are presented in terms of percentage.

The raw margin of the sales is calculated increasing the purchasing price by the 50%. Although the manager knows the accountant procedure to determine the business profitability, he makes no use of it; according to him: *"I know that increasing the price* *by 50% I'll have enough margin for the different expenses related to the sales process".*

Figure 3.3

Perception effect on profitability ratios



-This figure shows in the gray box the list of ratios corresponding to the profits of the company; outside of the box, an example of the different decisions that affect the profitability ratios, while the opposite should be expected and the profitability ratios should define the more appropriate decisions.

The existence of profits is inferred by the availability of cash flow for the family expenses. According to the owner of the business: *"I know that the business is going well when I have enough resources for the living expenses…";* he also mentioned: *"I can see the profitability of the business when it generates enough cash for the operation of the business"*. Lacking control over the generation of profits might lead to a misinterpretation of the generation of cash, which is not necessarily linked to the profitability of the business; some other possible misinterpretations are related to other financial ratios, as in the case of clients turnover or suppliers turnover: the acceleration of payment from clients or the lack of payment to suppliers can generate the sense that more cash is available in the business. Although the current data to determine ROE, ROA and ROI is incomplete, it might still provide an important indication of the tendency the business is following.

IV) Leverage. Those ratios are utilized by the firm to assess the level of outside financing, the degree of dependency on the use of credits and the possibility to increase them (cf. Table 3.8). In 2012 the leverage/assets ratio and leverage/capital ratio show that almost the half of the assets is financed by external resources, even though in the same year the company had the capacity to pay more than 3 times the financial expenses.

Table 3.8

Leverage ratios 2009-2012

Leverage	2009	2010	2011	2012
Leverage/Assets	0.33	0.42	0.51	0.49
Leverage/Capital	0.48	0.72	1.02	0.97
Financial expenses/Operating Incomes	10.06	-7.99	9.61	3.63

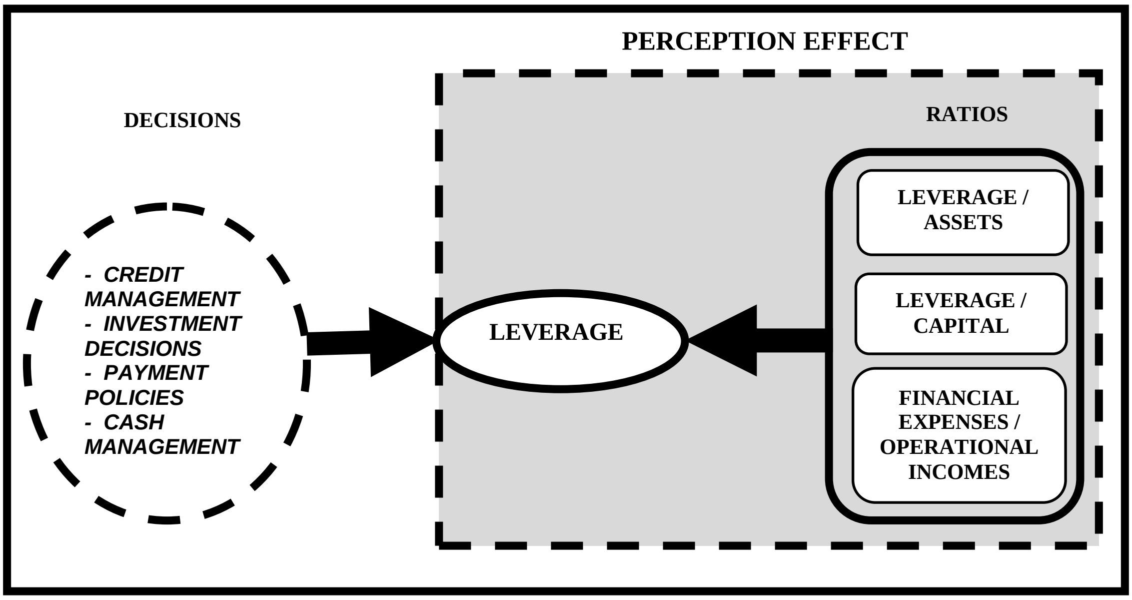
-The ratios are presented in proportions.

The capacity to cover financial expenses is decreasing over time, but the company is not aware because of the lack of financial analysis. The financial outsourcing services are focused on tax payments but not on the optimization of the internal use of resources.

The company utilizes credit to buy merchandise, rarely to finance other assets; the main worries about credits are related to the punctuality of payments to the suppliers. The leverage financial ratios are not calculated with accountant procedures. In this respect, the family manager commented: *"I don't like to use credits from the bank, I ask credit only to my suppliers; sometimes it takes longer to pay them, but they know that I always pay"*. The lack of strategy in the use of credits does not allow the company to exploit some of its advantages, even if the price of the credit is high in emerging markets. A common interest rate can range from 10% to 24%, sometimes reaching 40%, as in the case of corporate credit cards. Approximately, the 50% of the debts is related to taxes, but the owner had no clue on this basic information, and stated *"it might be a strategy of the accountant"*. The use of credit in the emerging market might be a problem for family business due to the lack of credit culture and the high interest rate.

Figure 3.4

Perception effect on leverage ratios



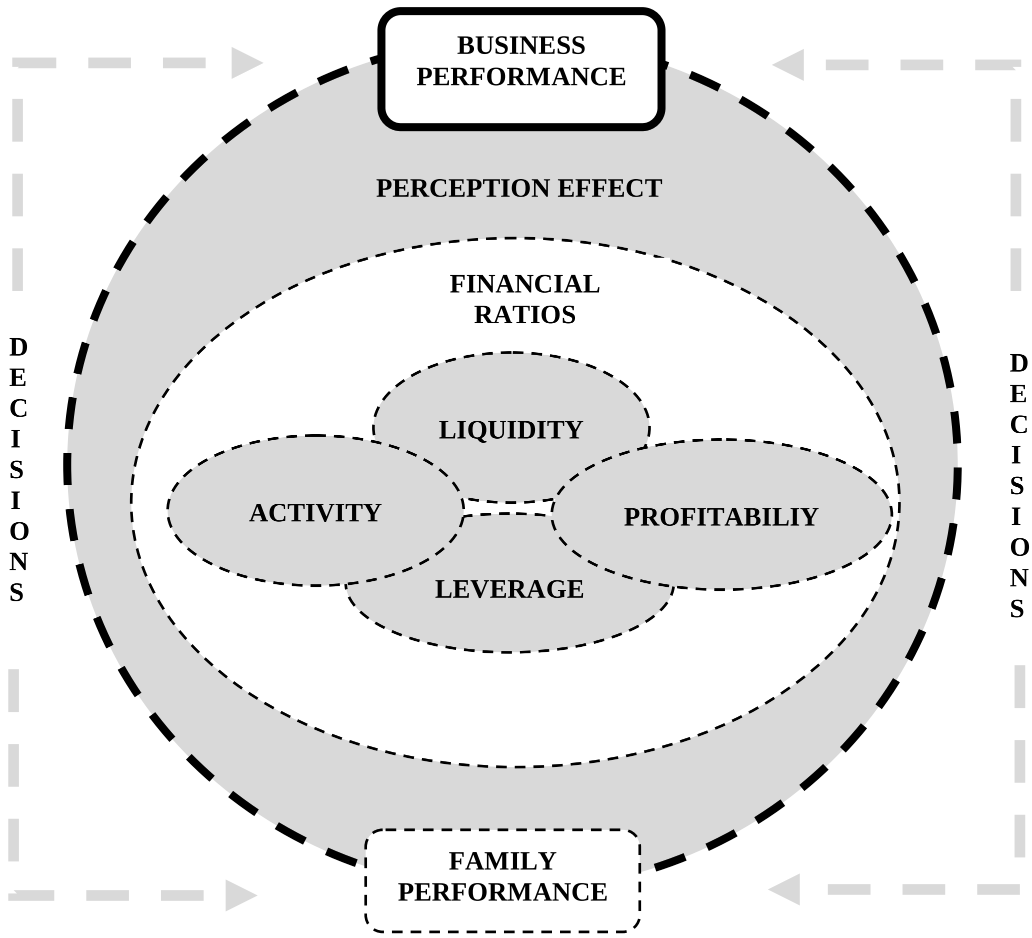
-This figure shows in the gray box the list of ratios corresponding to the leverage of the company; outside of the box, an example of the different decisions that affect the leverage ratios, while the opposite should be expected and the leverage ratios should define the more appropriate decisions.

All financial ratios are not calculated as part of the financial performance assessment of the business. The owner bases his decisions on common sense and empirical knowledge, acting under the perception effect rather than on the base of a financial performance assessment with a selection of financial measures. Accurate financial measures with complete information might help to improve the cross financial analysis and the decision making process, generating a better financial performance.

The owner prefers to take decisions on the base of his perception of the business; in his own words: *"I don't want to calculate exact numbers, they might take out my sleep"*. The company utilizes financial statements with incomplete information for tax payment purposes and the complete information is not fully controlled. As a consequence, decisions are based on incomplete and fragmented information. The owner is not completely conscious of the importance of accurate financial information in order to take business decisions that will improve the business performance. Despite the new generation arriving to the company is fully committed to improve the control over financial data, its representative has other priorities. The main priority for the new generation is the increase on sales: *"The increase on sales will generate more cash flow for the company, which can be invested in specific projects"*.

Figure 3.5

Perception effect on performance



-This figure shows in the center the four clusters of financial ratios. The decisions taken under the perception effect will influence the family and business performance, while the opposite should be expected and the four clusters of financial ratios should define the more appropriate decisions.

Both the founder and the new generation have financial academic backgrounds: the lack of knowledge is not the reason of the weak financial control. Their knowledge might be useful to develop a “clear” perception of the general behavior of the business performance that will at least allow the survival of the business, in spite of the lack of financial history necessary to track and improve the performance. The perception effect will influence all sorts of decisions regarding the business operations, while financial ratios could help family managers to take better decisions for the business performance improvement. The **Figure 3.5** shows the perception effect on different decisions that will later define the new financial ratios.

One reason why family managers should pay more attention to the use of financial ratios could be the risk of failure caused by an excessive focus on the family needs leading to overlook the business’ necessities. The tracking of the business performance might become important when it clearly turns to be a problem for the family business.

3.5 Conclusions

ROA, ROI, ROE, cash flow and any other financial measure are not the correct ratios to define good or bad performance in a FB if they are based on incomplete information; the most important step in the analysis of performance in FB, including when they are compared with non-FB, should begin with the accuracy and reliability of the financial information. Particularly in the case of non-public FBs that are not required to submit audited financial statements for legal purposes.

Each financial ratio alone is not sufficient to analyze the business performance: a cross analysis is necessary to achieve a better perception of the business. The use of non-financial measures is important, as they might help complete the picture of a FBP.

The long-term perspective in FB might not match the short-term decisions family managers take on the base of incorrect or incomplete information. When family managers are conscious of the implications of short and long-term decisions, those ones can be improved. Taking decisions under the perception effect might lead to short term decisions, while the use of exact financial ratios can generate more accurate long and short-terms decisions consistent with each other.

The business objectives need financial measures to assess their accomplishment and the presence of family goals might require non-financial measures for the same purpose. In both cases, the control of goal accomplishment is necessary to take better decisions in order to keep following the established goals. Some goals might be implicit, but must always be kept under control to acquire a better knowledge of the family and business performance. The use of right controls could help the FB improve the decision making process and, consequently, the business performance.

Family goals might represent a more important set of goals than the business ones, but their importance can lessen, if they put the business at risk. Good or bad performance in FB should be compared with the accomplishment of the company's particular goals. The comparison of the performance between different FBs might not be appropriate if they happen to follow different financial and non-financial objectives.

The use of incomplete financial information might represent a symptom caused by the lack of a formal PMS. It is important to analyze the whole system to gather a better understanding of the use of financial reports within the family business management.

Some questions for future research arise: Are the taxation rules so unequal and harmful to FBs? FBs might not possess the expertise of tax accountants and fiscal lawyers to avoid some tax duties through legal strategies. This might explain why they tend to give incomplete information about their financial status. Are the governmental institutions more focused on increasing the tax obligations of the captive taxpayers than to increase the number of taxpayers? Some actions of the government might harm the actual taxpayers, forcing them to look for strategies to avoid excessive tax payments. How would it be possible to achieve accurate information in order to analyze the good or bad performance of a FB? If the information to be studied is incorrect or incomplete, the results are not valid. Is the lack of a formal performance measurement system what leads to the lack of use of reliable financial reports and to the use of incomplete financial information to take decisions? Without a trace to follow, the performance might not be easily improved, nor will it be possible to assess the position the business possesses in terms of actual performance.

The results of this study should be considered within the framework of their particular conditions: they have been obtained in an emerging market characterized by low regulation, where the percentage of tax payers is low and there are few incentives to create strong financial controls; in addition, the information was gathered from a family business that does not have the legal obligation to submit audited financial statements. The context is an important element of influence when assessing business performance (Carney, 2005).

3.6 References

Alpay, G. et al., 2008. Performance implications of institutionalization process in family-owned businesses: Evidence from an emerging economy. *Journal of World Business,* pp. 235-448.

Anderson, R. C. & Reeb, D. M., 2003. Founding-Family Ownership and Firm Performance: Evidence from the S&P 500. *The Journal of Finance,* pp. 1301-1328.

Andres, C., 2008. Large shareholders and firm performance—An empirical examination of founding-family ownership. *Journal of Corporate Finance,* pp. 431-445.

Arosa, B., Iturralde, T. & Maseda, A., 2010. Outsiders on the board of directors and firm performance: Evidence from Spanish non-listed family firms. *Journal of Family Business Strategy,* pp. 236-245.

Athanassiou, N., Crittenden, W. F., Kelly, L. M. & Marquez, P., 2002. Founder centrality effects on the Mexican family firm's management group: firm culture, strategic vision and goals, and firm performance. *Journal of World Business,* pp. 139-150.

Basco, R. & Perez Rodriguez, M. J., 2011. Ideal types of family business management: Horizontal fit between family and business decisions and the relationship with family business performance. *Journal of Family Business Strategy,* pp. 151-165.

Bescos, P.-L., Cauvin, E., Decock-Good, C. & Westlund, A. H., 2007. Characteristics of Performance Measures for External Reporting. *Total Quality Management*, pp. 1055-1074.

Brenes, E. R., Madrigal, K. & Molina-Navarro, G. E., 2006. Family business structure and succession: Critical topics in Latin American experience. *Journal of Business Research*, pp. 372-374.

Carney, M., 2005. Corporate Governance and Competitive Advantage in Family-Controlled Firms. *Entrepreneurship Theory and Practice*, pp. 249-265.

Cassia, L., De Massis, A. & Pizzurno, E., 2012. Strategic innovation and new product development in family firms An empirically grounded theoretical framework. *International Journal of Entrepreneurial Behaviour& Research.*, pp. 198-232.

Chang, J. J. & Shin, H.-H., 2007. Family ownership and performance in Korean conglomerates. *Pacific-Basin Finance Journal,* pp. 329-352.

Chen, C.-J. & Yu, C.-M. J., 2011. Managerial ownership, diversification, and firm performance: Evidence from an emerging market. *International Business Review,* pp. 1-17.

Chenhall, R. H. & Langfield-Smith, K., 2007. Multiple Perspectives of Performance Measures. *European Management Journal,* pp. 266-282.

Chrisman, J. J., Chua, J. H. & and Sharma, P., 2005. Trends and Directions in the Development of a Strategic Management Theory of the Family Firm. *Entrepreneurship Theory and Practice,* pp. 555-575.

Chrisman, J. J., Chua, J. H., Kellermanns, F. W. & Chang, E. P., 2007. Are family managers agents or stewards? An exploratory study in privately held family firms. *Journal of Business Research,* pp. 1030-1038.

Chrisman, J. J., Chua, J. H. & Litz, R., 2003. A unified systems perspective of family firm performance: an extension and integration. *Journal of Business Venturing,* pp. 467-472.

Chrisman, J. J., Sharma, P. & Taggar, S., 2007. Family influences on firms: An introduction. *Journal of Business Research,* pp. 1005-1011.

Chua, J. H., Chrisman, J. J. & Sharma, P., 1999. Defining the family business by behavior. *Entrepreneurship Theory and Practice,* pp. 19-32.

Chung, H. F. L., 2011. Market orientation, guanxi, and business performance. *Industrial Marketing Management,* pp. 522-533.

Cruz, C., Justo, R. & De Castro, J. O., 2012. Does family employment enhance MSEs performance? Integrating socioemotional wealth and family embeddedness perspectives. *Journal of Business Venturing,* pp. 62-76.

Cubico, S., Togni, M. & Bellotto, M., 2010. Generational transition guidance: support for the future of family firms. *Procedia Social and Behavioral Sciences,* pp. 1307-1311.

Cucculelli, M. & Micucci, G., 2008. Family succession and firm performance: Evidence from Italian family firms. *Journal of Corporate Finance,* pp. 17-31.

Danes, S. M., Stafford, K. & Teik-Cheok Loy, J., 2007. Family business performance: The effects of gender and management. *Journal of Business Research,* pp. 1058-1069.

De Massis, A., Frattini, F. & Lichtenthaler, U., 2012. Research on Technological Innovation in Family Firms: Present Debates and Future Directions. *Family Business Review,* pp. 10-31.

De Massis, A., Kotlar, J. & Frattini, F., 2013. Is Social Capital Perceived as a Source of Competitive Advantage or Disadvantage for Family Firms? An Exploratory Analysis of CEO Perceptions. *Journal of Entrepreneurship,* pp. 15-41.

Deniz, N., Boz, I. T. & Ertosun, Ö. G., 2011. The Relationship between Entrepreneur's Level of Perceived Business-Related Fear and Business Performance. *Procedia Social and Behavioral Sciences,* pp. 579-600.

Ducassy, I. & Prevot, F., 2010. The effects of family dynamics on diversification strategy: Empirical evidence from French companies. *Journal of Family Business Strategy,* pp. 224-235.

Eddleston, K. A. & Kellermanns, F. W., 2007. Destructive and Productive Family Relationships: A Stewardship Theory Perspective. *Journal of Business Venturing,* pp. 545-565.

European Commission, F. R. o. t. E. G., 2009. *Overview of family-business-relevant issues: Research, Networks, Policy Measures, and Existing Estudies.,* s.l.: Enterprise and Industry Directorate-General..

Fama, E. F. & French, K. R., 1995. Size and Book-to-Market Factors in Earnings and Returns. *The Journal of Finance,* pp. 131-155.

Floren, P. D. R., Uhlaner, P. D. L. & Berent-Braun., M. M., 2010. *Family Business in the Netherlands Characteristics and Success Factors,* Breukelen, The Netherlands.: Centre for Entrepreneurship Nyenrode Business University.

Ford, J. D. & Schellenberg, D. A., 1982. Conceptual Issues of Linkage in the Assessment of Organizational Performance. *The Academy of Management Review,* pp. 49-58.

Garcıa-Ramos, R. & Garcıa-Olalla, M., 2011. Board characteristics and firm performance in public founder- and nonfounder-led family businesses. *Journal of Family Business Strategy,* pp. 220-231.

George, R. & Kabir, R., 2012. Heterogeneity in business groups and the corporate diversification–firm performance relationship. *Journal of Business Research,* pp. 412-420.

Gibbert, M., Ruigrok, W. & Wicki, B., 2008. Research notes and commentaries: What passes as a rigorous case study?. Strategic Management Journal, pp. 1465-1474.

Habbershon, T. G. & Williams, M. L., 1999. A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms. *Family Business Review*, pp. 1-25.

Hamelin, A., 2011. Small business groups enhance performance and promote stability, not expropriation. Evidence from French SMEs. *Journal of Banking & Finance*, pp. 613-626.

Hearn, B., 2011. The performance and the effects of family control in North African IPOs. *International Review of Financial Analysis*, pp. 140-151.

He, L., 2008. Do founders matter? A study of executive compensation, governance structure and firm performance. *Journal of Business Venturing*, pp. 257-279.

Homburg, C., Klarmann, M. & Schmitt, J., 2010. Brand awareness in business markets: When is it related to firm performance?. *International Journal of Research in Marketing*, pp. 201-212.

Hutton, A. P., 2007. A discussion of 'corporate disclosure by family firms'. *Journal of Accounting and Economics*, pp. 287-297.

Jaskiewicz, P. & Klein, S., 2007. The impact of goal alignment on board composition and board size in family businesses. *Journal of Business Research*, pp. 1080-1089.

Jermias, J. & Gani, L., 2005. Ownership structure, contingent-fit, and business-unit performance: A research model and empirical evidence. *The International Journal of Accounting*, pp. 65-85.

Kaplan, R. S. & Norton, D. P., 1992. The Balanced Scorecard: Measures That Drive Performance. *Harvard Business Review*, pp. 172-180.

Kellermanns, F. W. & Eddleston, K. A., 2007. A family perspective on when conflict benefits family firm performance. *Journal of Business Research*, pp. 1048-1057.

Kennerley, M. & Neely, A., 2003. Measuring performance in a changing business environment. *International Journal of Operations and Production Management.*, pp. 213-229.

La Porta, R., Lopez-de-Silanes, F. & Shleifer, A., 1999. Corporate Ownership Around the World. *Journal of Finance*, pp. 471-517.

Leenders, M. & Waarts, E., 2003. Competitiveness and Evolution of Family Businesses: The Role of Family and Business Orientation. *European Management Journal*, pp. 686-697.

Lefort, F. & Urzúa, F., 2008. Board independence, firm performance and ownership concentration: Evidence from Chile. *Journal of Business Research,* pp. 615-622.

Leung, S. & Horwitz, B., 2010. Corporate governance and firm value during a financial crisis. *Review of Quantitative Finance and Accounting,* pp. 459-481.

Loscocco, K. A., Robinson, J., Hall, R. H. & Allen, J. K., 1991. Gender and Small Business Success: An Inquiry into Women's Relative Disadvantage. *Social Forces,* pp. 65-85.

Makadok, R., 2003. Doing the right thing and knowing the right thing to do: Why the whole is greater than the sum of the parts. *Strategic Management Journal,* pp. 1043-1055.

Malina, M. A. & Selto, F. H., 2004. Choice and change of measures in performance measurement models. *Management Accounting Research,* pp. 441-469.

MassMutual., F. G., 2003. *New Nationwide Survey Points to Bright Spot in American Economy-Family Owned Business,* s.l.: s.n.

Maury, B., 2006. Family ownership and firm performance: Empirical evidence from Western European corporations. *Journal of Corporate Finance,* pp. 321-341.

Mazzi, C., 2011. Family Business and Financial Performance: Current State of Knowledge and Future Research Challenges. *Journal of Family Business Strategy.,* pp. 166-181.

McGuire, J., Dow, S. & Ibrahim, B., 2011. All in the family? Social performance and corporate governance in the family firm. *Journal of Business Research.*

Miller, D., Le Breton-Miller, I., Lester, R. H. & and Cannella Jr, A. A., 2007. Are family firms really superior performers?. *Journal of Corporate Finance,* pp. 829-858.

Miller, N. J., Besser, T. L., Gaskill, L. R. & Sapp, S. G., 2003. Community and managerial predictors of performance in small rural US retail and service firms. *Journal of Retailing and Consumer Services,* pp. 215-230.

Muñoz-Bullón, F. & Sánchez-Bueno, M. J., 2011. Do family ties shape the performance consequences of diversification? Evidence from the European Union. *Journal of World Business.*

Neubaum, D. O., Dibrell, C. & Craig, J. B., 2012. Balancing natural environmental concerns of internal and external stakeholders in family and non-family businesses. *Journal of Family Business Strategy.*

O'Boyle Jr, E. H., Pollack, J. M. & Rutherford, M. W., 2012. Exploring the relation between family involvement and firms' financial performance: A meta-analysis of main and moderator effects. *Journal of Business Venturing*, pp. 1-18.

Olson, P. D. et al., 2003. The impact of the family and the business on family business sustainability. *Journal of Business Venturing*, pp. 639-666.

Pombo, C. & Gutiérrez, L. H., 2011. Outside directors, board interlocks and firm performance: Empirical evidence from Colombian business groups. *Journal of Economics and Business*, pp. 251-277.

Randøy, T. & Goel, S., 2003. Ownership structure, founder leadership, and performance in Norwegian SMEs: implications for financing entrepreneurial opportunities. *Journal of Business Venturing*, pp. 619-637.

Redmond, J., Walker, E. & Wang, C., 2008. Issues for small businesses with waste management. *Journal of Environmental Management*, pp. 275-285.

Reichel, A. & Haber, S., 2005. A three-sector comparison of the business performance of small tourism enterprises:an exploratory study. *Tourism Management*, pp. 681-690.

Ruiz Gonzalez, M., Sessarego Aranda, A. R. & Guzman Sanza, R. L., 2007. *A Research about of Family Firm Definition*, Cataluña, Spain.: s.n.

Sacristán-Navarro, M., Gómez-Ansón, S. & Cabeza-García, L., 2011. Large shareholders' combinations in family firms: Prevalence and performance effects. *Journal of Family Business Strategy*, pp. 101-112.

Saito, T., 2008. Family firms and firm performance: Evidence from Japan. *Journal of the Japanese and International Economies*, pp. 620-646.

Shepherd, D. A., 2009. Grief Recovery From the Loss of a Family Business: A multi -and meso- Level Theory. *Journal of Business Venturing*, pp. 81-97.

Silva, F. & Majluf, N., 2008. Does family ownership shape performance outcomes?. *Journal of Business Research*, pp. 609-614.

Silva, F., Majluf, N. & Paredes, R. D., 2006. Family ties, interlocking directors and performance of business groups in emerging countries: The case of Chile. *Journal of Business Research*, pp. 315-321.

Smyrnios, K. &. D. L., 2006. *The MGI Family and Private Business Survey.*, Melbourne: RMIT.

Tagiuri, R. & Davis, J., 1996. Bivalent Attributes of the Family Firm. *Family Business Review,* pp. 199-208.

Yin, R. K., 2009. *Case study research: Design and methods.* Thousand Oaks, California.: 4th Edition. Applied Social Research Methods. Vol.5. Sage Publications..

Zellweger, T. M., Eddleston, K. A. & Kellermanns, F. W., 2010. Exploring the concept of familiness: Introducing family firm identity. *Journal of Family Business Strategy,* pp. 54-63.

Appendix

Interview Protocol.

I. General information.
  - What are your name, position, % of shares and main activities inside the business?
  - How long have you been part of the business?
  - Please provide the general information of the company
    - Year of foundation;
    - Industry sector;
    - Number of employees;
    - Number of family members working in the company;
    - Number of generations currently involved;
    - Expectations of continuity of the business?

II. Financial measures
  - Liquidity
    - How and why is the liquidity measured?
    - Are accountant principles employed on its assessment?
  - Business operation activity
    - How and why is the business operation activity measured?
    - Are accountant principles employed on its assessment?
  - Profitability
    - How and why is the profitability measured?
    - Are accountant principles employed on its assessment?
  - Leverage
    - How and why is the leverage measured?
    - Are accountant principles employed on its assessment?

III. General perception of financial measures by group

- How important is the information of these four groups of financial indicators in the decision making process?
- How useful is the analysis of these four groups of financial indicators?
- How easy is the data collection?
- Is all the real information employed in the analysis process?

Chapter 4

Performance Measurement System in a Family Firm: a case study during a generational change.

A modified version of this chapter was presented at the International Academic Conference held in Las Vegas, Nevada, USA, in September 2013, organized by the CLUTE Institute and was honored with the ‘Best Paper Award’.

Chapter 4. Performance Measurement System in a Family Firm: a case study during a generational change.

Abstract

With the premise that what is measured can be improved, a Performance Measurement System (PMS) inside a Family Business (FB) might be helpful to improve the business performance if the family manager has the intention and is willing to accept the changes that are necessary to implement a formal PMS. The way the business collects, processes and analyzes the information, as well as the systems employed for this purpose and the reports it generates, might require significant revisions due to the arrival of a new generation, whose ideas might not be consistent with those of the generation in charge. Nevertheless, small changes at a time can lead to a new and improved PMS.

4.1 Introduction

Due to the importance of their presence into the economy (Shepherd, 2009; Alpay, et al., 2008; Floren, et al., 2010; Hearn, 2011; Leung & Horwitz, 2010; Chen & Yu, 2011; La Porta, et al., 1999; Smyrnios, 2006; MassMutual., 2003; Ducassy & Prevot, 2010), FBs are an increasing topic in the business management research. In order to improve their weak structural conditions regarding managerial, financial and other resources, it is important to understand their main drivers in the PMS design and implementation, because FBs might direct their efforts to the accomplishment of the measures and metrics established by the PMS.

The difficulty to access information possessed by small businesses makes large public companies the main source for the research field (Cucculelli & Micucci, 2008). There is not a unique procedure to assess the performance of a firm (Ford & Schellenberg, 1982; Folan, et al., 2007; Carley & Lin, 1997): each firm will define the best way to assess it. Large public companies and small businesses may have different dimensions and measures to assess their performance (Miller, et al., 2003; Reichel & Haber, 2005).

Because of the lack of a general definition of a FB (Miller, et al., 2007; Ducassy & Prevot, 2010; Leenders & Waarts, 2003; Mazzi, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; O'Boyle Jr, et al., 2012; Cucculelli & Micucci, 2008; Habbershon & Williams, 1999; Chrisman, et al., 2005), to facilitate comparability between different studies, it is important to identify the homogeneity of their correspondent classification: the classification may be based on the main dimensions utilized in the research literature, allowing comparability between different studies with similar definitions. The main aspects considered to define a FF are related to ownership, management and the continuity across generations; for this research, the definition chosen also includes the lack of obligation to submit audited financial statements. This last condition may have a specific effect on the management of the financial information within the FF: the tendency to take decisions on a day-to-day basis with the use of incomplete and inaccurate financial information. In the absence of a financial history as a reference, the only way to define and facilitate the improvement of the performance is based on the

manager's own perception about the current situation and the implicit potential for progress.
Family firms with no obligation to generate audited financial statements might use incomplete financial information in their decision making process due to the lack of a formal PMS. By knowing the current and past performance, it would be easier to establish a path towards the desired position. Decisions based on incomplete information might represent a real hazard for family firms. Perception and empirical knowledge are useful but sometimes dangerous tools. They might become dangerous when they ignore the use of reliable and complete information. Family managers might give greater importance to the establishment of a formal PMS when the firm is struggling to survive in the market.

4.1.1 Paper's objective

This research aims to a better understanding on the "hows and whys" the performance measurement system is designed and utilized in a family firm during a generational change: the arrival of a new generation might generate the necessity to review the current PMS as part of the process involved in understanding the company.

4.1.2 Paper's articulation

The present work is organized in five sections. In the next section will be presented the theoretical background, followed by the description of the methodology employed. Discussion of the main findings and conclusions will then take place.

4.2 Theoretical background

4.2.1 Delimitation of the subject under study

The starting point in a FB research is represented by the delimitation of the subject under study. The main dimensions used in the literature to classify the different types of

FB are mainly based on: the percentage of ownership, the management positions held by family members and the continuity or desire of continuity in the next generations (Chrisman, et al., 2003; Basco & Perez Rodriguez, 2011; Garcıa-Ramos & Garcıa-Olalla, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; Tagiuri & Davis, 1996; Chua, et al., 1999; Athanassiou, et al., 2002; Arosa, et al., 2010; McGuire, et al., 2011). For the present work, the definition chosen considers Chua et al. (1999), who defined FB in terms of the presence and/or influence of family members in the governance and/or management, with the purpose to shape and pursue their vision of a better future for the family, considering the sustainability across generations (Cassia, et al., 2012) without the legal responsibility to submit audited financial statements.

4.2.2 The PMS

The PMS is a system of a whole set of procedures and metrics interrelated and hierarchically organized to obtain, prepare and analyze information from the different areas of the business (Garengo, et al., 2005; Garengo, et al., 2007). It will be shaped by the industry sector and other characteristics of the family business (Silva, et al., 2006; Silva & Majluf, 2008; Maury, 2006; Andres, 2008; Saito, 2008; Mazzi, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011). It's important to consider that each economical sector has its own ways to measure the performance (Fama & French, 1995; Reichel & Haber, 2005; Olson, et al., 2003; Randøy & Goel, 2003; George & Kabir, 2012; Cucculelli & Micucci, 2008; Chung, 2011; Cruz, et al., 2012; O'Boyle Jr, et al., 2012).

The main elements that are part of the PMS according to the theoretical review, are listed in **Table 4.1**:

Table 4.1

Elements of the PMS

Procedures	The way the company gathers and organizes the information and prepares the outcomes;
Metrics	To measure the accomplishment of goals;
Reports	Organized and easy-to-read outcomes derived from the use of process and metrics;
Systems	Tools used to process information;
People	Person(s) with knowledge to process and prepare the reports.

The PMS is closely linked to the strategy development: families must match family and business objectives and a wrong decision can cause their failure in the market (Craig & Moores, 2010). The complexity of the objectives is a result from the mix between family and business goals and the dynamic of the set of goals might change over time (Kotlar & De Massis, 2013). The PMS helps to assess the achievement and the consistency of the strategy (Garengo & Bernardi, 2007) and appropriate performance measurements will permit an effective implementation (Malina & Selto, 2004).

The stakeholders will use their own criteria to define and assess the performance, according to their particular goals (Ford & Schellenberg, 1982); goals as profits, efficacy in the use of scarce resources and even welfare and family's unity, will be mixed (Cubico, et al., 2010), determining the evaluation of the FBP in different ways. It is important to understand the interests of the stakeholders involved in a FB and to identify their objectives' drivers (Chrisman, et al., 2005). Their influence into the PMS design will be based on their particular characteristics as: percentage of ownership, managerial position, entrepreneurial experience and academic education. Even gender and age may have an influence (Miller, et al., 2003; Olson, et al., 2003; Chrisman, et al., 2007; Sacristán-Navarro, et al., 2011; Anderson & Reeb, 2003; Zellweger, et al., 2010; Jaskiewicz & Klein, 2007; Lefort & Urzúa, 2008; Loscocco, et al., 1991; Deniz, et al., 2011). The interaction of the family with the ownership and management has been employed to explain other phenomena, as the product innovation process (De Massis, et al., 2013) and might explain also the use of a performance measurement system within the family management.

The established financial and non-financial goals (Chrisman, et al., 2005; Pansiri, 2008) will be translated into measures and metrics to assess their accomplishment (Chrisman, et al., 2005; Ford & Schellenberg, 1982; Debicki, et al., 2009; Pansiri, 2008; Kaplan & Norton, 1992; Folan, et al., 2007). The business will direct its efforts to aim those measures – that represent the established objectives – (Kennerley & Neely, 2003) and the dynamic measures will be updated with the business' experience (Malina & Selto, 2004).

The financial measures employed in the PMS are not enough to accurately assess business performance (Kaplan & Norton, 1992). Non-financial measures should be utilized as well to assess the achievement of the established goals (Chrisman, et al., 2005; Kaplan & Norton, 1992; Pansiri, 2008; Reichel & Haber, 2005; Abdel-Maksoud, et al., 2010), considering that those measures are usually less precise (Malina & Selto, 2004). Both objective and subjective measures are necessary in the performance measurement process (Dess & Robinson, 1984; Miller, et al., 2003). The PMS should be as clear and simple as possible to be useful and its cost lower than its benefit.

4.2.3 Gap in the literature

Little research exists about PMS design and implementation in FB (Payer-Langthaler, et al., 2012). PMS requires more research to explain its particular conditions within the family business environment. There are only few examples regarding its study (Garengo, et al., 2007; Garengo & Bititci, 2007; Craig & Moores, 2010; Nudurupati, et al., 2011). PMS is the core element in the process to generate and analyze reports that later will be translated into decisions, producing a direct effect on business performance.

4.3 Methodology

Yin (2009) recommends the use of a case study for an exploratory research aiming to answer “How” and “Why” questions. An exploratory case study was conducted to answer the research questions regarding how a PMS is designed and implemented and why some processes, systems, reports and financial and non-financial measures are selected, while other discarded.

For methodological objectives in the development of this case study, it was necessary to look for multiple sources of evidence; key informants were selected for this purpose. The evidence was collected by means of semi-structured formal and informal interviews with the main shareholders, as well as through direct observation and documents. The multiple source of evidence is mainly based on different informants, direct observation and physical and electronic documents.

The first step in the data collection was to understand the actual PMS; the second was to analyze how this company, undergoing a generational change, is designing the new PMS; eventually, a qualitative analysis was conducted to understand how and why some processes, systems, reports and financial and non-financial measures are selected, while others discarded.

4.3.1 Family business selection

The case was selected on the base of the existence of four main conditions: 1) it is a FB undergoing a generational change; 2) it is going through the design process of a PMS; 3) the top management is selecting and discarding reports and their financial and non-financial measures; and 4) the company is willing to share all the required information for the study, when sharing information is usually a main impediment in the research on FB.

As mentioned before, the lack of agreement on a general definition makes the comparison between the outcomes of different researches very difficult. To allow comparability, it is important to clearly define the subject under study. Following Chua et al. (1999), the elements included in the definition utilized for this study are related to the presence and/or influence of family members in the governance and/or management, with the purpose to shape and pursue their vision of a better future for the family, considering the sustainability across generations (Cassia, et al., 2012), without the legal obligation to submit audited financial statements.

The company holds 30 years of activity in the hardware industry as a wholesale intermediary in the Mexican territory, attending small cities where the big players of the industry do not maintain an important presence. The company does not serve the three major cities of the country and its main suppliers are from Spain, Taiwan, China, Brazil, Argentina and India. It offers a variety of almost 2,000 articles, only the 30% of which are from national origin.

The company is undergoing a generational change. The generation preceding the one of the founder is present only in legal documents, with no actual ownership, management or other kind of relationship to the business. For legal purposes, the founder represents the second generation, but will be referred to as the founder, as he was the one who actually created the company. The new generation does not have a formal role into the management, but has an indirect influence. The new generation's ideas are transmitted to the founder for their approval and implementation. The focus of these ideas is related to marketing, specifically to sales and clients. The financial academic backgrounds of both generations facilitated this research: they were familiar with the terms employed, the information required, the use of that information and the questions asked during the different interviews.

In general terms, the manager shared information about the main processes and operations of the company, the metrics employed for the assessment of the business performance, as well as the different reports. It was possible to access the currently available systems, through which the company controls the information coming from the day-to-day operations; it was even possible to interview the people who manage the information and the system.

The comparability of the outcomes is possible with studies that utilize a definition similar to the one that was chosen for this research.

4.3.2 Data collection

The process was based on a series of semi-structured interviews with the main shareholders, followed by visits on place to collect all the evidence related to the actual PMS and to the process of change leading to a new and more structured PMS.

The data collection and the interviews were accomplished visiting the place where the company operates through the period from March 2013 to February 2014. Semi-structured formal and informal interviews were conducted and electronic devices were employed to gather and process financial information, as well as to identify the different elements of their performance measurement system. It was possible to have access to the programs through which the financial statements are processed and the more important information is controlled.

The current systems possessed by the company are called COI and SAE – specific software utilized in Mexico for accountant and management control. Their flexibility allows the user to prepare and analyze the financial statements. Some of the information was retrieved only in printed evidence. The first analysis was discussed with the main shareholders to determine if the events were captured as they really were; eventually, a final discussion took place to review all the outcomes.

As part of the data collection, the key shareholders and external stakeholders where interviewed to achieve a better perspective on the design and use of the performance measurement system within the family business management.

The owner shared private information about the operations, including undeclared sales, pricing process, purchase cost of the articles, list of national and international suppliers, sales policies and credit management and, in general, all the policies the company applies in the operations, the detail of customer purchases as well as all the other information required.

4.3.3 Analysis

As suggested by Yin (2009), the qualitative analysis began with a narrative of the case. Once the data was collected and the interviews concluded, the provided information was organized in categories for its qualitative analysis. The analysis of the data corresponds to two main scenarios: the first one is related to the old PMS that the company is running; the second presents the analysis of how a PMS is designed and why some processes, systems, reports and measures are selected, when others are discarded. In regards to the construct validity suggested by Yin (2009), the first draft of the case study report was presented to the two main shareholders, the founder and the representative of the second generation arriving to the business, for its discussion. The final version of the case was presented again and both generations agreed with the final outcomes.

4.4 Discussion of the key Findings

To understand the way a FB designs and implements a PMS, it is first important to know the actual situation of the company. **Table 4.2** shows a short description of the actual PMS. Even if the founder allowed the son to implement some changes, it is true that his resistance to a complete revision left room only for the adoption of few new processes and the actualization of old systems. Small changes at a time might lead to the adoption of a new PMS that could generate a better control over the actual performance in order to take better decisions in the future. In table 4.2 it is possible to observe that the procedures are informal, the company possesses powerful automatic systems that could allow the control of the information coming from the daily operations, creating at the same time the financial history useful to trace the business performance over time. The financial and non-financial information can be organized in different reports and the reports can be produced by the same system.

Currently, the PMS is not organized and is based on inexact information; the company operates with informal procedures. One example is the pricing process: the main manager simply multiplies the purchasing price by 1.5 without consideration of the additional cost, like shipping or insurance. The pricing process is also a clear example of the lack of accuracy in the accounting measurements applied by owners in a FB (Carney, 2005). The main manager argues: *"When I multiply by 1.5 I know that I'll have enough margin for the different expenses, as for example the commission for the* *sales agent"*. Inquiries to the manager about the "hows and whys" the procedures had been established received answers like: *"We've been learning by practice";* and "*The current process works for the company, for now that is enough"*.

Family managers might look for an easier way to manage the company, without considering that it will make the process more complex for the future generations. The current management processes are not standardized and only follow the understanding and practice of the owner. When the representative of the second generation was asked about some of the management processes, his answer was: *"I know that it works well in the company… I don't really know how they do it"*. The second generation believes that it will be necessary to introduce new management processes, but is now still concerned with other priorities.

When the main manager realizes that a product is not selling, through the comments of the sales agents or by personal observation, the price is reshaped according to market conditions. The founder of the company prefers to follow informal processes as a way to enjoy the daily activities without them becoming a formal work. The feeling of joyfulness can easily shift into a sense of burden and obligation by following formal procedures. As the family manager mentioned: "*This is the way I do my daily job… I enjoy coming to the office after doing exercise in the gym"*.

The current systems of the company are a powerful tool if correctly employed; the representative of the new generation mentioned that *"The system COI is able to produce not only the financial statements but also the financial ratios and other reports related to the management of clients, inventory and cash; but this is not a priority in this moment, first, I want to increase the sales"*. Family managers might confuse a high volume of sales with good performance.

Table 4.2

Current PMS

		HOW THEY DO IT	WHY
Procedures	Informal	Mainly manual procedures in preparing, obtaining and analyzing information.	Established on the base of daily experiences. "*Used to work this way*". Lack of formal analysis on daily operations.
Systems	Old version	Low efficiency in the use of existing specialized systems to process information (example SAE).	Lack of knowledge on the tools' use and functioning.
Reports	Sales. Inventory. Expenses. Bank movements. Employee attendance.	Continuous reports/information about: sales, inventory, expenses, employee attendance, bank movements, clients' payments.	Confusion between raw data and reports. Lack of reports to analyze the current situation of the company. Unclear financial situation of the company.
Financial and non-financial measures	Sales. Sons' education. Purchasing power.	Perception	The main decisions are based on the sales information. The implicit family goals are not measured in a clear way, even if those are apparently more important than the business' ones.

The company has powerful systems that can control accurately the information coming from the daily operations; one of the reasons for the lack of their complete use might be based on the lack of knowledge on the ways to use it; another reason could be the overestimation of the manager's perception over the necessity of accurate financial control. In this case, the family manager and the new generation are aware of the necessity to implement a better control; they know the advantages that the current system offers and they know that the person in charge of processing the information of the daily operations doesn't have enough knowledge to exploit this tool: "*We need to train the person who operates the system, but now we are focused on other priorities…"*

The family manager is conscious of the extra effort that has to be made to capture the information because of the informal control operative in the company. Certainly, the company is a mean to provide for the family, but the activities necessary to run it are not organized in schedules, deadlines or orders to follow. Nevertheless, family managers still need to face worries related to the daily problems coming from the lack of control in the financial information.

Family businesses will define their particular way to establish an informal performance measurement system, which will have to deal with the under exploitation of the current technological resources and tools; the resulting outcomes will not reflect accurately the business performance, but will be instead characterized by raw financial data and incomplete reports for the decision making process. The current procedures and metrics employed make sense for family managers who have a direct, internal experience of the company but, avoiding the standard procedures applied by accountants, won't be easily understandable for the outsiders or professional managers.

The financial background and the business experience of the representative of the new generation in the firm determine the first areas in which he will try to improve the business performance. In **Table 4.3** it is possible to observe the new PMS under construction.

Table 4.3

PMS Under construction

		HOW	WHY
Procedures	Organized Written	Hiring consultants in operational process	The new generation thinks that experts' opinion may help improve the company's performance.
Systems	New version	New version of the old systems. New systems (example: account module COI 6.0). Training in the use of the available tools.	The new generation understands the importance and utility of the systems.
Reports	Multivariate	Organizing the information to identify the market's target. Financial reports - Pricing comparison - Other, for specific own purposes.	Improvement of sales and profits through the development of a clear idea of the target. Better decision making process through correct financial information.
Financial and non-financial measures	Family Goals	The family goals are established considering the natural life-cycle (education, marriage, employment for the relatives, etc.).	The business is the mean that allows the family to accomplish their personal and family goals.
	Business Goals	After the family goals are achieved, the business goals can be set.	Objectives and needs of the company are put in second order only if this will not cause harm to the business.

The lack of clear and established strategies is reflected in the lack of a clear and established PMS. The strategies have not been determined, due to the lack of conscious and clear goals, even though the FB has implicit family and business goals. With the words of the new generation's representative *"...I think the main objective is to provide the family with a good level of quality of life…".* The business strategies have been developed implicitly, through empirical experience: the founder developed enough empirical knowledge to understand the market.

Some of the implicit strategies found are:

1) Attending small cities far away from the metropolitan areas;
2) 100% of sales with 6 or more months of credit endorsed to the majority of clients;
3) Constant search for targets that are not exploited by the dominant companies;
4) Maintenance of low operational costs, with few employees and the CEO following some of the daily operations.
5) Sales with high profit margins.

The current PMS processes information about the sales by region, product, broker and client. This data is collected and processed but not analyzed. The information is obtained to control the payments from clients. The actual PMS does not permit an objectively accurate control of the time the clients take to pay their debts or the time the merchandise remains on stock. The operational cost is not compared with any other measure to assess its performance and tendency. The high profit is determined on the base of the purchasing price but it is not analyzed considering the operational costs and other expenses to operate the business.

4.4.1 The informal PMS

The company has procedures to gather information that are not formal and completely organized. The pursued goals are not explicit, nor are the metrics employed to measure their accomplishment. The reports do not show the complete picture of the company, forcing the managers to take decisions on the base of their own perception and common sense. One of the main issues regarding the weaknesses of FFs is the lack of resources, but the ones they have might be underexploited. One example of this situation is the incomplete use of the computer program for the performance measurement process due to the limited knowledge in the use of the program and the limited importance attributed to its exploitation.

4.4.2 The family and business goals

The company has business and family goals, which are not explicitly set and followed. Family goals are more important than business goals unless they threaten the business survival. The main family objectives are related to life quality and sons' education, as the founder says: *"I can consume important amount of resources from the company for a high quality education of my sons… during the crisis period (2008) I was draining a lot of resources to keep the same level of quality of life…"* He also mentioned that *"in the crisis of 2008 the sales dropped off by approximately the 40% and the family life expenses were maintained almost at the same level, so the business cash flow was seriously constrained".*

The business is run with great knowledge about the market and the business objectives are instinctively accomplished. With the words of the second generation's representative: *"The CEO is not conscious of the strategic planning… the strategy is developed by instinct and through the everyday operations of the business".*

The implicit strategy is based on the empirical knowledge of the market. The company looks for gaps uncovered by big players in the industry and mainly related to sales with high profits where volume is not necessarily important. With the arrival of the second generation, the founder, trusting his son´s business abilities, is willing to support his progressive ideas. The diversity of strategies might be related to the diversity of goals between the two generations and might be especially important during a generational change (Kotlar & De Massis, 2013). The main strategies proposed by the new generation are based on the current knowledge and interests of its representative: the search for new business opportunities and the E-commerce platform.

4.4.3 Design and implementation of a PMS

Some shareholders will not influence the design and implementation of the PMS, as in the case of the “founder” generation of the company. The legal history shows a previous generation to that of the founder. The grandparents were owners only for legal purposes. The percentage of shares in hands of the grandparents are now legally under the name of the grandson. The founder has the higher percentage of ownership and represents the one who has been giving shape to the current PMS.

The power and influence of the family members will not be based only on the percentage of ownership. Some owners may not have any influence at all, as the wife of the founder, who is legally part of the business, holding the 30% of shares, but does not directly participate in any decision of the business. She might have more influence in the establishment of the family objectives.

4.4.4 The role of the top management

The top management, represented by the founder, defines or approves the way the data will be collected, processed and analyzed, as well as the necessary reports. The top management also approves the investment in tools to realize this task and the person/s who will perform it.

The financial and tax outsourcing services have the possibility to recommend a PMS to have a better control of the business information, but in this case they limit their participation to the tax determination and payment, with a clear lack of interest in helping the improvement of the business performance. The outsourcing is focused on the provision of a basic level of service, enough to justify the charged fees. According to the information provided by the company, the cost of the service represents the double of the average price in the market. The founder is not willing to change the provider of the service but, after the first report of the outcomes of this study, was convinced to require an improvement in its effectiveness and a price re-negotiation. The founder resists change, even though he understands that he can receive a better level of advice. The personal relationship between the founder and the expert in charge

of the outsourcing financial services seems stronger than the necessity to work on a better PMS.
The representative of the new arriving generation is in charge of the design and implementation of the PMS. In the design process he is looking for the best tools that could fit into the business to improve the control of the information, the decision making process and, consequently, the business performance.

4.4.5 The use of financial and non-financial information

Goals are represented by measures; measures can be financial and non-financial. The accomplishment of those goals can be tracked through the accomplishment of those measures. The company has its own way to measure the accomplishment of objectives. As mentioned above, those are not explicitly established, but implicitly followed.

4.5 Conclusion

Family firms without the obligation to submit audited financial statements may not have an established and organized PMS. The lack of an organized PMS does not mean that they don't need it. This kind of family firms might consider as a PMS a set of activities aiming to collect, process and analyze information on the actual situation of the company, as well as the trends in some core areas of the business. The informal activities deal with incomplete information, with the consequence of low quality decisions. The use of automated systems and technological tools might be underexploited. Raw financial data can be confused with processed reports, preventing the creation of historical information. As the performance cannot be analyzed across time, decisions are taken on a day-to-day basis and the perception effect plays a key role. This study points out the importance of the PMS establishment in a FB in order to improve the quality of the decision making process and of the business performance.
The family and business goals are not necessarily established in an explicit way, translated into financial and non-financial measures and followed for their accomplishment. Family and business goals are clearly "perceived", implicitly

translated into financial and non-financial “measures”, the accomplishment of which are easy to be “felt” by the main shareholders: the perception effect leads the informal PMS. Family goals might represent the main objective of some FBs, but they might also compromise the business survival. A clear and objective PMS, designed and implemented according to the necessities of the business, might help to improve the quality of the decisions, leading to a better business performance over time.

This research contributes to the FB literature and business practice in understanding the possible benefits of the establishment and implementation of a formal PMS in a FB during a generational change. It highlights the importance of a formal PMS in creating a history on different indicators that permits the tracking of the business performance, helping FBs overcome their weaknesses and generate better financial and non-financial outcomes, with positive effects within the general economy.

Future research may be focused on the presence of multiple family nucleuses with conflicting goals inside a single FB, affecting the design of the PMS, as well as the selection of measures and consequently influencing the business performance. A multiple case study may be conducted to confirm or reject some of the findings of this work regarding the influence that the family goals exert on the PMS design of the business. For future research, it would be important to understand the impact of formal and established PMS in the FB assessment because, if the process to collect and analyze information is not reliable, the assessment might lose its validity. Regarding the same topic, are the FBs using valid and complete information into their decision making process? If FBs provide incomplete information, the validity of the assessment of good or bad performance might be compromised.

The case is analyzed within the Mexican context. Mexico is an emerging market with particular conditions regarding its regulatory, institutional and economic conditions. The context is important to be considered as it influences the performance (Carney, 2005).

4.6 References

A. Abdel-Maksoud a, F. C. b. F. R. b. S. V., 2010. Employee morale, non-financial performance measures, deployment of innovative managerial practices and shop-floor involvement in Italian manufacturing firms. *The British Accounting Review,* pp. 36-55.

Alpay, G. et al., 2008. Performance implications of institutionalization process in family-owned businesses: Evidence from an emerging economy. *Journal of World Business,* pp. 235-448.

Anderson, R. C. & Reeb, D. M., 2003. Founding-Family Ownership and Firm Performance: Evidence from the S&P 500. *The Journal of Finance,* pp. 1301-1328.

Andres, C., 2008. Large shareholders and firm performance—An empirical examination of founding-family ownership. *Journal of Corporate Finance,* pp. 431-445.

Arosa, B., Iturralde, T. & Maseda, A., 2010. Outsiders on the board of directors and firm performance: Evidence from Spanish non-listed family firms. *Journal of Family Business Strategy,* pp. 236-245.

Athanassiou, N., Crittenden, W. F., Kelly, L. M. & Marquez, P., 2002. Founder centrality effects on the Mexican family firm's management group: firm culture, strategic vision and goals, and firm performance. *Journal of World Business,* pp. 139-150.

Basco, R. & Perez Rodriguez, M. J., 2011. Ideal types of family business management: Horizontal fit between family and business decisions and the relationship with family business performance. *Journal of Family Business Strategy,* pp. 151-165.

Brenes, E. R., Madrigal, K. & Molina-Navarro, G. E., 2006. Family business structure and succession: Critical topics in Latin American experience. *Journal of Business Research,* pp. 372-374.

Carley, K. M. & Lin, Z., 1997. A Theoretical Study of Organizational Performance under Information Distortion. *Management Science,* pp. 976-997.

Carney, M., 2005. Corporate Governance and Competitive Advantage in Family-Controlled Firms. *Entrepreneurship Theory and Practice,* pp. 249-265.

Cassia, L., De Massis, A. & Pizzurno, E., 2012. Strategic innovation and new product development in family firms An empirically grounded theoretical framework. *International Journal of Entrepreneurial Behaviour& Research.,* pp. 198-232.

Chen, C.-J. & Yu, C.-M. J., 2011. Managerial ownership, diversification, and firm performance: Evidence from an emerging market. *International BusinessReview,* pp. 1-17.

Chrisman, J. J., Chua, J. H. & Litz, R., 2003. A unified systems perspective of family firm performance: an extension and integration. *Journal of Business Venturing,* pp. 467-472.

Chrisman, J. J., Chua, J. H. & Sharma, P., 2005. Trends and Directions in the Development of a Strategic Management Theory of the Family Firm. *Entrepreneurship Theory and Practice*, pp. 555-575.

Chrisman, J. J., Sharma, P. & Taggar, S., 2007. Family influences on firms: An introduction. *Journal of Business Research*, pp. 1005-1011.

Chua, J. H., Chrisman, J. J. & Sharma, P., 1999. Defining the family business by behavior. *Entrepreneurship Theory and Practice,* pp. 19-32.

Chung, H. F. L., 2011. Market orientation, guanxi, and business performance. *Industrial Marketing Management*, pp. 522-533.

Craig, J. & Moores, K., 2010. Strategically aligning family and business systems using the Balanced Scorecard. *Journal of Family Business Strategy,* pp. 78-87.

Cruz, C. C., Gómez-Mejía, L. R. & Becerra, M., 2010. Perceptions of Benevolence and the Design of Agency Contracts: CEO-TMT Relationships in Family Firms. *Academy of Management Journal,* pp. 69-89.

Cubico, S., Togni, M. & Bellotto, M., 2010. Generational transition guidance: support for the future of family firms. *Procedia Social and Behavioral Sciences,* pp. 1307-1311.

Cucculelli, M. & Micucci, G., 2008. Family succession and firm performance: Evidence from Italian family firms. *Journal of Corporate Finance,* pp. 17-31.

De Massis, A., Frattini, F., Pizzurno, E. & Cassia, L., 2013. Product Innovation in Family versus Nonfamily Firms: An Exploratory Analysis. *Journal of Small Business Management.*

Debicki, B. J., Matherne III, C. F., Kellermanns, F. W. & Chrisman, J. J., 2009. Family Business Research in the New Millennium An Overview of the Who, the Where, the What, and the Why. *Family Business Review,* pp. 151-166.

Deniz, N., Boz, I. T. & Ertosun, Ö. G., 2011. The Relationship between Entrepreneur's Level of Perceived Business-Related Fear and Business Performance. *Procedia Social and Behavioral Sciences,* pp. 579-600.

Dess, G. G. & Robinson, J. R. B., 1984. Measuring organizational performance in the absence of objective measures: the case of the privately held firm and conglomerate business unit. *Strategic Management Journal,* pp. 265-273.

Ducassy, I. & Prevot, F., 2010. The effects of family dynamics on diversification strategy: Empirical evidence from French companies. *Journal of Family Business Strategy,* pp. 224-235.

European Commission, F. R. o. t. E. G., 2009. *Overview of family-business-relevant issues: Research, Networks, Policy Measures, and Existing Estudies.,* s.l.: Enterprise and Industry Directorate-General..

Fama, E. F. & French, K. R., 1995. Size and Book-to-Market Factors in Earnings and Returns. *The Journal of Finance,* pp. 131-155.

Floren, P. D. R., Uhlaner, P. D. L. & Berent-Braun., M. M., 2010. *Family Business in the Netherlands Characteristics and Success Factors,* Breukelen, The Netherlands.: Centre for Entrepreneurship Nyenrode Business University.

Folan, P., Browne, J. & Harinder, J., 2007. Performance: Its Meaning and Content for Today's Business Reserach. *Computers in Industry,* pp. 605-620.

Ford, J. D. & Schellenberg, D. A., 1982. Conceptual Issues of Linkage in the Assessment of Organizational Performance. *The Academy of Management Review,* pp. 49-58.

Garcıa-Ramos, R. & Garcıa-Olalla, M., 2011. Board characteristics and firm performance in public founder- and nonfounder-led family businesses. *Journal of Family Business Strategy,* pp. 220-231.

Garengo, P. & Bernardi, G., 2007. Organizational capability in SMEs Performance measurement as a key system in supporting company development. *International Journal of Productivity and Performance Management,* pp. 518-532.

Garengo, P., Biazzo, S. & Bititci, U. S., 2005. Performance measurement systems in SMEs: A review for a research agenda. *International Journal of Management Reviews,* pp. 25-47.

Garengo, P. & Bititci, U., 2007. Towards a contingency approach to performance measurement: an empirical study in Scottish SMEs. *International Journal of Operations & Production Management,* pp. 802-825.

Garengo, P., Nudurupati, S. & Bititci, U., 2007. Understanding the relationship between PMS and MIS in SMEs: An organizational life cycle perspective. *Computers in Industry,* pp. 677-686.

George, R. & Kabir, R., 2012. Heterogeneity in business groups and the corporate diversification–firm performance relationship. *Journal of Business Research,* pp. 412-420.

Habbershon, T. G. & Williams, M. L., 1999. A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms. *Family Business Review,* pp. 1-25.

Hearn, B., 2011. The performance and the effects of family control in North African IPOs. *International Review of Financial Analysis,* pp. 140-151.

Hutton, A. P., 2007. A discussion of 'corporate disclosure by family firms'. *Journal of Accounting and Economics,* pp. 287-297.

Jaskiewicz, P. & Klein, S., 2007. The impact of goal alignment on board composition and board size in family businesses. *Journal of Business Research,* pp. 1080-1089.

Kaplan, R. S. & Norton, D. P., 1992. The Balanced Scorecard: Measures That Drive Performance. *Harvard Business Review,* pp. 172-180.

Kennerley, M. & Neely, A., 2003. Measuring performance in a changing business environment. *International Journal of Operations and Production Management.,* pp. 213-229.

Kotlar, J. & De Massis, A., 2013. Goal Setting in Family Firms: Goal diversity, Social Interactions, and collective commitment to Family-Centered Goals. *Entrepreneurship Theory and Practice.*

La Porta, R., Lopez-de-Silanes, F. & Shleifer, A., 1999. Corporate Ownership Around the World. *Journal of Finance,* pp. 471-517.

Leenders, M. & Waarts, E., 2003. Competitiveness and Evolution of Family Businesses: The Role of Family and Business Orientation. *European Management Journal*, pp. 686-697.

Lefort, F. & Urzúa, F., 2008. Board independence, firm performance and ownership concentration: Evidence from Chile. *Journal of Business Research*, pp. 615-622.

Leung, S. & Horwitz, B., 2010. Corporate governance and firm value during a financial crisis. *Review of Quantitative Finance and Accounting*, pp. 459-481.

Loscocco, K. A., Robinson, J., Hall, R. H. & Allen, J. K., 1991. Gender and Small Business Success: An Inquiry into Women's Relative Disadvantage. *Social Forces,* pp. 65-85.

Malina, M. A. & Selto, F. H., 2004. Choice and change of measures in performance measurement models. *Management Accounting Research*, pp. 441-469.

MassMutual., F. G., 2003. *New Nationwide Survey Points to Bright Spot in American Economy-Family Owned Business,* s.l.: s.n.

Maury, B., 2006. Family ownership and firm performance: Empirical evidence from Western European corporations. *Journal of Corporate Finance,* pp. 321-341.

Mazzi, C., 2011. Family Business and Financial Performance: Current State of Knowledge and Future Research Challenges. *Journal of Family Business Strategy.,* pp. 166-181.

McGuire, J., Dow, S. & Ibrahim, B., 2011. All in the family? Social performance and corporate governance in the family firm. *Journal of Business Research.*

Miller, D., Le Breton-Miller, I., Lester, R. H. & and Cannella Jr, A. A., 2007. Are family firms really superior performers?. *Journal of Corporate Finance,* pp. 829-858.

Miller, N. J., Besser, T. L., Gaskill, L. R. & Sapp, S. G., 2003. Community and managerial predictors of performance in small rural US retail and service firms. *Journal of Retailing and Consumer Services,* pp. 215-230.

Muñoz-Bullón, F. & Sánchez-Bueno, M. J., 2011. Do family ties shape the performance consequences of diversification? Evidence from the European Union. *Journal of World Business.*

Nudurupati, S., Bititci, U., Kumar, V. & Chan, F., 2011. State of the art literature review on performance measurement. *Computers & Industrial Engineering,* pp. 279-290.

O'Boyle Jr, E. H., Pollack, J. M. & Rutherford, M. W., 2012. Exploring the relation between family involvement and firms' financial performance: A meta-analysis of main and moderator effects. *Journal of Business Venturing,* pp. 1-18.

Olson, P. D. et al., 2003. The impact of the family and the business on family business sustainability. *Journal of Business Venturing,* pp. 639-666.

Pansiri, J., 2008. The effects of characteristics of partners on strategic alliance performance in the SME dominated travel sector. *Tourism Management,* pp. 111-115.

Payer-Langthaler, S., Duller, C. & Feldbauer-Durstmúler, 2012. Performance measurement in family firms: evidence from Austrian medium -and large- sized companies. *International Journal of Strategic Management.*

Randøy, T. & Goel, S., 2003. Ownership structure, founder leadership, and performance in Norwegian SMEs: implications for financing entrepreneurial opportunities. *Journal of Business Venturing,* pp. 619-637.

Reichel, A. & Haber, S., 2005. A three-sector comparison of the business performance of small tourism enterprises:an exploratory study. *Tourism Management,* pp. 681-690.

Ruiz Gonzalez, M., Sessarego Aranda, A. R. & Guzman Sanza, R. L., 2007. *A Research about of Family Firm Definition,* Cataluña, Spain.: s.n.

Sacristán-Navarro, M., Gómez-Ansón, S. & Cabeza-García, L., 2011. Large shareholders' combinations in family firms: Prevalence and performance effects. *Journal of Family Business Strategy,* pp. 101-112.

Saito, T., 2008. Family firms and firm performance: Evidence from Japan. *Journal of the Japanese and International Economies,* pp. 620-646.

Shepherd, D. A., 2009. Grief Recovery From the Loss of a Family Business: A multi - and meso- Level Theory. *Journal of Business Venturing,* pp. 81-97.

Silva, F. & Majluf, N., 2008. Does family ownership shape performance outcomes?. *Journal of Business Research,* pp. 609-614.

Silva, F., Majluf, N. & Paredes, R. D., 2006. Family ties, interlocking directors and performance of business groups in emerging countries: The case of Chile. *Journal of Business Research*, pp. 315-321.

Smyrnios, K. &. D. L., 2006. *The MGI Family and Private Business Survey.*, Melbourne: RMIT.

Tagiuri, R. & Davis, J., 1996. Bivalent Attributes of the Family Firm. *Family Business Review*, pp. 199-208.

Yin, R. K., 2009. *Case study research: Design and methods*. Thousand Oaks, California.: 4th Edition. Applied Social Research Methods. Vol.5. Sage Publications..

Zellweger, T. M., Eddleston, K. A. & Kellermanns, F. W., 2010. Exploring the concept of familiness: Introducing family firm identity. *Journal of Family Business Strategy*, pp. 54-63.

Appendix

Interview Protocol.

I) General information.
   - What are your name, position, % of shares and main activities inside the business?
   - How long have you been part of the business?
   - Please provide the general information of the company
     - Year of foundation;
     - Industry sector;
     - Number of employees;
     - Number of family members working in the company;
     - Number of generations currently involved;
     - Expectations of continuity of the business?
     - A list of the main reports used to assess the business performance (Balance sheet, Income statement, Report of sales by region/product/client, other, if relevant).
     - Which financial and non-financial reports/measures to assess business performance are included?

II) Strategy and Goals
   - How are the strategies defined?
     - Who are the main stakeholders linked to the strategy development?
     - Is there some employee (non-family member) as part of the strategy development?
   - How are the main goals and strategies related?
   - Are family goals considered in the strategy development?
   - How are the business and family goals balanced?

III) Design of a PMS

- How the PMS is defined (the use of hardware, software and other elements in the assessment of family business performance)?
- Is there a budget for the PMS operationalization: systems, employees, special hardware and software?
- Which is your role in the PMS design?

IV) Selection of measures for the PMS

- How and why some financial measures are selected and others discarded?
- How and why some non-financial measures are selected and others discarded?
- Which are the main characteristics of these measures and metrics?
- Which are their advantages and disadvantages?

V) Implementation of PMS

- How easy and clear is the use of the PMS?
- How are the requirements of performance assessment explained to the people who intervene in the operation process?
- How frequent are the reports?
- How often do you update the PMS? How radical or smooth are those changes?

VI) General perception of the PMS

- How important is the use of a PMS for you?
- How easy are the analysis and data collection in the PMS?
- Why have you decided to change the PMS?
- How was the previous PMS?
- Who decided to change the PMS?

Chapter 5

Conclusions

Chapter 5. Conclusions

The study of the family business phenomenon is characterized by a lack of agreement on a general definition for the subject. The complex interaction between the family and the business impedes the development of a general definition. A hierarchical classification would be more useful to identify the different types of family business. This research considers Chua et al. (1999), who defined FB in terms of the presence and/or influence of family members in the governance and/or management, with the purpose to shape and pursue their vision of a better future for the family, considering the sustainability across generations (Cassia, et al., 2012), without the legal responsibility to submit audited financial statements. The outcomes can be compared with those of other researches utilizing a similar definition.

Certainly, family firms play an important role into the economy around the world. Their performance is threatened by their weaknesses. From the point of view of the business success - considered as the generation of profits, growth or even as the basic survival under turbulent economic conditions - family firms need more attention from the academic community to understand their performance, in order to help them improve it, with consequent beneficial effects for the economy they belong.

The present work analyzes the family business performance, specifically the use of financial information and the implementation of a performance measurement system for internal purposes; both elements have an important and direct influence on the future outcomes. The established measures and metrics through the implementation of the performance measurement system will guide the behavior of the firm towards the accomplishment of the established goals.

The main contribution of this research is the identification of the conceptual framework called “perception effect” that seems to be the leading element in the decision making process controlled by the family business management, resulting in the neglect of the implementation of a performance measurement system and of one of its most important outcomes: the financial reports.

The three related papers begin with a theoretical review: four clusters were identified for the analysis of the financial information, including the more used financial ratios and the elements corresponding to the performance measurement system. The findings have become the base for the development of the second and third paper.

The second paper analyzes how and why the financial information is used within the family business management. Family firms that don’t prepare audited financial statements might give more importance to the perception of the financial reality of the firm rather than to standardized financial measures. ROA seems to be the more utilized financial ratio to assess the business performance, but it loses its premium position for the perception effect when family managers assess the performance internally. Financial ratios are helpful to define the more appropriate decisions towards the accomplishment of established goals. Family managers might be conscious of the importance of complete and accurate financial control, but they won’t implement it unless the business is at risk. The use of incomplete financial information might represent a symptom caused by the lack of a formal PMS, raising the necessity to perform an accurate analysis of the current PMS established by the business. The lack of use of accurate financial information and the confidence in the perception of financial reality might be based on the wish to “enjoy” the business activities that are not formally considered as a job.

The third paper analyzes how and why a family firm under a generational change designs a performance measurement system. Family managers might be driven by the “perception effect” to confuse the use of raw data with clear financial information based on the existence of an informal PMS. Although they can be knowledgeable and aware of the importance of correct financial data, they tend to allow just small changes at a time that only eventually will become a new PMS. The implementation of formal controls becomes urgent only when the survival of the firm is at risk.

Family goals might be more important than the business ones, but they can compromise the permanence of the business in the market. Family and business goals can be measured by the established PMS. A formally established PMS will generate the financial information on which family managers can base their decisions. If they operate under informal procedures it won’t be possible to generate the financial history that is necessary to move to the desired position. The comparison of performance among family firms should be based on comparable objectives: implicit objectives that might affect the internal behavior accordingly to the accomplishment of their corresponding goals, should therefore be made explicit and clearly operationalized.

Under the perception effect, family managers will take decisions based on their feelings, beliefs and empirical knowledge. However close to reality this perception might be, in most cases the radius of their vision won't be able to reach beyond the short term prevision, often creating a contradiction with the long term perspective of the survival of the company across generations. These conflicting elements might represent one of the reasons for failure in the market. Without a financial control of the business performance, the decisions are taken on a day-to-day basis, preventing the business from achieving a better position through the precious indications obtainable by the analysis of its past performance.

Perception plays a crucial role in family firms that operate with an informal performance measurement system. This ability is developed over time, through the increasing experience of and knowledge about the business and the close interaction with its core activities. It is a laborious achievement that cannot be easily taught to the next generation, as could be the process for the transmission of a formal PMS.

Family firms often argue that they have to face the scarcity of the resources in different areas of the market, but they might overlook that some of the resources they actually possess can be underexploited. Accurate financial control through the use of a formal PMS might help them with the improvement of efficiency in the use of scarce resources.

Some questions for future research arise: are the taxation rules so unequal and harmful to FBs? Is this one of the major causes for the lack of complete financial control? FBs might not possess the expertise of tax accountants and fiscal lawyers to utilize legal strategies in order to avoid some tax duties. Will a formally established PMS overcome the existence of the perception effect? Or will the perception be still more important for family managers, even in the presence of accurate financial information? Family managers might maintain a stronger reliance on their own perceptions in those crucial moments when they are taking decisions for internal purposes.

One of the limitations of this work consists in the absence of a measurement of the actual impact of a structured PMS. For future research it would be possible to analyze the strength of the perception effect within a family firm operating with the implementation of a formal PMS. Another important limitation is represented by the fact that the study considers only the Mexican background, although it could be somehow considered as a representative of the general conditions faced by family firms in developing economies.

The context is an important element of influence when assessing business performance (Carney, 2005). Therefore, the results of this study should be appreciated within the framework of their particular conditions: they have been obtained in an emerging market characterized by low regulation, where the percentage of tax payers is low and there are few incentives to create strong financial controls; in addition, the information was gathered from a family business that does not have the legal obligation to submit audited financial statements.