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The Role of Financial Metrics in Assessing Family Business Performance: A Comprehensive Study

Summary

This study examines the key measures used by family businesses to evaluate their annual financial performance, with a specific focus on their evolution in the last two decades and relevance over time especially in periods of financial instability. We conducted three significant methodological types to provide valuable insights about the findings. First, a historical analysis from twenty previous studies of five financial metrics including, ROA, ROE, ROS, sales growth, and Tobin's Q, were examined between 2000 and 2022. Then, we performed qualitative research through semi-structured interviews with five Lebanese family business managers to gather perspectives about the performance measures applied in their family businesses, primarily in the last five years, followed by classifying these businesses based on the KPMG four-profile business model. Significant findings reveal continuous reliance on traditional measures such as ROA, ROE, and sales growth among family families. Results highlight the importance of family businesses' governance, generational dynamics, and strategic priorities to adapt their future performance evaluation practices to balance legacy preservation with modern financial demands, ensuring growth and stability in uncertain environments worldwide.

Keywords: family business, performance measurement, financial metrics, resilience strategies.
JEL codes: G30, G32, M10, L26.

Introduction

The definition of a "Family Business" means several family members work together as owners and managers of a business structure. Members can be blood, marriage, or adoption. First, most companies worldwide range from small and medium enterprises (SMEs) to multinational corporations such as Walmart, BMW, and Samsung. However, successful strategic management and sustainability for those family businesses is strictly demanding and requires a great combination of various skills consisting of communication, innovation, business management, business strategy, decision-making, and leadership, in addition to strong family values. Thus, many scholars agreed on common ground and pointed out that family businesses have more remarkable growth than and outperform non-family businesses (Allouche et al., 2008; Anderson & Reeb, 2003; Lee, 2006; Machek & Hnilica, 2015), and hence encounter various challenges emerging from the focus on business performance and familial relationships.

The financial stability of family businesses can threaten their ongoing operation and progress toward expansion. Economic crises, political instability, and market volatility typically complicate these problems for family businesses (Machek & Hnilica, 2015; Kraus et al., 2020). Studies of family businesses focus on standard performance indicators but lack research into how financial instability reduces profits, debt levels, and expansion abilities (Anderson & Reeb, 2003; Dolz et al., 2019). The analysis of business response to financial instability faces significant research gaps due to a lack of similar studies. Research shows that we need detailed studies about how family businesses in varied economic settings deal with financial crises and learn from their successes and failures.

This research aims to explore the relationship between financial instability and the performance of family businesses, focusing on their profitability, leverage, and growth. Family-owned companies have trouble maintaining success when financial markets change suddenly to examine how family businesses perform when economic and political instability continues worldwide, with a special focus on some Lebanese family businesses. Thus, the research objective focuses on understanding business adaptation methods during financial crises and learning which factors help them survive while studying their connections to external changes and company operations. So, to achieve the research aim and scope, it will address the following questions:

General Research Question:
What is the relationship between financial instability and the performance of family businesses?

Specific Research Question:
What financial performance measures are used mainly by family businesses worldwide in evaluating their performance and resilience, especially during financial instability?

Literature Review

Many scholars explored how family businesses handle financial crises while staying successful. This literature review will tackle the significant sections of measuring the performance of family businesses during financial, economic, social, and health crises and instability periods, combining recent research results within this context.

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Previous and current research shows mixed findings when studying how family-owned companies impact financial performance and their relationship. First, a study found an overall positive relationship between family involvement and financial performance, with some evidence of publication bias based on meta-analysis (González et al., 2019). Second, research examining Colombian firms finds that companies perform better with their founder involved until size increases (Pombo et al., 2012). Besides, family businesses tend to have low debt-to-equity ratios, especially those with significant market share, though market leaders may underperform followers financially (Gallo & Vilaseca, 1996). Furthermore, Wagner et al. (2015) combined 380 studies showing that family-owned businesses perform better than non-family firms, while small and private companies show more substantial effects. Thus, these findings show that financial decisions and family influence work together to define family business performance.

As for the crisis time covering health, financial, economic, and technological, researchers mainly study how family businesses behave and perform in times of crisis. Kraus et al. (2020) interviewed family members across five European nations during the COVID-19 pandemic. They revealed that the pandemic boosts some family businesses to transform their operations, including hygiene goods while digitizing their services and providing onsite customer care. During COVID-19, these companies built strong staff connections and supported their business partners while running employee loyalty programs and saving cash reserves across Austria, Germany, Switzerland, and Liechtenstein. However, as for the increased innovation in the globalized context, Espeche et al. (2023) and Alayo et al. (2021) found in their studies that Spanish manufacturing family companies use specific innovation techniques that differ from regular firms to expand overseas better. This shows that family businesses worldwide use different innovation systems that determine their ability to succeed internationally. Besides, the success and sustainability of family businesses are perfectly correlated to the necessity of various skills, and one study emphasized one of these skills, which is the ambidexterity for SMEs' survival after external financial crises. Dolz et al. (2019) found that the relationship between short-term performance and survival is simplistic, with better performance indicating a greater likelihood of survival. So, ambidexterity is a theoretically attractive concept that explains how family organizations survive in the face of change.

Moving deeper into the various elements of financial instability and measures that family businesses use to examine its impact on their performances, we will examine how stable a family business can stay financially. Research shows that using leverage weakens business performance (Aglen & Panjaitan, 2019; Harijono, 2014) and raises the risk of a financial crisis and, thus, financial distress (Gottardo & Moisello, 2018; Rodiah & Kristanti, 2021). However, family companies experience fewer financial issues than non-family companies since direct family influence through a family CEO can reduce the probability of financial distress (Gottardo & Moisello, 2018). Similarly, Harijano (2014) found that firm growth is measured by asset or sales growth, and large size can increase its financial stability in terms of profitability and firm value, while family control doesn't influence its profitability. Yet, previous findings concluded how various factors influence financial success and growth in family-owned businesses, highlighting the complex interplay between financial stability, profitability, leverage, and development.

Table 1. Performance Measures for Some Family Businesses Based on Previous Studies.

Performance Measure(s) Used	Study
Sales Growth	Chrisman et al. (2004) López-Gracia & Sánchez-Andújar (2007) Sciascia & Mazzola (2008)
ROA (return on assets)	**Corstjens et al. (2006)** López-Gracia & Sánchez-Andújar (2007) Martínez et. (2007) Sciascia & Mazzola (2008) Shyu (2011) Aguiló & Aguiló (2012) Wellalage et al. (2012) González et al. (2012) Cassia et al. (2012) Wagner et al. (2015) Gonzalez et al. (2019) Agbim (2019) Islam (2022)
ROE (return on equity)	Gallo et al. (2004) Zellweger et al. (2006) Martínez et. (2007) Sciascia & Mazzola (2008) Aguiló & Aguiló (2012) Cassia et al. (2012) Agbim (2019)
ROS (return on sales)	Gallo et al. (2004) Cassia et al. (2012)
Tobin's Q	Corstjens et al. (2006) Martínez et. (2007) Shyu (2011) Aguiló & Aguiló (2012) Wellalage et al. (2012) Gonzalez et al. (2019) Islam (2022)

Source: authors' creation.

Therefore, to address the research questions and previous research gaps, the following hypotheses were formulated to check whether they were validated, partially validated, or not validated based on the significant findings:

- **Hypothesis 1 (H1):** Financial risk and instability reduce family business performance.
- **Hypothesis 2 (H2):** Family businesses rely on traditional performance measures such as ROA, ROE, and Tobin's Q to assess their overall annual performance in the market.

Methods

Historical Analysis of Financial Performance Measures from Previous Studies.

The first section of our methodology examines a historical analysis of financial performance metrics used by family businesses based on scholars' research. First, we investigate key studies from 2000 to 2022 using significant financial measures, including Return on Assets (ROA), Return on Equity (ROE), Return on Sales (ROS), Sales Growth, and Tobin's Q, as illustrated in *Table 1.* We aim to create a baseline composed of standard performance evaluation measures that assist in comparing modern practices and show if the performance measurement method changes over time in family businesses.

Interviews with Family Business Managers in Lebanon

A comprehensive assessment of current performance evaluation methods in family businesses was conducted through interviews among managers from five selected Lebanese family businesses. These interviews evaluated whether traditional financial measures like ROA, ROE, and Sales Growth remain applicable while looking into the rise of ESG metrics and digital KPIs in the last five years after the implications of the COVID-19 pandemic and many political instabilities. Interviewers shared insights about adaptation strategies used by their family businesses in measuring their performance yearly while discussing obstacles in implementing change. Data collected from managers' interviews provides a more transparent framework for family businesses to navigate financial instability by identifying their performance measurement indicators framework, which allows classification per KPMG criteria to clarify family firm financial responses in the current period. Some of the interview key questions were as follows:

- What are the fundamental characteristics of your family business ((such as industry sector, size, and years in operation)?
- Who is currently leading the business, and how involved is the family in its day-to-day operations?
- Do you rely on traditional financial indicators such as ROA, ROE, and Sales Growth to measure your annual family business performance? Why or why not, and on which one specifically?
- Which measure or indicator is the most reliable to you in assessing business performance and success in the last 5 years?
- What strategies do you adopt in family business to maintain high performance and resilience levels during challenging situations (regarding economic, financial, and political instabilities)?

Classification of Family Businesses Using the KPMG Framework

This methodological approach focuses on classifying the five Lebanese interviewed family businesses into one of the four profiles defined by the KPMG framework: **Entrepreneurial Families, Business-First Families, Family-First Businesses, and Underperforming Businesses** (KPMG, 2022). The classification and analysis schemes use key indicators such as innovation and growth levels, financial performance measures reliance, and the degree of family engagement in leadership and strategic decisions from the interviews' findings regarding performance measurement practices and reactions to financial instabilities and future organizational growth and resilience. Thus, our analysis aims to explore patterns and create profiles for family business financial management, specifically during unstable times, and develop profiles to show how distinct management strategies affect financial measure effectiveness and resilience tactics. This will allow us to suggest recommendations that assist family businesses in enhancing their financial stability in unpredictable conditions.

Results

This section presents the findings derived from the three methodologies used in the study. A historical analysis of financial performance measures from 2000 to 2022, qualitative interviews with five Lebanese family businesses, and their classification based on the KPMG framework.

Findings from Historical Analysis of Performance Measures between 2000 and 2022.

Table 2 reflects how frequently each measure has been used in the previous literature to derive the most common financial performance measure in family businesses from 2000 to 2022. ROA appears to be the most common measure in twelve research, followed by ROE and Tobin's Q in seven studies, with Sales Growth and ROS being less common in only five studies. These results underscore the reliance on profitability and valuation measures in family business evaluation methods.

Table 2. Most frequently used performance measures in previous studies from 2000 to 2022.

Performance Measure	Number of Occurrences
ROA	12
ROE	7
Tobin's Q	7
Sales Growth	3
ROS	2

Source: authors' creation.

Interviews' Major Findings

Profiles of the 5 Selected Lebanese Family Businesses Based on KPMG Classification

- Entrepreneurial Families: Firm E, with a high entrepreneurial orientation, focuses on growth and innovation.
- Business-First Families: Firm A has large-scale operations while maintaining minimal engagement between family members and keeping financial performance as its principal priority. However, Firm D demonstrates a medium-sized structure and professionalized leadership to implement market expansion strategies.
- Family-First Businesses: Firm B, with high family control while stability alongside legacy management drives operations through traditional financial measurements such as return on assets (ROA).

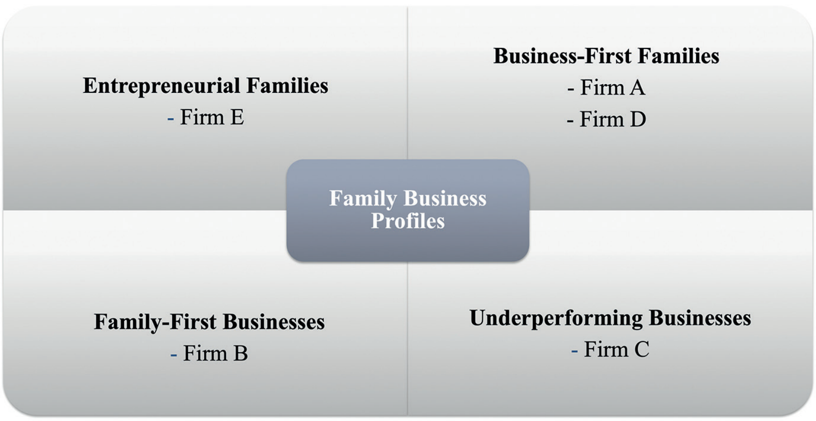

Figure 1. Profiles of Family Businesses Based on Interview Findings.
Source: authors' creation.

Table 3. Summary of Interview Responses with the Five Lebanese Family Businesses.

Question	Key Findings	Patterns
1. What are the fundamental characteristics of your family business (such as industry sector, size, and years in operation)?	The family businesses' managers were from various sectors (manufacturing retail, and agriculture), and their companies average age was 35 years.	Larger family businesses operate in manufacturing and retail, and smaller ones in agriculture.
2. Who is currently leading the business, and how involved is the family in its day-to-day operations?	Family CEO heads the business. Family-first firms were more involved day to day, but involvement was lower overall.	Second-generation businesses were less family-centered than the first-generation. ones.
3. Do you rely on traditional financial indicators such as ROA, ROE, and Sales Growth to measure your annual family business performance? Why or why not, and on which one specifically?	Almost all businesses use ROA and Sales Growth. However, mid-sized businesses used ROE to measure shareholder returns.	Indicators were found to be more essential to businesses having more diversified operations.
4. Which measure, or indicator is the most reliable to you in assessing your business performance and success in the last 5 years?	Reliability was given in terms of ROA (4 out of 5 family businesses). Two firms mentioned Market Share as a supplementary metric.	Family-first businesses emphasized stability metrics (e.g., ROA), while entrepreneurial families leaned towards growth metrics.
What strategies do you adopt in your family business to maintain high performance and resilience levels during challenging situations (regarding economic, financial, and political instabilities)?	Diversification, cost control, and maintaining strong liquidity were common strategies. Family involvement was highlighted as a key stabilizer.	Formalized strategies such as risk management plans were stressed by most of those family businesses.

Source: authors' creation.

– Underperforming Businesses: Firm C experiences economic difficulties while lacking defined financial strategies and is highly susceptible to outside challenges

Discussion and Conclusion

This study aimed to understand how family businesses assess their performance mainly by the measures used under periods of stability and uncertainty. We developed the key through a combination of the three implemented methodologies. First, a historical analysis of studies from 2000 to 2022 of the most used financial performance measures for family businesses, including ROA, ROE, Sales Growth, and Tobin's Q. Secondly, based on five qualitative interviews with family business managers in Lebanon, we explored to what extent these traditional measures are still relevant over the past five years. Finally, the interviewed businesses were classified in the four-company profiles model by KPMG, which provided further insights into how their governance, generational dynamics, and strategic priorities influence their performance evaluation.

The historical assessment revealed that ROA recorded the highest frequency as a profitability evaluation indicator by family businesses in twelve studies in the last two decades, followed by seven studies of family businesses employing Tobin's Q and ROE. However, ROS and sales growth were obtained only in a few studies. ROA highlights its importance in assessing a firm's efficiency in generating returns from its assets and a fundamental measure of operational and financial performance for family and non-family businesses. Similarly, the market evaluation and shareholder returns rely on Tobin's Q and ROE, respectively, to provide long-term financial stability across various sectors. Also, the interviews emphasized similar results as the selected family businesses agreed on the traditional performance measures, mainly ROA and ROE, emphasizing the validation of the second hypothesis (H2), where family businesses rely on traditional performance measures such as ROA, ROE, and Tobin's Q to assess their annual performance. In addition, market share was recorded as an additional key performance metric according to managers' responses, particularly among entrepreneurial family enterprises. These families used ROA as an indicator for growth and planning when making decisions..

In contrast, family-first businesses depend more on cost reduction and cash preservation strategies to increase resilience levels during severe and unstable periods, mainly during the COVID-19 pandemic and economic and political conditions in Lebanon, and this also validated hypothesis one (H1), stating that financial instability and risks can reduce the performance of family businesses. Furthermore, The KPMG-based framework provided a significant understanding of the strategic decision-making processes in the five selected family businesses. Entrepreneurial families pursued expansion together with innovation, whereas family-first businesses concentrated on maintaining financial growth and stability. Underperforming businesses represented minimal strategic planning, demonstrating the importance of governance structures in sustaining long-term resilience.

In conclusion, this study explores the complex key performance indicators that play central roles in the evaluation practices of family businesses worldwide. According to historical data and interview insights, traditional financial measures such as ROA and ROE along with Tobin's Q and Sales Growth and ROS appear steadily in use. Entrepreneurial families prefer growth measurements, while family-first businesses prioritize stability and resilience. Further, the research study highlights how family enterprises link governance structure adaptations to their performance measurement approach aligning with KPMG's model to strengthen the effectiveness of historical analysis in documenting financial conduct in family firms. Thus, future studies can focus on how non-financial metrics including employee well-being and innovation both individually and together with financial data provide a deeper understanding of success in family business operations.

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