Accounting Research in Family Firms: Theoretical and Empirical Challenges

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ABSTRACT Family firms play a significant role in the global economy. Consistently, over the last two decades academia has turned its attention to the family dimension as a determinant of business phenomena, and this interest has increased over time. While family business research has reached an age of ‘adolescence’ as a field of study, accounting research to date seems to have been rather slow to pick up on the distinctive characteristics of family firms, and their implications for accounting and reporting practices. In an attempt to accelerate and support research in the field, in this article we highlight theoretical and empirical challenges that accounting scholars need to consider when addressing issues related to accounting and reporting in family firms. These challenges include the selection and potential mixing of appropriate theoretical frameworks, and complications in defining operationally what family firms are. We also provide a ‘state of the art’ of studies in financial accounting, management accounting and auditing, identifying which issues in relation to family firms have been addressed in the research, and which theories, research methods and types of data have been used in these studies. We conclude by providing directions for future research that can advance our understanding of accounting and reporting in family firms.

1. Introduction: The Relevance of the Issue

Family firms are prevalent and play a significant role in the global economy. According to the Family Firm Institute (2008), family businesses generate an estimated 70–90% of global GDP annually. In the USA, the greatest part of the wealth lies with family-owned businesses. Eighty to ninety per cent of all enterprises in North America are family firms, contributing 64% of the GDP and employing 62% of the US workforce. Family firms are common among listed US companies. Prior studies indicate that over 35% of S&P 500 Industrials and about 46% of the S&P 1500 are classified as family firms (Anderson & Reeb, 2003; Chen, Chen, & Cheng, 2008). In Europe, these numbers are similarly significant. For example, in France 83% of businesses are classified as family firms and employ close to half of the French workforce. Seventy-nine per cent of German businesses are labelled as family firms, employing around 45% of the country’s workforce and creating over 40% of the national turnover. Similarly, in Italy 73% of firms are family-owned and over 50% of the Italian workforce is employed by such firms.

Notwithstanding the significant presence of family firms worldwide, it is only over the last few decades that academia has turned its attention to the family dimension as a determinant of
business phenomena, with a significant growth in interest over time. According to a recent review, the very first academic article dealing (indirectly) with a family firm issue was published by Trow (1961) on the topic of executive succession in small companies (Benavides-Velasco, Quintana-García, & Guzmán-Parra, 2013). Around the 1980s and during the 1990s, a series of economic events triggered interest in this area of research. Among these events was the restructuring of a number of large companies in the USA, and the economic crisis in Europe that impacted state-controlled corporations. During that period it appeared that family businesses were more successful, and this motivated scholars to understand better the reasons behind the success of family firms and the implications of their business model (Culasso, Broccardo, Giocosa, & Mazzoleni, 2012).

Although the field of family firms has been of interest to researchers in the area of management since the 1980s, in the early years the study of family businesses fell into the field of sociology, and at a later stage into small business management. Only during the last decade has a growing diversity of research interests led to the development of a more comprehensive and interdisciplinary body of knowledge related to family companies. Indeed, the majority of studies on family firms found in business, management, economics and finance journals have been published in the last decade, reinforcing the recent surge of interest in the field.¹

Family business research has now reached an age of ‘adolescence’ as a field of study (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012). Academic institutions have begun to establish specialised departments, the number of chairs endowed to academics with a research focus on family firms has increased, and international conferences on the issue have become more common. These developments are indicators of the increasing maturity of the research field (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Despite these changes over the past few decades, accounting in family firms appears still to be emerging as a field of inquiry. Although the number of published articles on accounting and reporting issues in family companies has been steadily growing during the last few years, there is still a substantial amount of ground to be covered before the intensity of family firm research in accounting reaches a similar status as in other academic disciplines. In this article, we intend to highlight some of the major challenges that accounting researchers face when addressing research questions related to family firms, in an effort to identify possible directions for future research. We believe that failing to consider the potential influence of the family dimension in many accounting studies may lead to incomplete or even misleading conclusions; therefore we call for accounting scholars to be more aware of its impact and consequences.

The remainder of this paper is structured as follows: in Section 2, after summarising the main features of family firms, we discuss the theoretical challenge, focusing on the most commonly used and emerging theoretical perspectives in family business research. In Section 3 we introduce and address the empirical challenge, i.e. the problem of defining family firms. In Section 4 we provide a ‘state of the art’ of research on accounting and reporting in family firms, and in Section 5 we conclude by providing some directions for future research.

2. The Theoretical Challenge

The first challenge that accounting researchers face when addressing issues related to family firms is theoretical. Indeed, family firms are characterised by a number of different features, implying that choosing the ‘right’ theoretical framework is a rather complicated task. Therefore,

¹For some statistics about research and publications on family firms, see Siebels and Knyphausen-Aufseß (2011) and Benavides-Velasco et al. (2013).
before addressing the theoretical challenge, it is worth highlighting the main features that characterize family businesses, and that differentiate them from non-family firms. These features generally follow from the strong interaction/integration between family and business life in family firms that is not present in non-family firms (e.g. Habbershon & Williams, 1999).

In family businesses, the controlling owners typically have sufficient power to guarantee that the firm pursues their own interests and goals (Anderson & Reeb, 2003, 2004). While this feature is not exclusive to family firms, the pursued interests and goals typically represent one of the unique aspects of family firms. In particular, in family firms a prominent role is played by noneconomic factors, such as the emotional attachment of the family to the business (e.g. Gomez-Mejia et al., 2011). Typically, family affairs and family members’ emotions – such as love, loyalty, intimacy, jealousy and anger – tend to permeate the business affairs. Family members strongly identify themselves with the firm (even more so when the firm carries the family name), and the manner in which others perceive the firm directly affect their own image and reputation (e.g. Chrisman, Chua, Kellermanns, & Chang, 2007; Miller & Le Breton-Miller, 2006; Miller, Le Breton-Miller, & Scholnick, 2008). As a consequence of this strong attachment, the preservation of family control over the business and the protection of the firm’s reputation with stakeholders represent important drivers of business decisions. Also from an economic point of view, the long-term nature of the family investment suggests that external stakeholders such as customers, suppliers and lenders are likely to deal with the same group of shareholders, managers and practices for long time. This makes the family firm’s reputation and social capital critical assets to protect with long-lasting economic effects on the business (Anderson, Mansi, & Reeb, 2003; Wang, 2006).

A related noneconomic factor that drives family firms’ management is the desire of the family to preserve the business in the long term, with the final goal of passing it on to next generations (Anderson & Reeb, 2003; Anderson et al., 2003; Berrone, Cruz, & Gomez-Mejia, 2012; Gomez-Mejia et al., 2011; Miller & Le Breton-Miller, 2006; Miller et al., 2008). Therefore, family firms’ owners are more likely to focus on firm survival rather than on mere wealth maximisation, with direct consequences in terms of strategies and decision-making process. In short, noneconomic factors play a major role in shaping the family’s utility function.

Another primary feature of family firms relates to the owner–managers relationship (e.g. Anderson & Reeb, 2003). Family businesses are typically characterised by a close relationship between managers and family (Miller & Le Breton-Miller, 2006; Prencipe, Markarian, & Pozza, 2008). Firm managers are often family members, or hold close personal relationships with the family. A relevant consequence of this trait is that for managers of family firms typical motivations related to the executive job market are less important (Prencipe et al., 2008). Managers aim to keep their position for the long term, and what counts for success is their loyalty and ability to preserve the trust of the family rather than just generating financial results (Miller & Le Breton-Miller, 2006). Furthermore, family members are often directly involved in the firm’s activities, and consequently typically have superior knowledge of the business and the ability to closely interact and monitor managers even when the latter do not belong to the family (e.g. Anderson & Reeb, 2003).

Different theoretical frameworks tend to give prominence to one or more of the above-mentioned features. Prior studies of family firms in the areas of management and business have employed mainly four theoretical frameworks: agency theory (Morck & Yeung, 2003; Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholz, 2001), stewardship theory (Miller & Le Breton-Miller, 2006; Miller et al., 2008), the resource-based view (RBV) of the firm (Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003; Sirmon & Hitt, 2003), and socioemotional wealth (SEW) theory (Gomez-Mejia et al., 2011; Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007).
Agency theory views the firm as a bundle of contracts, and focuses on potential conflicts of interest arising from asymmetry of information between two contractual parties, i.e. the principal and the agent (Jensen & Meckling, 1976; Ross, 1973). Agents are considered to be opportunistic wealth-maximising actors, which gives rise to problems such as moral hazard and adverse selection. Agency costs arise as a consequence of such opportunistic behaviours, or as a consequence of the actions taken to mitigate or reduce these behaviours.

One of the central agency relationships that creates agency problems is the conflict of interests between owners and managers. Managers are seen as agents of the owners, and the separation between ownership and control has long been considered the main agency relationship in the firm (Fama & Jensen, 1983b). This type of conflict has been dubbed in the literature as the ‘Type I’ agency problem (Villalonga & Amit, 2006). It is argued, however, that when managers are also owners of the firm, Type I agency issues are minimised, as personal ownership contributes to aligning managers’ interests with those of non-manager owners (Ang, Cole, & Lin, 2000; Fama & Jensen, 1983a, 1983b; Jensen & Meckling, 1976; Schulze, Lubatkin, & Dino, 2002; Schulze et al., 2001). As many family firms are characterised by the presence of family members as corporate executives and by a greater awareness of the family of managers’ actions, it is generally argued that these firms are exposed to lower Type I agency costs and require comparatively less investment in monitoring and control mechanisms (Chrisman, Chua, & Litz, 2004; Daily & Dollinger, 1992; Gomez-Mejia, Núñez-Nickel, & Gutierrez, 2001; Jensen & Meckling, 1976). This phenomenon is referred to as the ‘alignment effect’ (e.g. Ali, Chen, & Radhakrishnan, 2007; Wang, 2006). However, the reduced Type I agency problems in family firms may give rise to a different agency problem, i.e. the conflict between controlling family owners and other owners. Family executives may potentially use their positions and superior information to exploit less influential and less well informed owners. This type of agency issue is dubbed as the ‘Type II’ agency problem (Villalonga & Amit, 2006) or as the ‘principal–principal’ agency problem (Morck, Wolfenzon, & Yeung, 2005). Central in this agency problem is that dominant family members – who are at the same time owners and managers – might take advantage of their position to serve personal interests to the detriment of other owners (Schulze et al., 2002; Schulze et al., 2001), for example through behaviours as shirking or free-riding. The Type II agency problem gives rise to the so-called entrenchment effect (e.g. Ali et al., 2007; Wang, 2006).

In short, among the various idiosyncratic features of family firms, the agency framework focuses on the contractual relationship of the controlling family with managers and with other shareholders, paying particular attention to the risk of opportunistic behaviours. According to this framework, a typical family firm is characterised by a less relevant owner–manager agency problem, but a potentially more relevant owner–owner agency issue, given the powerful position of controlling family executives vs. minority non-influential owners, who may be either members of the same family or outsiders. Risk aversion, altruism towards offspring and entrenchment in key positions have often been seen as typical limiting family practices within an agency perspective (e.g. Beatty & Zajac, 1994; Bertrand & Schoar, 2006; Claessens, Djankov, Fan, & Lang, 2002; Kahneman & Tversky, 1986; Lubatkin, Durand, & Ling, 2007; Schulze et al., 2003; Schulze et al., 2001; Volpin, 2002). A limitation of the agency framework is however that it narrows the focus to only agency relationships in the family business, while ignoring other relevant features as outlined above.

An alternative framework for the analysis of family firms is provided by stewardship theory (Miller & Le Breton-Miller, 2006; Miller et al., 2008). The expression ‘stewardship’ implies human caring, generosity, loyalty, and responsible devotion, usually towards a social group or institution. Based on sociology and psychology foundations, stewardship theory substitutes the assumption of opportunistic behaviours by agents, and suggests that agents (referred to as
stewards’) are motivated by goals other than sole private economic interest, and often act for the benefit of the entire organisation (Davis, Schoorman, & Donaldson, 1997; Donaldson, 1990; Donaldson & Davis, 1991). In other words, stewards are motivated by higher-level needs, as they feel that they are part of the organisation and act for the collective good of its stakeholders. Stewards’ actions are driven by the fact that the utility derived from a self-oriented attitude is dominated by the utility generated by pro-organisation behaviour. This leads to a natural alignment of their interests with those of other principals.

Stewardship theory applies particularly well to family firms. Indeed, stewardship arises among parties in which the relationships are stable, where there is a significant interdependence and interaction, and where people share a similar social network (Bourdieu, 1986; Nahapiet & Ghoshal, 1998; Putnam, 2000). These conditions are typical of family firms. Also, family executives tend to be strongly attached to and to identify with the family firm, and behave with loyalty towards it. The firm is considered to be a legacy of the family, something to be proud of and to be preserved for future generations. Family managers are therefore strongly motivated to work for the long-term survival of the firm (Miller & Le Breton-Miller, 2005; Miller et al., 2008). Miller et al. (2008) identify three main dimensions of stewardship in the context of family firms: ‘continuity’, ‘community’ and ‘connection’. ‘Continuity’ refers to the aspiration of the family to ensure the longevity of the firm, to the benefit of family members. ‘Community’ refers to the creation of a collective corporate culture, where staff members are highly competent and motivated, while ‘connection’ refers to the strong relationships of the family with external stakeholders who might assist in sustaining the business in tough times. However, when stewardship is established not towards the entire business but towards the family itself, the borderline between the agency and stewardship perspectives becomes less clear (Bertrand & Schoar, 2006; Bloom & Van Reenen, 2007; Schulze et al., 2001). Altruism towards family members who do not deserve their positions or their rewards may be detrimental to the organisation, as stated by the agency perspective (e.g. Karra, Tracey, & Phillips, 2006).

Evidently, among the idiosyncratic features of family firms highlighted above, the stewardship perspective overcomes the assumption of opportunistic behaviour and gives prominence to noneconomic factors that drive families’ decisions and behaviours, such as the identification and the attachment of family members to the business, their care for reputation and stakeholders and the will to preserve the business for future generations. In the owner–manager relationship, the accent is put on the alignment of interests based on loyalty and altruism of family members towards the organisation and its stakeholders, rather than on the risk of individual opportunistic behaviour.

Both agency and stewardship theory find empirical support in prior research (Chrisman et al., 2007; Nicholson & Kiel, 2007). In the light of this and in the attempt to reconcile agency and stewardship perspectives, Le Breton-Miller, Miller, and Lester (2011) suggest that both views can be usefully applied in family firms, but under different circumstances. Particularly, they argue that this depends on the degree to which the firm and its executives are embedded within the family, and thus their identification with its interests. Agency behaviour will be more common and prevalent compared to stewardship behaviour when there is a greater number of family directors, officers, generations, and votes, and when more executives are susceptible to family influence. This suggestion is in line with the idea that a combination of different frameworks may prove useful and effective to better understand family firms.

A third theoretical framework applied in the study of family firms is the RBV of the firm. The RBV is based on the assumption that returns achieved by firms are largely attributable to their resources (Penrose, 1959). The main argument is that firms are able to sustain their competitive advantage when they are able to develop valuable and rare resources which cannot be easily imitated or substituted by competitors (Barney, 1991; Teece, Pisano, & Shuen, 1997). Therefore, the
RBV may be utilised to identify critical resources that distinguish family from non-family firms (Chua, Chrisman, & Steier, 2003). In this respect, for example, Habbershon and Williams (1999) and Habbershon et al. (2003) argue that the intersection of family and business (i.e. the firm’s ‘familiness’), if managed purposefully and efficiently, may lead to hard-to-duplicate capabilities that make family firms particularly suited for survival and growth. Along similar lines, Sirmon and Hitt (2003) identify a list of resources of family firms – human capital, patient capital, social capital, survivability capital, and the governance structure – that make them different from non-family firms.

Among the idiosyncratic features of family firms, the RBV focuses on the interaction of the family (as a whole or of its individual members) and the business systems, trying to identify the unique bundle of resources that arise from this integration and their potential effects on performance. Both economic and noneconomic factors are taken into consideration in identifying the strategic resources that make family firms distinctive and potentially able to succeed in their competitive strategy.

Although the RBV has the potential to provide valuable insights into how resource configurations of family firms differ from those of non-family firms and how these may lead to competitive advantages, empirical evidence to date is limited.

More recently, another theoretical framework has emerged in the field of family business research: the SEW. In contrast to agency theory, stewardship theory and the RBV, which in a way were adopted from other disciplines such as management and economics, the SEW theory was developed from within the field of family business research, as an extension of behavioural agency theory (Cennamo, Berrone, Cruz, & Gomez-Mejia, 2012; Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2007; Gomez-Mejia, Makri, & Kintana, 2010). According to the SEW theory, family firms are motivated by, and committed to, the preservation of their SEW. SEW refers to non-financial affect-related values including, for example, fulfilment of the needs for belonging, affect, and intimacy; identification of the family with the firm; desire to exercise authority and to retain influence and control within the firm; continuation of family values through the firm; preservation of family firm social capital and the family dynasty; discharge of familial obligations; and the capacity to act altruistically towards family members using firm resources (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010). Berrone et al. (2012) break down the SEW into five dimensions, namely: family control and influence, identification with the firm, dynastic succession, emotional attachment and social ties.

Consistent with behavioural agency theory, the SEW model relies on the assumption that the decisions of principals in family firms are motivated by the desire to preserve accumulated endowment in the firm, which in the case of family firms is represented by SEW (Gomez-Mejia, Welbourne, & Wiseman, 2000; Wiseman & Gomez-Mejia, 1998). Therefore, it is not necessarily an economic consideration that drives principals’ decisions, but rather the preservation of the socioemotional endowment, even when it contrasts with typical economic and/or financial goals. Family principals are highly loss-averse to socioemotional endowment, rather than risk averse. This contrasts with agency theory arguments, which put risk aversion at the centre of decision-making. Similarly to the stewardship theory, the SEW theory allows

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2Berrone et al. (2012, pp. 262–264) define the five components of the SEW theory as follows. Family control and influence refers to the control and influence of family members over strategic decisions. Identification with the firm refers to the close identification of the family with the business. Social ties refer to family firms’ social relationships. Emotional attachment refers to the role of emotions in the family business context. Dynastic succession refers to the intention of handing the business down to future generations.
for collaborative behaviours; however it also allows for opportunistic and selfish behaviours, which brings the theory closer to the agency than to the stewardship perspective.

Clearly, among the idiosyncratic features of family firms, the SEW gives prominence and elaborates on noneconomic factors that shape family firms’ management, putting the preservation of SEW at the centre of family firms’ goals and behaviours. In recent years, the number of studies using SEW theory has been growing, generally providing support to the validity of the model in the field of family firms (Cennamo et al., 2012).

The question of which is the most suitable theoretical framework for research in family firms is rather complex. Given the multifaceted issues and complexities that characterise family firms (and which may lead to both positive and negative effects on the firm and its stakeholders), it is probably through a combination of different frameworks that researchers might find a more effective way to test their research questions. Indeed, a single paradigm that focuses on one or another trait, or gives prominence only to the positive or the negative aspect of the family dimension, may be unable to capture in full the essence and behaviour of family firms. This holds true particularly when the empirical evidence on such questions provides unclear or mixed results, which is a common case in family firm studies.

The theoretical challenge highlighted above emphasises the importance of the selection of a suitable theoretical framework to provide the best ‘fit’ with the study’s research question, and particularly with the family firm characteristics that are expected to be of major influence or importance.

3. The Empirical Challenges: Defining Family Firms

Once a position has been taken regarding the theoretical framework(s) to apply, scholars who intend to research family firms face another challenge: how to operationally define a ‘family firm’. The debate surrounding an appropriate definition of the family firm has been going on for a long time, since the very first article published in the first issue of the Family Business Review (Lansberg, 1988). Various definitions have been proposed by prior studies, causing comparability between them to pose a serious challenge. A study conducted on behalf of the European Commission (KMU Forschung Austria, 2008) mapped the definition of ‘family business’ in 33 countries, looking at policy discussions, legal regulations as well as academic research. A total of 90 different definitions were identified, which include combinations of elements such as family ownership, the role of the family in management/strategic control, the active involvement of family members in the enterprise’s everyday activities, intergenerational considerations, or even a mere perception by respondents. Each of these elements, in turn, has been operationalised in several different ways. Obviously, this plethora of definitions and measurements of family firms signals the difficulty in reaching a common operational definition.

Over the past few years, the focus of the definition problem has shifted from dichotomous definitions aimed at separating family from non-family firms to more articulated definitions that allow to distinguish between various types of family firms. A general agreement has emerged among management scholars that dichotomous definitions should be avoided.

3For example, ownership has been operationalised in alternative ways, such as the family owns the majority of voting shares (>50%), the family owns at least 10–25% (for public companies), or the family is the largest owner. Similarly strategic/managerial control has been operationalised using ‘soft’ criteria (e.g. family relations affect the assignment of the management, a significant proportion of the company’s senior management belongs to the family, the most important decisions are made by the family, or at least two generations have had control over the enterprise) or ‘hard’ criteria (e.g. the CEO belongs to the family; one, or at least one family member is involved in the operating management; at least two or three board members stem from the family, or the majority of the management team comes from the family).
Although a dichotomous approach is still common in empirical studies, especially outside the management literature, a growing number of scholars have started to recognise that family firms are quite heterogeneous on various aspects (e.g. Chrisman, Chua, Pearson, & Barnett, 2012; Chua, Chrisman, & Sharms, 1999) and have begun searching for a more adequate approach for empirical measurement.

Several authors have sought to identify the elements that drive family involvement that can possibly be useful in a definition of the family firm. For example, in the attempt to quantify the contribution of family firms to the US economy, Shanker and Astrachan (1996) and Shanker and Astrachan (2003) suggest a range, from a broad definition where there is limited family involvement (the family controls the strategic direction of the business and participates somehow in the business), to a middle definition characterised by some level of family involvement (the founder/descendant runs the company and it is intended that the company will remain in the family), up to a narrow definition where family involvement is at a high level (multiple generations are involved in the company and more than one family member has management responsibility). Another attempt has been made by Westhead and Cowling (1998) who, based on a literature review, identified several elements that could appear in a family business definition, such as: whether the majority of ordinary voting shares in the company are owned by members of the largest family group related by blood or marriage; whether the management team in the company is comprised primarily of members drawn from the single dominant family group that owns the business; whether the company has experienced an intergenerational ownership transition to a second or later generation of family members drawn from a single dominant family group owning the business; and whether the chief executive, managing director or chairman perceive the company to be a family business.

Most definitions, like those mentioned above, stress the various levels of involvement of the family in the company. This is known as the ‘involvement approach’, which focuses on the family’s power to direct goals, strategies and actions (Deephouse & Jaskiewicz, 2013; Gomez-Mejia et al., 2011). Typical proxies for family involvement are the level of family ownership, family involvement in management or, more generally, family involvement in the governance of the company.

A concern about the involvement approach is that it does not capture goal differences among family firms. Therefore, a second approach has emerged: the ‘essence approach’ (e.g. Chrisman et al., 2012; Chua et al., 1999; Deephouse & Jaskiewicz, 2013). This approach focuses on the ‘essence’ of family firms, which is explained as the role of the family in shaping the identity of the firm. The essence approach recognises that family firms – even with a similar level of involvement – might differ in terms of family members’ identification with the firm, and therefore in terms of vision, culture, values, goals and behaviours. The essence approach considers family involvement as a necessary condition, but as not sufficient to distinguish family businesses from non-family businesses, or various levels of the family dimension among family firms.

Both the involvement and the essence approaches are consistent with the idea that there is a sort of continuum in the family dimension of a firm. In a well-known contribution, Astrachan, Klein, and Smyrnios (2002) suggest measuring the degree of family influence employing a multidimensional scale that incorporates both the involvement and the essence approaches. They propose the ‘Family Power Experience Culture Scale’, which enables measurement of the degree of family influence on a continuous scale by combining three main dimensions: power, experience and culture. A score is calculated for each dimension, and a global measure for family influence is computed as a combination of the different scores.

Although the idea of a continuum in the level of the family dimension is sharable on theoretical grounds, understandably, empiricists who use large archival databases tend to rely on
reductionist proxies (e.g. family ownership, composition of board of directors, family members in top management) to measure the degree of family influence. Different studies still use a variety of definitions, based on a combination of the various involvement proxies and, in some cases, they set thresholds to separate family from non-family firms.

The fact that there are various operational definitions in empirical research makes comparability of various studies complicated, if not impossible. This appears to be to some extent a limitation that researchers of family firms have to accept. However, one may also wonder whether it is indeed necessary to have a standard operational definition of a family firm. Use of different definitions across studies, with the choice depending on how well the definition fits a study’s research questions and setting, may represent a useful way to capture various facets of family firms and to investigate their effects on actions and results.

4. Accounting and Reporting in Family Firms: The State of the Art

Accounting researchers who intend to study family firms face similar challenges to the one described in the previous sections. In particular, the choice of a proper theoretical framework to analyse determinants and effects of accounting information in family firms, and the definition of family firms are issues that characterise the accounting field as well. In addition, questions such as the choice of a proper research method (i.e. theoretical/conceptual or empirical) and the collection of data are generally faced by accounting researchers.

Through a description of the ‘state of the art’ of research on accounting and reporting in family firms, in this section we highlight how the above-mentioned issues have been addressed by accounting scholars. For this purpose, we discuss here the results of a broad literature review. We confine our review to articles published since 1980, and restrict our selection to papers that explicitly relate accounting and reporting issues to family firms. The themes included in our review broadly cover the domains of financial accounting and reporting, management accounting and control, and auditing. Our search includes also findings of prior reviews as far as they explicitly refer to family firms (e.g. Salvato & Moores, 2010), and papers that have been published after these reviews.

Our literature review resulted in a set of 37 published papers that explicitly examine accounting and reporting issues in family firms. Below, we report the result of our search in which we focus in particular on the following aspects:

- the key issues addressed;
- the theoretical framework employed;
- the operational definition of family firm adopted;

4Because of this reason, unless explicitly linked to family ownership, studies on ownership concentration and/or insider ownership were disregarded in our search of the literature. We take a broad perspective on what constitutes accounting practices. For instance, while not explicitly referring to management accounting or control, a study on strategic planning (e.g. Blumentritt, 2006) is considered a management accounting paper. We disregard accounting papers that are located empirically in a family-firm setting, but do not explicitly examine the implications of that setting (e.g. Anderson, Dekker, & Sedatole, 2010). We also omit from our review the limited literature on tax behaviour in family firms (e.g. Chen, Chen, Cheng, & Shevlin, 2010).

5Our selection criteria result in a more limited set of publications than reported in Salvato and Moores (2010). Their review paper also includes studies on topics such as ownership concentration, inside ownership, privately held firms, in which there is no clear analysis or evidence of family issues.

6We exclude from the selection Hutton (2007), which provides a discussion of Ali et al. (2007) and does not constitute a study in itself.
• the research method (i.e. theoretical/conceptual or empirical) applied, and the type/source of data used.

Detailed results of the search are reported in Table 1. In addition, the table includes a short summary statement of the key findings of each study.

4.1. Key Issues in Published Accounting Research on Family Firms

It is evident that the majority of studies (22 papers, 59% of the total) examine financial accounting and reporting issues. Eight papers (22%) examine management accounting and control questions, and six (16%) relate to auditing questions in a family firm context. Financial accounting and reporting papers are predominantly confined to the issues of earnings quality, earnings management, voluntary disclosures, and the impact of corporate governance choices/board composition on reporting quality. Management accounting and control studies seem to be quite diverse in their research questions, and broadly address issues of management accounting and control choices and practices in family firms, drivers of management accounting choices in family firms, and the role of management accounting and control in changes and transitions over time. The six identified audit papers address the demand for auditing by family firms, the association between family firms and audit quality, timing and effort, auditor choice, and differences between family and non-family firms regarding auditor resignation.

Overall, it appears that family-firm issues are still relatively new to the fields of management accounting and auditing. More research efforts in these areas may help improve our understanding of how the antecedents and consequences of management accounting and auditing choices identified in prior research apply in companies characterised by family influence.

4.2. Theoretical Frameworks Employed in Accounting Research on Family Firms

Regarding the theoretical framework, we classify the 37 surveyed papers by the predominant theory employed to develop the hypotheses and/or to explain empirical observations. This classification clearly indicates that agency theory is the dominant paradigm. Indeed, 21 papers (57% of the total) are based primarily on agency theory. These research studies rely extensively on one of or both the Type I and Type II agency problems discussed in Section 2. In particular, these papers aim at exploring the implications of the closer alignment of interests between owners and managers (Type I agency problem) and of the entrenchment effect deriving from the divergence of interests between family shareholders and minority shareholders (Type II agency problem) on issues such as earnings quality, earnings management, voluntary disclosure, governance choices/board composition and internal control systems, demand for auditing, audit quality, and auditor choice and resignation. This dominant reliance on agency theory fits with the broader use of the agency paradigm in accounting research.

More recently, accounting scholars have begun to embrace new perspectives, such as the SEW theory, focusing on noneconomic factors that drive family firms’ decisions and behaviours. In particular, we identified four papers that argue that accounting choices are primarily based on the preservation of different aspects of the family’s SEW (Achleitner et al., 2014; Gomez-Mejia et al., 2014; Pazzaglia et al., 2013; Stockmans et al., 2010). In particular, Gomez-Mejia et al. (2014) contend that, in family firms, financial reporting decisions such as earnings management and voluntary disclosure policies are driven by the preservation of the different aspects of the family SEW. While the number of studies relying on SEW theory is still limited, the empirical evidence provides support that SEW is a potential driver of accounting choices, supporting the validity of the theory and its potential for future research.
Table 1. Published research on accounting and reporting issues in family firms

<table>
<thead>
<tr>
<th>Authors</th>
<th>Journal</th>
<th>Field</th>
<th>Topic</th>
<th>Main theoretical framework</th>
<th>Scope</th>
<th>Definition of family firms</th>
<th>Main findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achleitner, Fichtl, Kaserer, and Siciliano (2014)</td>
<td>EAR</td>
<td>FA</td>
<td>Earnings management</td>
<td>SEW</td>
<td>% ownership or family members on management or supervisory board</td>
<td>Family firms engage less in real earnings management, more in earnings-decreasing accounting earnings management, and treat these as substitute tools for earnings management</td>
<td></td>
</tr>
<tr>
<td>Ali et al. (2007)</td>
<td>JAE</td>
<td>FA</td>
<td>Disclosure</td>
<td>Agency</td>
<td>% ownership or family members on the board/top management</td>
<td>Family firms report better quality earnings, are more likely to warn for bad news, and make fewer disclosures about corporate governance practices</td>
<td></td>
</tr>
<tr>
<td>Blumentritt (2006)</td>
<td>FBR</td>
<td>MA</td>
<td>Planning practices</td>
<td>Family</td>
<td>Externally defined</td>
<td>Family firms with an advisory board engage more in strategic planning and succession planning</td>
<td></td>
</tr>
<tr>
<td>Carey and Guest (2000)</td>
<td>JAAF</td>
<td>AUD</td>
<td>Audit timing</td>
<td>Agency</td>
<td>Family majority on board</td>
<td>The optimal timing for financial audits in family-controlled firms is determined by trading off audit costs and expected losses</td>
<td></td>
</tr>
<tr>
<td>Carey, Simnett, and Tanewski (2000)</td>
<td>AJPT</td>
<td>AUD</td>
<td>Demand for auditing</td>
<td>Agency</td>
<td>Externally defined</td>
<td>Internal audits are often outsourced, used more than external audits, but agency proxies and firm debt better explain demand for external audits. Voluntary internal and external audits are seen as substitutes</td>
<td></td>
</tr>
<tr>
<td>Cascino, Pugliese, Mussolino, and Sansone (2010)</td>
<td>FBR</td>
<td>FA</td>
<td>Accounting quality</td>
<td>Agency</td>
<td>% ownership and family members on the board/top management</td>
<td>Family firms convey financial information of higher quality and differ in determinants of accounting quality</td>
<td></td>
</tr>
<tr>
<td>Chau and Gray (2010)</td>
<td>JIAAT</td>
<td>FA</td>
<td>Disclosure</td>
<td>Agency</td>
<td>% ownership</td>
<td>Voluntary disclosure is greater (lesser) for firms with higher (lower) family shareholding, and with the appointment of an independent chairman, which mitigates the influence of family ownership</td>
<td></td>
</tr>
<tr>
<td>Authors</td>
<td>Journal&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Field&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Topic</td>
<td>Main theoretical framework</td>
<td>Scope</td>
<td>Definition of family firms</td>
<td>Main findings</td>
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<tr>
<td>Chen and Jaggi</td>
<td>JAPP</td>
<td>FA</td>
<td>Disclosure</td>
<td>Agency</td>
<td>Family vs. non-family</td>
<td>% ownership and family members on the board</td>
<td>Family-controlled firms show a weaker positive association between the comprehensiveness of financial disclosures and the percentage of independent non-executive directors on corporate boards</td>
</tr>
<tr>
<td>Chen et al. (2008)</td>
<td>JAR</td>
<td>FA</td>
<td>Disclosure</td>
<td>Agency</td>
<td>Family vs. non-family</td>
<td>% ownership or family members on the board or top management</td>
<td>Family firms provide fewer earnings forecasts and conference calls, but more earnings warnings</td>
</tr>
<tr>
<td>Chen et al. (2014)</td>
<td>EAR</td>
<td>FA</td>
<td>Conservatism</td>
<td>Agency</td>
<td>Family vs. non-family</td>
<td>% ownership or family members on the board or top management</td>
<td>Conservatism increases with non-CEO family ownership, but not in family firms with founders serving as CEOs</td>
</tr>
<tr>
<td>Filbeck and Lee</td>
<td>FBR</td>
<td>MA</td>
<td>Financial</td>
<td>Family</td>
<td>Externally defined</td>
<td></td>
<td>More established, larger family firms with an outside board of directors or a non-family member in financial decision-making roles use more sophisticated financial management techniques</td>
</tr>
<tr>
<td>Giovannoni,</td>
<td>FBR</td>
<td>MA</td>
<td>Succession</td>
<td>Life cycle</td>
<td>Family</td>
<td>Case-related</td>
<td>Management accounting can affect the transfer of knowledge across generations and between owner family and management team</td>
</tr>
<tr>
<td>Maraghini, and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Financial reporting decisions are differentially affected by different dimensions of families’ SEW preservation relating to Family Control and Influence, and Family Identification</td>
</tr>
<tr>
<td>Riccaboni (2011)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Gomez-Meja,</td>
<td>EAR</td>
<td>FA</td>
<td>Earnings</td>
<td>SEW</td>
<td></td>
<td></td>
<td>Controlling family influence is negatively correlated with the institutionalisation and intensification of management accounting in medium-sized firms, but not in large firms</td>
</tr>
<tr>
<td>Cruz, and</td>
<td></td>
<td></td>
<td>management</td>
<td></td>
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<tr>
<td>Imperatore (2014&lt;sup&gt;c&lt;/sup&gt;)</td>
<td></td>
<td></td>
<td>Disclosure</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Hiebl, Feldbauer-</td>
<td>JAOC</td>
<td>MA</td>
<td>Transition</td>
<td>Man. acc. change framework</td>
<td>Family vs. non-family</td>
<td>% ownership and family members on supervisory or management board</td>
<td>Controlling family influence is negatively correlated with the institutionalisation and intensification of management accounting in medium-sized firms, but not in large firms</td>
</tr>
<tr>
<td>Durtmüller, and</td>
<td></td>
<td></td>
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<tr>
<td>Duller (2013)</td>
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</tbody>
</table>

<sup>a</sup> Journal abbreviations: JAPP (Journal of Accounting and Public Policy), JAR (Journal of Accounting Research), EAR (European Accounting Review), FBR (Financial Business Review), JAOC (Journal of Asia Pacific Accounting).  
<sup>b</sup> Field abbreviations: FA (Financial Accounting), MA (Management Accounting).  
<sup>c</sup> Additional notes or references.
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Journal</th>
<th>Article Type</th>
<th>Keywords</th>
<th>Research Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hope, Langli, and Thomas (2012)</td>
<td>AOS AUD</td>
<td>Audit effort, Auditor choice</td>
<td>Agency Family vs. non-family vs. Earnings management</td>
<td>% ownership and family members on the board/top management</td>
</tr>
<tr>
<td>Jaggi and Leung (2007)</td>
<td>JIAAT FA</td>
<td>Earnings management</td>
<td>Agency Family vs. non-family vs. Earnings management</td>
<td>Family members on board</td>
</tr>
<tr>
<td>Jaggi, Leung, and Gul (2009)</td>
<td>JAPP FA</td>
<td>Earnings management</td>
<td>Agency Family vs. non-family vs. Earnings management</td>
<td>% ownership and family members on the board</td>
</tr>
<tr>
<td>Jiraporn and DaDalt (2009)</td>
<td>AEL FA</td>
<td>Earnings management</td>
<td>Agency Family vs. non-family vs. Earnings management</td>
<td>% ownership or family members on the board</td>
</tr>
<tr>
<td>Khalil, Cohen, and Trompeter (2011)</td>
<td>AH AUD</td>
<td>Auditor resignation</td>
<td>Agency Family vs. non-family vs. Auditor resignation</td>
<td>% ownership or family member on the board/top management</td>
</tr>
<tr>
<td>Moores and Mula (2000)</td>
<td>FBR MA</td>
<td>Management control</td>
<td>Life cycle, Org. control</td>
<td>Family Externally defined</td>
</tr>
<tr>
<td>Niskanen, Karjalaainen, and Niskanen (2010)</td>
<td>FBR AUD</td>
<td>Audit quality</td>
<td>Agency Family vs. non-family vs. Audit quality</td>
<td>% ownership or family members on the board</td>
</tr>
<tr>
<td>Pazzaglia, Mengoli, and Sapienza (2013)</td>
<td>FBR FA</td>
<td>Earnings quality</td>
<td>SEW Family firms</td>
<td>% ownership</td>
</tr>
<tr>
<td>Prencipe and Bar-Yosef (2011)</td>
<td>JAAF FA</td>
<td>Earnings management</td>
<td>Agency Family vs. non-family vs. Earnings management</td>
<td>% ownership or family control on strategic decisions</td>
</tr>
</tbody>
</table>

(Continued)
<table>
<thead>
<tr>
<th>Authors</th>
<th>Journal*</th>
<th>Field*</th>
<th>Topic</th>
<th>Main theoretical framework</th>
<th>Scope</th>
<th>Definition of family firms</th>
<th>Main findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prencipe et al. (2008)</td>
<td><em>FBR</em></td>
<td>FA</td>
<td>Earnings management</td>
<td>Agency and stewardship</td>
<td>Family vs. non-family</td>
<td>% ownership or family control on strategic decisions</td>
<td>Family firms show weaker negative associations between R&amp;D cost capitalisation and the level of and change in profitability, but not with leverage</td>
</tr>
<tr>
<td>Prencipe, Bar-Yosef, Mazzola, and Pozza (2011)</td>
<td><em>CGIR</em></td>
<td>FA</td>
<td>Earnings management</td>
<td>Agency and stewardship</td>
<td>Family vs. non-family</td>
<td>% ownership or family control on strategic decisions</td>
<td>Income smoothing is less likely among family-controlled firms, and among these firms, it is less likely when CEO and Board Chairman are members of the controlling family</td>
</tr>
<tr>
<td>Salvato and Moores (2010)*</td>
<td><em>FBR</em></td>
<td>Review</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Shujun, Baozhi, and Zili (2011)</td>
<td><em>JAAF</em></td>
<td>FA</td>
<td>Earnings management</td>
<td>Agency</td>
<td>Family vs. non-family</td>
<td>% ownership</td>
<td>Chinese-listed family firms have less informative accounting earnings, employ less conservative accounting practices, and have higher discretionary accruals</td>
</tr>
<tr>
<td>Speckbacher and Wentges (2012)</td>
<td><em>MAR</em></td>
<td>MA</td>
<td>Management control choices</td>
<td>RBV, contingency, stewardship</td>
<td>Family vs. non-family</td>
<td>% ownership and family member on the board/top management</td>
<td>Founding family involvement in top management team is associated with less frequent use of performance measures in strategic target setting and incentive practices</td>
</tr>
<tr>
<td>Stergiou, Ashraf, and Uddin (2013)</td>
<td><em>CPA</em></td>
<td>MA</td>
<td>Man.acc. control change</td>
<td>Critical realism</td>
<td>Family</td>
<td>Case-related</td>
<td>Changes in management control practices are influenced by different interacting structural conditions as mediated through human agency</td>
</tr>
<tr>
<td>Stockmans, Lyabert, and Voordecker (2010)</td>
<td><em>FBR</em></td>
<td>FA</td>
<td>Earnings management</td>
<td>SEW</td>
<td>Family</td>
<td>Not quoted, perceived as FF, % ownership, and size constraint</td>
<td>When firm performance is poor, first-generation and founder-led private family firms engage more in upward earnings management</td>
</tr>
<tr>
<td>Tong (2008)</td>
<td><em>AA</em></td>
<td>FA</td>
<td>Earnings management</td>
<td>Agency</td>
<td>Family vs. non-family</td>
<td>% ownership or family member on the board/top management</td>
<td>Family firms have higher quality reporting, reflected by lower absolute discretionary accruals, fewer small positive earnings surprises, more informative earnings and less restatements</td>
</tr>
<tr>
<td>Study</td>
<td>Journal</td>
<td>Field</td>
<td>Methodology</td>
<td>Focus</td>
<td>Results</td>
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<tr>
<td>Trotman and Trotman (2010)</td>
<td>FBR</td>
<td>AUD</td>
<td>Review</td>
<td>Family ownership and family member on the board and intent to pass the firm to next generation</td>
<td>The majority of family firms surveyed prepare written formal plans, tie planning to actual performance and adjust management compensation accordingly.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upton, Teal, and Felan (2001)</td>
<td>JSBM</td>
<td>MA</td>
<td>Planning practices</td>
<td>Strategic typologies</td>
<td>Family % ownership and family member on the board</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wan Nordin (2009)</td>
<td>IJA</td>
<td>FA</td>
<td>Disclosure</td>
<td>Agency</td>
<td>Family members on the board</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weiss (2014)</td>
<td>EAR</td>
<td>FA</td>
<td>Internal controls disclosure</td>
<td>Agency</td>
<td>Family members on the board/top management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yang (2010)</td>
<td>FBR</td>
<td>FA</td>
<td>Earnings management</td>
<td>Agency</td>
<td>Family % ownership</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[\textsuperscript{a}\] Full journal titles are provided in the reference list.

\[\textsuperscript{b}\] AUD, auditing; FA, financial accounting; MA, management accounting.

\[\textsuperscript{c}\] All papers are empirical except for Gomez-Mejia et al. (2014), Salvato and Moores (2010) and Trotman and Trotman (2010), which are conceptual/review papers.
In addition to these more commonly used theoretical frameworks in family firm research, the literature also indicates the occasional adoption of other theoretical perspectives in the family firm setting. For instance, organisational life-cycle theory has been employed to study questions of dynamics, transition and generational change within family firms (e.g. Miller, Steier, & La Breton-Miller, 2003), and has been adopted by accounting researchers to study how life-cycle stages, changes and transitions are associated with management accounting and control (change) (Giovannoni et al., 2011; Hiebl et al., 2013; Moores & Mula, 2000). Similarly, studies have applied strategic and contingency-based frameworks to the family firm setting to identify differentiating characteristics of family firms that help to explain choices, practices and processes, including their adoption and use of various management accounting practices (e.g. Speckbacher & Wentges, 2012; Upton et al., 2001). While these frameworks are not unique to the family field, these studies aim at identifying unique implications for family firms in order to understand strategy, dynamics and the interrelations with management accounting over time.

Somewhat surprisingly, we find no accounting study that applies only stewardship theory as the main theoretical framework. Similarly, we identified no accounting studies relying only on the RBV framework, which like stewardship theory is more commonly applied in other fields (e.g. management). However, our review highlights that some studies apply multiple theories to explain accounting choices and practices in family firms (three studies, 8% of the total). Two of these papers utilise combinations of agency theory and stewardship theory in the analysis of firms’ earnings management practices (Prencipe et al., 2011; Prencipe et al., 2008). Another paper in this group mixes RBV theory with stewardship and contingency arguments to explain management control choices by family firms (Speckbacher & Wentges, 2012). Thus, although the stewardship theory and the RBV are not used independently by accounting researchers, it appears that some studies have fruitfully employed these perspectives in conjunction with other theories.7

Overall, while our review indicates a clear preference for agency theory as a theoretical framework for the study of accounting and reporting issues in family firms, this is by no means the only theoretical basis used by accounting studies. For many research questions it seems natural to place accounting research within an agency framework. However, the alternative frameworks discussed may provide useful insights for the formulation of new and interesting hypotheses on the reporting and auditing of accounting information, and on the use of accounting and control practices by family firms. In general, our review of the literature suggests that accounting scholars need to be selective in their application of theory to ensure that the applied framework fits the nature of the addressed research questions. This may translate into the use of various theories in the study of the same accounting phenomenon, in line with what is discussed in Section 2. Future studies might see it as an opportunity to compare theories and explicitly identify convergence of and/or divergence in predictions, and to empirically test these predictions in a comparative manner.

Generally speaking, when considering the richness of the research field and the diversity of the research questions to be addressed, a pluralistic view in terms of use of theory seems desirable.

### 4.3. Operational Definition of Family Firms

When examining which operational definitions of family firms are used in the selection of papers, a rather fragmented view emerges, indicating that accounting research lacks consistency.

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7Our review also indicates that a few papers do not refer explicitly to any theoretical framework.
This aligns well with the lack of consistency that characterises the family business field in general, as described in Section 2. Definitions used by accounting scholars who investigated family firms range from ready-made classifications provided by outside institutions (e.g. Ali et al., 2007; Blumentritt, 2006; Tong, 2008), to classifications based on family ownership and/or the family presence on the board or in the top management of the firm (e.g. Achleitner et al., 2014; Cascino et al., 2010; Chen, Chen, & Cheng, 2014; Jiraporn & Dadalt, 2009; Khalil et al., 2011; Prencipe et al., 2011; Prencipe et al., 2008; Wang, 2006; Weiss, 2014), up to more qualitative definitions that consider the perception of the top management or the intention to pass the firm to the next generation (e.g. Stockmans et al., 2010; Upton et al., 2001). A limited number of studies simply assume the definition as given by the nature of the data (e.g. Giovannoni et al., 2011; Stergiou et al., 2013).

Undoubtedly, the most commonly used definitions are those that follow the involvement approach, mainly based on the proportion of stock held by the family and/or the family presence on the board of directors or in the top management of the firm. It appears that the general preference in accounting studies for the involvement approach fits well with the agency theory – which focuses on the separation between owners and managers or dominant and minority owners and which is the dominant theoretical approach – and with the empirical nature of most accounting research. However, different criteria are used to determine whether or not firms are subject to a significant degree of family influence, which makes comparability between studies problematic. For example, with respect to the thresholds of stock ownership, large differences are observed among studies, with institutional differences across countries (e.g. in stock ownership dispersion and investor protection) strongly affecting the level of thresholds employed. For example, while holding 5% or more of the voting shares in a US-listed company is considered sufficient to indicate the presence of a dominant shareholder and thus, potentially, a family firm – in a European country like Italy – such a threshold is too low, given that the average level of ownership of the major shareholder among non-financial-listed firms is about 58% (Prencipe et al., 2011). Using a too low threshold would simply result in the classification of all Italian-listed firms as family firms. Similarly, variation is evident in the number of family members on the board of directors that are required to satisfy the definition of family influence. In order to mitigate the concern that the results achieved might depend on the criteria employed, several studies make use of alternative criteria to determine family influence to test the robustness of their findings.

While the choice of a specific definition of family firm may be legitimate in a given context, as in other fields of family business research, this lack of comparability of research findings complicates the aggregation of findings and the assessment of the stock of knowledge about accounting and reporting in family firms. Although the possibility of using different definitions may represent an opportunity to capture various facets of family firms, our belief is that researchers should properly clarify and justify (both from a conceptual and an empirical perspective) the adopted definition in their work, at the same time making readers aware of the extent to which the study’s conclusions can be generalised to other settings.

An additional aspect that emerges from our literature review is that most prior accounting studies have relied on the simplistic dichotomous distinction between family and non-family firms rather than on the differences among family firms. From this point of view, accounting research on family firms is still dawning. Much still can and needs to be done to investigate accounting and reporting issues in relation to different levels of the family dimension. Such a change might take place in conjunction with a progressive shift from the dominant agency model to the broader adoption of the stewardship or SEW frameworks, as discussed above.
4.4. Research Methods and Type of Data Employed

With regard to the methods employed by the selected studies, it is evident that contributions on accounting and reporting in family firms are overwhelmingly empirical. With the exception of a few conceptual manuscripts (Gomez-Mejia et al., 2014; Salvato & Moores, 2010; Trotman & Trotman, 2010), all other papers offer empirical analyses of financial reporting, management accounting and auditing issues in family firms, with some variations in terms of data employed in the different subfields.

Empirical researchers in accounting – like all scholars who intend to study family firms – face a challenge related to data availability. Indeed, data about family businesses are often proprietary, due to the private nature of such firms. The problem is, to some extent, less relevant when listed family firms are analysed, in which case at least financial statements and general corporate governance data are publicly available. As a consequence, most financial reporting studies are focused on listed family firms. Such studies are based on publicly available archival data, which cover a range of firms in various countries, of different sizes, belonging to different industries, and across different years. To operationalise family firms, these studies generally track family relations through textual searches (e.g. in proxies filed with the Securities and Exchange Commission, firm history collected from the LexisNexis/Hoovers databases, and from firm websites and other miscellaneous information sources) in order to compile information on family ownership and board composition. A critical element in these studies, for appropriately identifying the degree of the family dimension, is the accuracy of the identified information on family relations which – with multiple generations by blood and marriage – may turn out to be complicated. An exception to these general observations is the paper by Stockmans et al. (2010), who use survey data to examine earnings management by Flemish family firms.

The identified management accounting studies, in contrast, use mostly survey data and in a few instances case study analyses. These types of data appear to fit well the nature of the research questions addressed, which typically require information that is not publicly available, and is difficult to collect otherwise than through primary research methods. The degree of family involvement in these studies is either inferred from responses to survey questions on stock ownership and board membership, or is determined up front in the selection of suitable survey respondents or case study firms.

Finally, the few empirical auditing studies on family firms are mixed in their use of data, as they employ survey data, publicly available archival data, or a mix of publicly and non-publicly available data.

In short, two types of empirical data appear to dominate the accounting literature on family firms. First, archival data are widely used, and most prominently in financial accounting studies, which is not surprising given the public availability of the data that allows researchers to track family relations, stock ownership and board positions to form proxy measures of family involvement and influence. Second, survey data are employed in all three subfields of accounting, which enable researchers to obtain more directly an assessment of family influence on the one hand, and publicly unobservable accounting choices on the other hand. While not common yet (with the exception of Stockmans et al., 2010), mixing archival and survey data may provide interesting insights. Such a mixing of data may allow one, for instance, to triangulate or validate

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8In some archival studies, tracking is eased and threats to accuracy appear low, such as in the study of Weiss (2014) among Israeli firms that are legally required to report family relations among all stakeholders, directors, and managers as an integral part of the annual financial statements, and Hope et al. (2012), who obtain access to non-publicly available data on family relations through the Norwegian National Register Office.
measures of family dimension or accounting choices and complement variable measures that are uniquely observed through different data collection methods.

Somewhat surprisingly, our review also indicates that other methods commonly used in accounting research are notably absent in the family firm research field. First, there seems to be no analytical research among the selected papers. There may be a greater demand for analytical research on a variety of questions, which may contribute to the development of new testable predictions. Second, there is a lack of experimental research. Experiments similarly appear to have potential to fruitfully contribute to this research area. The family/non-family dichotomy (or variations in degree of family control and influence) could easily be imagined to form an experimental treatment for a range of accounting-related questions. Third, while our sample includes two case studies, qualitative research seems significantly underutilised as well, which approach has the potential to provide in-depth understanding of accounting phenomena within family firms. In particular, given the emerging nature of accounting research in family firms, qualitative research may provide exploratory insights that would be difficult, if not impossible, to obtain through the other methods discussed.

5. Summary and Directions for Future Research

Family firms play a significant role in the global economy. Being aware of this fact, over the last two decades academia has turned its attention to the family dimension as a determinant of business phenomena, showing a continuous increase of interest over time. While family business research has reached an age of ‘adolescence’ as a field of study, accounting in family firms still appears to be an emerging area of research. The number of studies on accounting and reporting issues in family companies has been growing at an accelerated rate during the last few years, but there is still a long way to go before a similar status is reached as in other academic disciplines.

In an attempt to accelerate and support research in the field, in this article we illustrate the state of the art and highlight theoretical and empirical challenges that accounting scholars need to take into account when addressing issues related to accounting and reporting in family firms.

From a theoretical point of view, studies on accounting and reporting issues in family businesses have mostly adopted an agency theory perspective, probably due to the fact that agency theory has traditionally been the dominant framework in accounting research. Only a limited number of contributions have used alternative (or complementary) theories such as the stewardship theory or the SEW theory, which give prominence to noneconomic factors that shape family firms management. We believe that it is from the adoption of these different perspectives – by themselves or in combination – that new and original contributions will likely come in the future. In particular, considering the richness of the field and the diversity of research questions to be addressed, a pluralistic view towards theory may be much desired.

From an empirical point of view, one of the main challenges that scholars face is the definition of family firms. Accounting researchers have mainly adopted an ‘involvement approach’ to define family firms. This approach has been translated, in most cases, into rather simplistic classifications, aimed at distinguishing family from non-family firms. From this point of view, accounting research on family firms is still dawning. More needs and can be done to investigate accounting and reporting issues in relation to different levels and forms of family influence among family firms. In addition, accounting studies have been characterised – like other fields within the management discipline – by the presence of heterogeneous operational definitions of family firms. The variation in operational definitions used in accounting research hinders the ability to draw inferences across studies and complicates the assessment of the stock of knowledge related to accounting and reporting in family firms. On the other hand, different definitions may represent a useful tool for capturing various facets of family firms and investigate their
effects on accounting and reporting decisions, as long as researchers clarify and justify in their work (both conceptually and empirically) the adopted definition.

Regarding research methods applied, the accounting literature is dominated by the use of archival data, especially in the financial accounting subfield and when the focus of the study is on listed family firms. However, obtaining data may be a challenge when the focus is on private family firms. Survey data are also used relatively frequently. Surprisingly, other research methods commonly used in accounting research are notably absent in the study of accounting in family firms. In particular, there seems to be no analytical research in the identified literature, which may be highly desirable as this can contribute to the development of new testable predictions. Moreover, there appears to be a lack of experimental studies and qualitative research. We believe that both these research methods have the potential to contribute to a better understanding of accounting phenomena within family firms. Also, a combination of different research approaches may be useful to provide a greater depth and breadth than any individually applied research method could.

In terms of research topics addressed in the extant literature, while contributions on financial accounting and reporting issues in family firms have become more common over the last decade, the same cannot be said about management accounting and auditing. On the basis of our review, we believe, however, that there is much potential for fruitful research in all subfields of accounting. While our intention is by no means to be all-inclusive, we would like to offer some possible directions for future work for each of these areas.

In the financial accounting subfield, there is still a lack of ‘market-based research’ on family firms. It would be of interest to examine whether family control affects the way markets value public accounting information and, consequently, liquidity and cost of capital. For example, does the value relevance of accounting information differ for family-controlled companies? How does new information affect liquidity and cost of capital around earnings announcements? Another potentially interesting line of research could relate to the manner in which markets react to chosen (or changes in) accounting policies by family firms. For example, how do family firms differ from non-family firms in terms of impairment of assets or cost capitalisation? And to what extent do they differ in terms of types of disclosure? It would be interesting to examine these questions across various countries and, more in general, to investigate how family firm reporting and disclosure policies differ among various international institutional settings.

The management accounting subfield is also characterised by many opportunities for original and appealing research. It would be interesting to understand whether and to what extent internal decision-making and control systems differ between family and non-family firms. For instance, if accounting and control design are considered to have both decision control and decision facilitating purposes, do the characteristics of family firms cause them to ‘balance’ these purposes differently? The question of differences with non-family firms could be addressed in many ways, such as how family firms deal with capital budgeting, strategic and operational decision-making, budgeting and accountability, performance measurement and evaluation. A related issue concerns the nature of controls, in particular the implications of the (possibly) different types and degrees of informal/social controls within family firms. For instance, do family firms apply formal controls in a different manner, perhaps focused on different control problems? Do family firms use different employee selection and socialisation practices to build and maintain informal controls? Are family firms able to develop more consistent or effective ‘packages’ of controls than non-family firms? Or do their concerns for the preservation of SEW result in ‘suboptimal’ control choices? Are non-family owners able to affect internal accounting and control systems in order to ensure sufficient information provision for resolving information asymmetry with family owners and managers, and to ensure alignment of family interests with minority shareholders? Another direction that deserves more attention is how
management accounting and control are related to growth and change in family firms. How do family firms support growth with management accounting and control instruments, and how does that compare to evidence related to non-family firms? What are the impacts on management control systems of ownership and/or management transition to a later generation?

Regarding broader issues of firm governance versus family governance, questions may be addressed relating to how family councils and family constitutions influence decision-making in family firms, and what the interrelations are between boards of directors and family councils. Studies may also address issues on internal controls in family firms, such as whether the serving of family members on the board of directors influences the effectiveness of control mechanisms implemented, and whether they encourage or impede the implementation of internal controls. Finally, many issues regarding incentive compensation in family firms remain open to be addressed, such as differences in the level and structuring of compensation packages for family CEOs or board members, whether the effects of incentive compensation differs for family firms, and whether they differ between family versus non-family CEOs or managers.

Finally, regarding auditing research, interesting questions may include the impact of family influence on auditing characteristics and the audit process. For example, what are the differences between family firms and non-family firms in the demand for external and internal auditing? Are there differences in auditor choice? Is there an impact on auditor independence and/or auditor judgement? Is audit quality in family firms different to that in non-family firms? Do auditor practices, effort and audit fees or costs differ for family firms? Do investors and other stakeholders respond differently to audit characteristics and judgements in family firms?

Overall, our belief is that accounting and reporting in family firms is an important and fertile area for accounting research where much still remains to be achieved. Accounting scholars may want to devote more attention and resources to this area to enhance our currently limited knowledge of accounting and reporting in family firms, and bring this to a level that is more in line with the dominant role of family firms in the global economy.

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