

Empowerment, Transparency, Technological Readiness and their Influence on Financial Performance, from a Latin American Perspective

A Sector Study



Martha Ríos Manríquez

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BY

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Foreword

The world is facing great changes with effects in all areas that have changed the way people work, coexist, and manage their companies. In a climate of global economic crisis, governments recognize the importance of companies as part of sustaining their economy, so they implement support programs for micro-, small-, and medium-sized companies. However, this situation is not the same in all latitudes of the planet, since developed countries have the resources for such support and even protection, unlike developing countries.

In Latin American countries, despite their great economic potential, the economic crisis has severely affected their companies, coupled with the scarcity of resources and support programs that their governments cannot grant them, since these are limited by the priority they must give to the essential needs of the population. This situation forces companies to look for solutions to their problems, which is more difficult for micro, small, and medium-sized enterprises to cope with.

In this way, MSMEs face the economic crisis with impacts such as not being able to make their payments, lack of liquidity, inability to obtain transformation materials, finished products, or services to achieve their growth or sustainability objectives, and various problems that even lead to a state of bankruptcy, leaving collaborators unemployed. For this reason, owners, managers, or directors should deepen the analysis of their financial performance, since their subsistence depends on their profitability, being necessary to look for indicators to measure their performance through financial and nonfinancial variables.

These scenarios lead companies to seek models that allow them to redefine themselves, from the basic objective of financial performance, considering factors that may affect them positively or negatively. Where the management of companies varies depending on different characteristics of the organization and the environment in which it is located. One of these characteristics is the cultural context in which they operate. Unfortunately, Latin America has little literature on their peculiarities. This book analyzes the parameters necessary for success in the context of Mexico as a Latin American benchmark and constitutes information of great interest to companies and public administrations in Latin America, but also to people from the rest of the world who plan to work with companies in Mexico and Latin America.

In the financial performance of the company, the collaboration of human capital is essential to achieve the objectives of success, differentiation, and business competitive advantage, a situation that motivates companies to observe

cognitive aspects of human capital through empowerment, providing tools that support them to carry out their activities such as ICT, digital business, as well as commitment and transparency establishment in their daily work, as a value of business conduct.

This work contributes to the rhetoric of financial performance, as it goes beyond the classic approaches that financial performance offered in the literature, providing a practical vision involving current and relevant approaches by combining empowerment, transparency, and e-readiness with impact on financial performance in companies. Also, it has added other elements that make this research an in-depth study, rarely seen in the literature, analyzing financial performance by size: micro-, small-, and medium-sized companies; by economic activity: industry, commerce, and service; by type of companies: single-owner companies, public limited companies, and family companies in Mexico.

This book is presented from the perspective of business owners or managers in Guanajuato, Mexico. Having three strategies that impact their financial performance: empowerment, transparency, and e-readiness. From the analysis of data from real companies, it generates useful scales and models for researchers and company managers. Where the author skillfully makes this specialized publication an interesting, current work, easy to read and understand. This book is an excellent contribution to the academia, as a reference for students and companies both in Mexico and Latin America. It will be helpful for students and companies in the rest of the world who plan to work with companies in Mexico as well.

Finally, it is of great satisfaction to present the book *Empowerment, Transparency, Technological Preparation and Their Influence on Financial Performance from a Latin American Perspective: A Sectoral Study*, where the reader will find an original and innovative contribution to the literature and specifically to the business world, which will serve as a reflection on the management of their companies as it addresses unusual strategies that the author skillfully relates to financial performance. It is breaking paradigms by delving into approaches that can support the financial performance of companies with a holistic vision when dealing with issues such as empowerment of human capital, transparency, and e-readiness, allowing an approach to the context of these issues in the special field of the MSMEs, considering that the author transfers knowledge to companies, researchers, students, and the community in general to whom the book is directed with a comprehensive vision.

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Introduction

Companies must be prepared to face changes, especially in times of economic crisis, dealing with a number of consequences such as not being able to face their payments in the short, medium, or long term; not being able to face material purchase problems premium or finished product; and even reaching a state of bankruptcy and leaving people unemployed. Therefore, companies need models that allow them to redefine themselves, from the basic objective of financial performance, but considering the factors that may affect them positively or negatively.

Although the subsistence of companies depends on their capacity in being profitable, it is necessary to look for indicators to measure their performance through financial and nonfinancial measures, evaluating their growth in sales, market participation, or customer retention. And is also essential to evaluate, from the micro, small, and medium-sized enterprises (MSMEs) perspective, the satisfaction of their human capital through empowerment; the use of information and communication technology (ICT) as positioning tools in the world of digital business, and as a useful tool for sale and sustainability in the market; and the transparency as a value of conduct business in a world affected by corruption (being this the counterpart of transparency), particularly in Mexico and specifically in Guanajuato state; and also to evaluate how these factors influence the financial performance of these companies.

For this reason, this book focuses on proposing a financial performance model on structural equations and conducting a sectoral analysis, studying the behavior of companies located in the state of Guanajuato as it is one of the main states with the greatest economic dynamism in Mexico, addressing the issues of empowerment of human capital, technological preparation, transparency, and its influence on financial performance, by size, sector of economic activity, and type of ownership of the company, from a perspective of a Latin American country.

This book presents, from the perspective of the owners or managers of MSMEs, three approaches that affect the financial performance of the company:

- Empowerment as a necessary approach for human capital to participate in the future of the company. MSMEs today must break traditional schemes where collaborators or owners or partners are in charge of ordering and the others are subordinates, carrying out supervised work, causing frustration to human capital, which feels watched and, therefore, inefficient. Companies, regardless

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2 *Empowerment, Transparency and Technological Readiness*

of their size, sector, or type of ownership, require empowered collaborators who are responsible for their results, who have control of their activities, and who are proactive, creative, productive, efficient, and committed to the organization. For this reason, this book addresses psychological empowerment by analyzing internal and external aspects of the collaborator that affect the company, where organizational empowerment is considered an essential aspect, which is the fluidity in information sharing, and training, development, and remuneration. For this, variables such as meaning, competence, self-determination, impact, and fluidity information sharing are considered.

- Transparency, one of the purposes was to recover a value that has been clouded by corruption at all levels, which affects its economic and social development, including companies; for this reason this work addresses transparency in companies, through mechanisms such as prevention, as a measure to avoid corruption, communication channels both internally and with their business partners, and the alliances that companies must strategically make to deal with corruption.
- *E-readiness*, in a digitized world, and in times of economic crisis, has denoted more than ever the importance of the use of ICTs as a means to offer businesses products and services, avoiding bankruptcy. So, it is important to evaluate the degree of e-readiness in MSMEs, to analyze two essential factors in the e-readiness of companies: Basic Network Services and Integration of ICTs that improve management and business development, through a sectoral analysis, studying the behavior of companies located in the state of Guanajuato for being not only one of the main states with the greatest economic dynamism in Mexico but also one of the states most affected by insecurity and corruption.

This book has three main objectives. The first is to determine if the financial performance evaluation is influenced by sales growth, gross profit margin, net profit margin, bank debt, total debt, rate of return on assets, rate of return on equity, and operating expenses. The second is to determine if the empowerment, transparency, and e-readiness factors influence the financial performance of companies located in Guanajuato, Mexico. Both through the proposal of a structural equation model (SEM) called FIPEGTOen. The third objective is to carry out an analysis by size, type of company, and economic activity using to determine if the variables Meaning, Competence, Self-determination, Impact, Fluidity in Information Sharing, Training, Development, and Remuneration, Basic Services of the Network, Integration of ICT that Improves the Management and Business Development, Prevention, Communication Channels, and Alliances, influence the financial performance of companies located in Guanajuato.

This book is structured in six chapters; the first chapter establishes the research method, and the second chapter delves into financial performance in companies located in Guanajuato, Mexico. In the third chapter, an approach is made to the empowerment granted to human capital, proposing an empowerment model to later analyze it by size, economic activity, and type of ownership of the company.

Then, in the fourth chapter to address a relevant issue in a world where corruption has proliferated, becoming a drag on the development of companies, people, countries, and humanity, emerging “transparency” as a value that companies need to incorporate or strengthen, proposing a transparency model, to later analyze it by size, economic activity, and type of ownership of the company. In a digitized world, the fifth chapter addresses the importance of ICTs in MSMEs, proposing an e-readiness model to later analyze it by size, economic activity, and type of company ownership.

Finally, in the sixth chapter, the proposal of the FIPEGTOen model is explained, which is the main axis of the book, divided into five parts. In the first, an exploratory factor analysis is carried out on the financial and nonfinancial performance variables; in the second, the descriptive ones are established, by means of contingency tables of the 10 independent variables: Meaning, Competence, Self-determination, Impact, Fluidity in Information Sharing, Training, Development, and Remuneration, Basic Network Services, ICT Integration that Improves Business Management and Development, Prevention, Communication Channels, Alliances with the Dependent Variable Financial Performance. This is followed by a correlational analysis. In the fourth part, a sectoral analysis is carried out by size, type of company, and economic activity, and in the fifth part, a SEM called FIPEGTOen is carried out.

This book is aimed at entrepreneurs, researchers, students, and the community, in general, who wish to delve into models that can support the financial performance of companies, with a view from the perspective of the owners, directors, or managers of MSMEs on the empowerment of human capital, with a focus from transparency, the use of ICTs, and the e-readiness of companies, allowing them to approach the context of these issues in a Latin American culture such as Mexico.

This book transfers knowledge to entrepreneurs of MSMEs, researchers, students, and the community, in general, who wish to deepen approaches that can support the financial performance of companies, with a holistic vision from empowering human capital, transparency, and e-readiness, allowing an approach to the context of these issues in the special area of MSMEs. It is a way of transferring knowledge to companies in their constant search for solutions to their problems, but with a comprehensive vision, about companies located in Latin American countries like Mexico.

Although the approaches discussed in the book are under review on a large body of related literature, this work has two new intentions. The first shows how to mix the three approaches together to present a new comprehensive way of approaching crisis management; companies are forced to seek new solutions to new problems. The second is the context; although there is a large amount of related literature, almost all of them are in external context. Whereas this research relates qualitative variables that influence the financial performance of companies, carrying out an analysis by size, type of company, and economic activity, determining, for each of them, which are the most significant predictor variables in the FIPEGTOen financial performance model, of Guanajuato companies, which can be applied to national companies and Latin companies. Considering that this is the main contribution of this book, it also generates knowledge and understanding of these

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companies to investors or future investors about the entrepreneurial culture of Latin American companies, specifically from Mexico.

In the financial performance of companies, countless variables affect it but are usually considered quantifiable variables to study. The novelty of this work, is that it goes beyond the classic approaches to financial performance that literature offers. This book provides a practical vision of variables that influence the financial performance of MSMEs: empowerment, transparency, and technological readiness.

Chapter 1

Qualitative Factors That Influence Financial Performance: Methodological Design

Introduction

Companies need to obtain economic benefits to move forward to sustain, grow, or develop themselves, so they worry about evaluating their financial performance through traditional measures such as sales, costs, return on assets and capital, margin of gross profit, net profit margin, bank debt, total debt, or elements such as the customer retention rate, and even about assessing customer satisfaction and multiple factors that affect the financial performance of companies. Or evaluating their financial performance, using techniques such as financial analysis and inflation, using discriminant analysis, or controlling their costs, through methodologies such as: objective costing, Kaizen costing, product life cycle costing, activity-based costs, activity-based management, theory of value, or employing new management trends to evaluate it.

On the other hand, there are many variables that can positively or negatively affect companies. Seeking to delve into these factors from a holistic and perhaps unconventional vision, this research considers the empowerment of human capital, transparency, and e-readiness, allowing an approach to the context of these issues in the special field of MSMEs. It is a way of transferring knowledge to companies in their constant search for solutions to their problems, but with a comprehensive vision.

Therefore, this chapter establishes the method followed in the investigation, establishing a brief explanation of how the research, interpretation, and communication of the results will be conceptualized. Emphasising in the research design and the methodology followed, as well as the structure of the sample.

Conceptual Development of the Research

This research follows the process of scientific rigor and quality set forth by Allison and Rootman (1996), who point out that all aspects of the research must be taken care of, from the initial conceptualization, research design, methodology, interpretation, and communication of the results (see [Fig. 1.1](#)).

Empowerment, Transparency, Technological Readiness and their Influence on Financial Performance, from a Latin American Perspective, 5–32

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Fig. 1.1. The Process of Rigor and Scientific Quality in the Research.

Applying these steps to the investigation, it is established below how each step will be developed.

- **Conceptualization:** From a traditional approach, the conceptualization is the debate using the traditional meaning of the term (Allison & Rootman, 1996); this method turns out to be efficient in research (Guerrero et al., 2012). This research conceptualizes the factors that can influence the financial performance of companies: empowerment, transparency, and e-readiness.
- **Design of the investigation:** The objectives of the investigation, instrument, sampling procedure, data collection, information processing, and analysis are established (Grande & Abascal, 2005), considering in the questionnaire the importance of ethics and protecting confidentiality about the data (Allison & Rootman, 1996).
- **Methodology:** It is important to maintain scientific rigor in the research method, but in the field of the social area, flexibility must also be taken care of, to adapt to the needs and expectations of the community (Mittelmark, 1990). For this reason, this research establishes the methodology followed to accomplish the objectives set out in the research, adhering to statistical and mathematical methods and criteria, with the flexibility to respond through econometric models and structural equations from the perception of the owners or managers of the company conditions that affect the research and also the contribution of the research, since the results are from the perception of those who manage the company.

- Interpretation and communication of the results: Once the data have been collected, the analysis and interpretation and its application are carried out in accordance with the methodology proposed in this research in each of the chapters. Finally, with a critical attitude about the investigation, the conclusions are captured.

In this research, elements that can influence financial performance are reflected, such as the empowerment granted to human capital, being a transparent company, and the use and adoption of information and communication technologies in micro, small, and medium-sized companies; all are shown in Chapters 2–5. This research approaches from a sector study analyzing how the aforementioned factors influence its financial performance.

Conceptualization

In order to conceptualize the research, the documentary technique suggested by Arias (2012), Baena (2017), Cazares et al. (2010), and Garza (2008) was used. Although there are countless variables that affect financial performance, they are normally considered quantifiable variables to measure it, but little qualitative variables are addressed that can influence the financial performance of companies. Therefore, the purpose of this book is to establish the qualitative variables that can influence financial performance by proposing the FIPEG-TOen model of structural equations and to carry out a sectoral analysis, as well as to address information from theories and studies on financial performance, empowerment, transparency, and e-readiness. Conceptualizing in Chapters 2–5 the variables that can influence the financial performance of the company, such as the empowerment granted to its human capital, the transparency and technological preparation of companies by size, sector of economic activity and type of company in the State of Guanajuato. Delving into the literature and conducting a statistical analysis on each of the topics. To finally integrate them in Chapter 6, in a general model and a sectoral analysis. The model built based on the theory that allows contextualizing the importance of each issue and if influences financial performance.

Sectorial Study

Sector analyses are in-depth studies that allow obtaining information from companies with a broad vision that helps to make decisions about their possibilities of intervention and performance in the market. For this reason, this research focuses on conducting a sector analysis by studying the behavior of companies located in the state of Guanajuato on the issues of human capital empowerment, technological preparation, transparency, and its effect on financial performance by size, economic activity sector, and type of company.

This research breaks with the general analyses about the companies, as Mellado (2009) says, it is necessary to make differences between the size of the companies,

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since each one has specific types, which can be classified into micro, small, medium, and large companies (DOF, 2009; Saavedra, Camarena, & Tapia, 2017). Directing this research to the study of micro, small, and medium-sized companies, they are considered to be the most unprotected, which require support to understand their company, in addition to the lack of specialists who can help them establish approaches or models that strengthen their financial performance.

Analyzing companies by economic activity needs to consider that they are traditionally classified as industry, commerce, and services (INEGI, 2007), which have specific characteristics, specializing in the production; design; innovation; creation of goods or services; or marketing them. It is important to penetrate the constitution of the company according to with whom it contributes its capital, whether they are individuals or owners (Ley del Impuesto sobre la Renta, 2016), mercantile companies (Ley General de Sociedades Mercantiles, 2009), and/or family businesses (Tapies, 2011).

Research Design

This research arises from the approach of analyzing whether factors such as empowerment, transparency, and e-readiness affect the financial performance of micro, small, and medium-sized companies, addressing this study from a sector study analyzing how the factors mentioned influence their financial performance.

Objectives of the Book

This book has three main objectives. The first is to determine if the financial performance evaluation is influenced by sales growth, gross profit margin, net profit margin, bank debt, total debt, rate of return on assets, rate of return on equity, and operating expenses. The second is to determine if the empowerment, transparency, and e-readiness factors influence the financial performance of companies located in Guanajuato, Mexico. Both are determined through the proposal of a structural equation model (SEM) called FIPEGTOen. The third objective is to carry out an analysis by size, type of company, and economic activity to determine if the variables meaning, competence, self-determination, impact, fluidity in information sharing, training, development, and remuneration, basic services of the network, integration of ICT that improves the management and business development, prevention, communication channels, and alliances influence the financial performance of companies located in Guanajuato.

Specific Objectives

- Carry out a sector study by size: micro, small and medium-sized companies and by type of company: sole owner companies, mercantile companies and family business. By analyzing influence in financial performance of the variables Meaning, Competence, Self-determination, Impact, Fluidity in information