Complexity of Family Businesses in El Salvador: A Structural Equation Model

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Abstract: Family businesses play an important role in sustainable development in Latin American countries, providing economic benefits and leading to a reduction in violence. Until now, family businesses, their characteristics, and the factors that influence their economic development have not been studied in this region. Identifying the appropriate variables contributing to successful family businesses in this region and clarifying the relationships between these variables are important for developing a management model that supports the stability and growth of these businesses and their influence on sustainable development in the region. To this end, this study aims to understand the complexity of family businesses classified as small and medium-sized companies located in San Salvador, El Salvador. This study represents a first approximation and application of this model in one of the representative economies of Latin America. Our literature review allowed us to establish a basic management model incorporating the complexity of family businesses in this regional context. Using a partial least squares structural equation model (SEM-PLS) and a database of 181 family firms, we identify the variables that best explain the management model through the following structures: financial management, business management, family complexity, and company complexity. The results show that in conditions where high interest rates coexist with political conflicts and a complex economic situation, family businesses constitute a pillar for the development of the country towards sustainability. This study has practical implications for entrepreneurs and professionals. This research proposes a management model that allows us to identify the variables that increase or decrease the complexity of family businesses and guides entrepreneurs in taking concrete actions to reduce this complexity. In general terms, this model explains that financial performance depends on business management, family complexity, and company complexity. The results obtained in El Salvador, a clear direction for future research is established, through which it is possible to study the variables that may reduce the complexity of the family and the company in other countries with similar socioeconomic characteristics.

Keywords: family complexity; company complexity; business management; family business; SEM-PLS

1. Introduction

In the current context of globalization and internationalization, companies increasingly face a complex world with challenges that demand a constant adaptive effort [1]; thus, managers must look for models that simulate the behaviour of the system [2]. To start a project of this magnitude, it is necessary to understand how a business management model works, from which we can develop business models that will help a company improve or prevent it from losing its competitive position [3].

This situation is even more complex in the context of Latin American countries, which constitute an influential and rapidly growing region of the world. These countries...
have a combined population exceeding 500 million people, are the leading suppliers of strategic commodities driven primarily by the exploitation of natural resources, represent an important market for manufacturers, and are important partners for major economic players around the world [4]. In many of these countries, corruption and violence are an obstacle to economic development.

Within Latin American countries, family businesses play an important role in sustainable development. These businesses provide economic benefits and contribute to a reduction in violence in these countries. Family businesses represent 85% of the total number of businesses on average [5], and they generate between 70% and 90% of the creation of the workforce; however, we have limited knowledge about these types of organizations in these countries. During the global financial crisis of 2008 [6], the activity of these companies was diminished due to a lack of financial support, which prevented them from developing properly and, in some cases, caused their bankruptcy. This process had a negative effect on the economies of these countries. Therefore, it is important for the economies of these countries to understand the management models of family businesses to protect them during complex global situations such as economic crises [7]. Most of the research on these types of companies has been largely concentrated in North America and Europe [8], and as stated by Sharma and Chua [9], the context influences how a family business behaves, depending on its culture and its level of development, among other factors. For this reason, studying the appropriate variables for Latin America and the concrete relationships between these variables is important for identifying a management model that supports the stability and growth of these companies and their influence on the sustainable development of the region.

El Salvador is representative of the economies of these countries. In El Salvador, large companies account for 0.3% of all businesses, and the rest are mostly family businesses. Of the remaining 99.7%, 96.1% are microenterprises and 3.6% are small and medium-sized enterprises. This last group generates approximately 35% of the country’s GDP, and these businesses are also responsible for 20% of the country’s employment [10]. Additionally, El Salvador has a high level of violence derived from gang activity, which presents a challenge for the development of family businesses and the economic stability of the country. Therefore, the study of this framework could be the first step to proposing an adaptive model that helps improve the performance and stability of these companies, promoting the economic growth of these countries.

Family firms have unique characteristics focused on family leadership in administrative and governance contexts [11–15]. As noted above, these complexities that govern the commercial and financial management of these companies have not yet been studied in the Latin American context, and there is a considerable gap in the dimensions and weighting of the factors that influence structural complexity. Starting from the theory of complexity and the family-business approach, we seek to understand how family businesses are organized and managed by analysing the dimensions that make up the family business.

Therefore, the objective of this research is to identify which variables and dimensions significantly affect the management performance of family businesses in El Salvador, the relationships between these factors, and their effects on the economic outcomes of these businesses. To accomplish this objective, a Bayesian network is modelled and later analysed using structural equations. A second contribution suggests the identification of the effects of the modification of the relevant factors in order to reduce the complexity of the model and improve its general applicability to family businesses. Consequently, our third contribution is the selection of factors, their relationships, and effects to reduce complexity and improve the performance of family businesses.

2. Literature Review and Developed Model

Different theories define the complex functioning of organizations. These theories are based on the types of organizations studied. In this case, the theoretical model is
based on the family–business relationship and the performance and the complexity of the family business.

Some models explain the operation and organization of family businesses and suggest an overlapping of roles [16,17]; others describe the heterogeneity of these businesses [18] or focus on their performance based on resources and capabilities [19,20]. Additional models focus on best management practices and their impact on profitability [21,22] or are derived from agency and stewardship theories linked to performance and governance structure [23,24]. However, there is a considerable knowledge gap in the area of management models based on complexity [25], particularly for family businesses in Latin America. Synthesizing the development of management models, we observe common denominators that can be expressed in four latent variables: a. business complexity, b. family complexity, c. business management, and d. finance management. The theoretical justification for each of these variables is set out below.

2.1. Business Complexity

Since an organization is a complex system, it is possible to study its different components to understand the variables that determine business complexity. Business complexity originates from the coexistence of a series of factors that can make the management of the company more complex and dynamic [26], such as its size, the age of the company, the degree of internationalization, the development of new products associated with innovation, the value chain, and applied technology [13,14]. Mainly, the interconnections between the activities of the value chain are essential for the creation of value and achieving competitive advantage [27], which emphasizes the importance of business management.

2.2. Family Complexity

The complexity of a company increases when it is a family business, since the family structure influences business management [28] and family interests come into play [12] and are exposed to the influence of management.

The organizational identity of the family business, based on the integration between family and business [29,30], is heterogeneous [31]. However, general and common features are observed, among which the following are highlighted: (i) these businesses integrate family and nonfamily interest groups; (ii) family members participate in decision-making, hiring of personnel and technological development; (iii) the families have a long-term vision; and (iv) the families have particular values and socioemotional wealth [32–34]. These characteristics, immersed in the ambivalent dynamics of family, property, and work, affect the complexity of business management according to their particular characteristics [13].

The first characteristic is the generations of the families involved in the succession process and their pursuit of continuity [35]; personal motivations (job ambitions), intrinsic motivations (desire to continue the legacy) and external motivations (secure job opportunities) [36]; the retirement decision (partial or total) of the owner subject to age, education, and succession planning [37]; the preparation of the successor, passing the baton and transfer of knowledge in the succession process [38]; ownership and management succession as inseparable elements [39]; the consensus of a family protocol and succession planning [40,41]; and finally, the relationships between the owner and the successor and the other members of the organization [42], all of which are factors that regulate complexity.

The second characteristic is corporate governance and its complexity [43,44], conflicts of interest and relationships [45,46], the priority objectives of the company and the family in decision-making [47] and the decision-making process [48].

The third characteristic includes the hiring of individuals from outside the family [49], the leadership of nonfamily CEOs [50], the cultural and formal competencies of family and nonfamily employees required by the company [51], and the personal motivations of the successors to continue the legacy of the founder [52,53].
2.3. Business Management

Business management (BM) is a set of organizational and strategic activities used to organize a business’s resources and balance its returns against the competition [54,55]. Furthermore, BM is associated with the decision-making process of family and nonfamily managers, impacting the financial results of the company and causing complexity and tension in the family business. BM practices are used by managers to achieve a competitive advantage; however, they are influenced by the complexity of the company and the family. To face this challenge, managers implement business performance management (BPM) processes [56]. BPM implementation needs: a. shared business vision and mission, goal setting and organizational structure [57]; b. key success factors linked to the decision-making process [58]; c. strategic planning [59]; d. key performance indicators [60]; and e. influential leadership in the family and company performance [23,61].

2.4. Financial Management

All these characteristics make family businesses specific types of companies with distinct management considerations. Nevertheless, one of the main objectives of any company is the integration of tangible and intangible resources aimed at maximizing its benefits [62] and creating wealth for the company and its shareholders [63].

Previous studies have indicated that financial performance is closely linked to the nature of the property and the management of the company [64]. High participation of the family and the founders in the property, the size of the company and the age of the company have positive effects in this regard [65]. The size of the company, its age, the level of debt, and the performance of variable investments explain the level of performance and uncertainty in business risk management [66,67]. Furthermore, sharing family assets with third parties has demonstrated the benefits of combining family and private ownership [68]. The reasons for these greater benefits are based on portfolio theory [69], agency cost theory [70], and stewardship [24,71], which may disappear if the ownership and administration of the company are combined [59] and can lead to positive governance of the family business.

Therefore, considering these dimensions and their interactions, the following hypotheses of the model are proposed (Figure 1):

![Figure 1. Conceptual Model.](image)

Business complexity explains the operation of a company. For this reason, it is defined as the starting or exogenous construct of the model that directly influences family complexity (H1a), business management (H2b), and financial management (H3e) and indirectly influences family complexity through business management (H1d) and financial management (H1f). Family complexity directly influences business management (H2a) and financial management (H2b). Furthermore, it indirectly influences financial management through business management (H2e). Finally, business management influences financial management (H3a).
Taking into consideration the complexity of family businesses mentioned above, the dimensions collected, and the hypotheses raised, a conceptual model with four dimensions is formed, which will allow us to evaluate the performance of this type of company in El Salvador. The four dimensions are as follows: business complexity, family complexity, business management, and financial management.

3. Methodology

3.1. Data Collection

To obtain information with which to evaluate management models of family businesses, a semistructured survey was designed, delimiting the scope of the research to the internal variables of the organizations that were coded (see Supplementary Materials). Nonprobabilistic sampling is used in this investigation. We selected companies via a simple random method from the 2018 national list of family businesses from the municipalities of San Salvador, Santa Tecla, Antiguo Cuscatlán, and Soyapango. Of the 500 companies visited, only 242 owners agreed to participate in the study. A total of 10% of the surveys conducted required signatures and seals to guarantee the reliability of the information obtained. After the first analyses were performed, 61 study subjects were eliminated, mainly because missing data and/or outliers were detected. A total of 181 valid surveys were obtained from the owners of family businesses in the metropolitan area of San Salvador (El Salvador). These businesses mostly corresponded to the economic sectors of commerce, industry, and services.

The research survey has three sections: the first section is related to classification data about the typology of the company, the second part is about the company’s characteristics, and the third part is composed of a set of questions associated with the family business management model based on the study of the theoretical framework and the hypothesis of the study.

Once the samples were obtained, it was found that the variables met the basic assumptions required by the methodology, including multivariate normality [72–74].

Based on the results of the descriptive analysis (Table 1) regarding the type of company, the sample consists of 17% micro, 73% small, and 10% medium companies. Many of the companies are in the tertiary sector (84%), and the rest of the sectors are much less represented. Specifically, there is a minimum sample (1%) in the primary sector, probably due to the study area, the metropolitan area of El Salvador, in which this type of company is uncommon. Most of these companies operate within the country, are first generation, have only one family member involved and have only one branch. However, the second generation is already involved in management in more than half of the companies. In general, those in charge of the management are people with more than 10 years of experience, with higher degrees, and who speak at least two languages.

Based on the framework described in the previous section and the characteristics of family businesses in El Salvador, the indicators described below are selected to form each of the constructs described in the theoretical model.

The variables that stand out for having a relevant effect on the operation of Salvadoran family businesses are those related to the governance of the company. These variables include the generation at the helm of the company, the motivation of its leaders to be in charge of the organization, and conflict management. This selection is particularly important because it describes the proximity and family ties that are explained solely by Salvadoran culture and are generally representative of Latin American culture.

In addition, there are variables that reflect management practices, such as planning and decision-making, and those related to the complexity of the structure of the company, such as the size of the company based on the number of employees, the number of activities, and the new technologies applied in the value chain. These variables correspond to the technical-scientific development that companies have reached due to their level of maturity and reflect the low level of investment in science and technology [75].
Table 1. Descriptive analysis of the sample.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Micro (&lt;10 emp.)</th>
<th>Small (&lt;50 emp.)</th>
<th>Medium (&lt;50 emp.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>16.57</td>
<td>72.93</td>
<td>10.50</td>
</tr>
<tr>
<td>Primary</td>
<td>1.10</td>
<td>14.92</td>
<td>83.98</td>
</tr>
<tr>
<td>Secondary</td>
<td>One</td>
<td>25.41</td>
<td>27.07</td>
</tr>
<tr>
<td>Tertiary</td>
<td>47.51</td>
<td>15.47</td>
<td>2.21</td>
</tr>
<tr>
<td>No. of families</td>
<td>28.18</td>
<td>64.64</td>
<td>7.18</td>
</tr>
<tr>
<td>First</td>
<td>82.32</td>
<td>6–10</td>
<td>87.84</td>
</tr>
<tr>
<td>Second</td>
<td>25.41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third</td>
<td>27.07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation of the business</td>
<td>3.87</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without higher education</td>
<td>25.97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Degree</td>
<td>66.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postgrad study</td>
<td>7.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of languages</td>
<td>28.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>One</td>
<td>60.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two</td>
<td>11.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of branches</td>
<td>74.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Salvador</td>
<td>25.97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>98.90</td>
<td></td>
<td>1.10</td>
</tr>
</tbody>
</table>

The first three constructs described below are defined as formative since the indicators that form them are fundamental to the overall concept of the model, considering that they could be independent causes of the construct but have weak correlations with one another [76].

The complexity of the company is an exogenous or starting construct of the model and represents a grouping of those variables that it measures in the decision-making process [13]. This construct represents the level of influence of managers, which determines the ability of managers to achieve positive results in the company. The selected significant indicators are the following: company size according to the number of employees (CS), economic sector (ES), number of activities (NA), new applied technologies (NT), and study level (SL).

Family complexity requires a more focused analysis that is oriented towards the characterization of the individuals who make up the family business and the existing relationships, regardless of whether a given family member is in power, that govern and determine the behaviour of the organization [13]. This construct includes all the variables related to the characterization of the family and its intervention in the company: active generations (AGR), family agreement (FA), family generation (GR), family motivation (FM), language level (LL), management of family conflicts (MFC), and nonfamily managers (NFM).

Business management summarizes the practices and/or skills of planning, organization, management and control that, according to the scientific management model [26], are part of the work that organizations must conduct to achieve their objectives. The following indicators are selected to define the business management construct: decision-making (DM), leadership (Le), management indicators (MIns), organizational charts (OCs), the selection process (SPr), strategic plans (SP), and vision (Vi).

Finally, financial management includes the practices that managers use to efficiently manage financial resources, including investments in securities, bank deposits, investments in inventory, acquisition of debt, and ample capital stock, among others, to create wealth for shareholders [63]. The indicators that compose this construct reflect similar aspects of financial management due to the high correlation between the variables [77]; therefore, financial management will be analysed as a reflective construct. The indicators that form it are the following: current assets (CA), current liabilities (CL), long-term debt (LTD), net profit (NP), total assets (TA), total expenses (TE), and total sales (TS).
3.2. Methods

In this research, variance-based structural equation models are applied [78] to allow the specific relationships between the theoretical constructs and between the constructs and their indicators to be analysed simultaneously [79]. This technique is appropriate for the study of composite measurement models, as has been shown in theoretical and empirical works [80–82]. Furthermore, this approach maximizes the explained variance of all the constructs, which is very useful in the early stages of investigations [83], is appropriate for small samples [84], and adapts very well when variables tend to be distributed differently than normal, such as with ordinal and categorical scales [78].

The importance of the study lies in the novelty of using this type of methodology for the analysis of the causal relationships between the different levels of performance within family businesses in El Salvador. This methodology will allow one to evaluate the peculiarities of the operation of family businesses in this country. This methodology adapts very well to the objective of this study since the modelling of the causal relationships between different organizational constructs of this type of company is not unique, and there can be equally valid alternative models [85].

The proposed analysis assesses the reliability and validity of the constructs and the relationships between them [86] by means of SmartPLS 3 software [87].

4. Results

As seen in the results, the global fit of the model is adequate. The results of the standardized root mean square residual (SRMR) allow us to evaluate the divergence between the conceptual model and the empirical correlation matrix [88]. In this sense, Henseler et al. [89] suggest a critical level of 0.08 for the PLS-SEM to achieve a satisfactory fit for the model. In our model, the SRMR reaches an acceptable value of 0.069.

Once the global fit of the model is provided, the adequacy of the measurement model is also verified (Table 2).

### Table 2. Measurement model: Weights, loadings, construct reliability and convergent validity.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Loading</th>
<th>Weight</th>
<th>VIF</th>
<th>Cronbach's Alpha</th>
<th>ρ</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business complexity</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>CS</td>
<td>0.588 ***</td>
<td>1.065</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ES</td>
<td>−0.265 ***</td>
<td>1.007</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>NA</td>
<td>0.235 ***</td>
<td>1.076</td>
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<td></td>
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<tr>
<td>NT</td>
<td>0.411 ***</td>
<td>1.019</td>
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<tr>
<td>SL</td>
<td>0.544 ***</td>
<td>1.032</td>
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<tr>
<td>Family complexity</td>
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<tr>
<td>AGR</td>
<td>−0.263 ***</td>
<td>1.119</td>
<td></td>
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<tr>
<td>FA</td>
<td>0.225 ***</td>
<td>1.03</td>
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<tr>
<td>GR</td>
<td>0.317 ***</td>
<td>1.15</td>
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<tr>
<td>FM</td>
<td>0.383 ***</td>
<td>1.117</td>
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<tr>
<td>LL</td>
<td>0.417 ***</td>
<td>1.062</td>
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<tr>
<td>MFC</td>
<td>0.227 ***</td>
<td>1.026</td>
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<tr>
<td>NFM</td>
<td>0.465 ***</td>
<td>1.029</td>
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<tr>
<td>Business management</td>
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<tr>
<td>DM</td>
<td>0.082</td>
<td>1.477</td>
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<td></td>
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<tr>
<td>Le</td>
<td>0.125</td>
<td>1.501</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Mfn</td>
<td>0.398 ***</td>
<td>1.184</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>OC</td>
<td>0.301 ***</td>
<td>1.171</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spr</td>
<td>0.346 ***</td>
<td>1.189</td>
<td></td>
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</tr>
<tr>
<td>SP</td>
<td>0.363 ***</td>
<td>1.319</td>
<td></td>
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<tr>
<td>Vi</td>
<td>0.200 *</td>
<td>1.112</td>
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<tr>
<td>Financial management</td>
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<tr>
<td>CA</td>
<td>0.866 ***</td>
<td></td>
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</tbody>
</table>

0.917 0.920 0.934 0.668
First, the variance inflation factor is less than 3.3 [87] in the formative constructs (family complexity, business complexity and business management), and the weights of their variables (Table 2) are statistically significant [78]. Only three indicators have nonsignificant weights in the business management factor (decision-maker, leadership, and vision), but due to the importance of these indicators in this construct, it is considered to be appropriate to include them, even if they are not significant in our environment.

Second, with respect to the financial management construct, the results are adequate (Table 2). Since the loads of the indicators are above the threshold of 0.707, the convergent validity criteria (AVE) and its composite reliability (\( \rho \)) are validated. Finally, the discriminant validity [90] is acceptable due to the diagonal elements (Table 3).

Analysing the structural results (Table 4) obtained through the resampling technique [91], we can affirm that they are statistically significant and that the amount of explained variance of each endogenous latent variable is representative (\( R^2 \)). The results show that business complexity positively influences family complexity (\( H_{1a} \)), business management (\( H_{1b} \)), and financial management (\( H_{1c} \)). The positive and significant relationship between family complexity and business (\( H_{2a} \)) and financial management (\( H_{2b} \)) is also confirmed. However, the relationship between business management and financial management is not significant (\( H_{3a} \)). Finally, for indirect relationships, the effect of business complexity on financial management through business management (\( H_{1b} \)) and the effect of this factor on business management through family complexity are confirmed, but the effect of family complexity on financial management (\( H_{2c} \)) is not confirmed (Figure 2).

If we focus on the values of the explained variance, we can observe that the model has satisfactory predictive power for endogenous constructs, especially business management. The results show that the structural model has an acceptable predictive relevance for family complexity and financial management, since the \( R^2 \) is greater than 0.23 for both, and satisfactory predictive relevance for the business management construct since its \( R^2 \) is greater than 0.33 [84].

We also evaluated the model with the redundancy index with cross validation (\( Q^2 \)) for the endogenous variables [78]. Our results (Table 4) confirm that although it is an appropriate model, it has low predictive relevance.
Table 4. Measurement model.

<table>
<thead>
<tr>
<th>Direct Effects</th>
<th>Path Coefficients</th>
<th>T-Statistic</th>
<th>p-Value</th>
<th>95% BCCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business complexity- &gt; Family complexity ($H_{1a}$)</td>
<td>0.494</td>
<td>8.839</td>
<td>0.000</td>
<td>(0.312–0.571)</td>
</tr>
<tr>
<td>Business complexity- &gt; Business management ($H_{1b}$)</td>
<td>0.303 ***</td>
<td>3.743</td>
<td>0.000</td>
<td>(0.136–0.451)</td>
</tr>
<tr>
<td>Business complexity- &gt; Financial management ($H_{1c}$)</td>
<td>0.306 **</td>
<td>2.337</td>
<td>0.019</td>
<td>(0.028–0.425)</td>
</tr>
<tr>
<td>Family complexity- &gt; Business management ($H_{2a}$)</td>
<td>0.383 ***</td>
<td>4.776</td>
<td>0.000</td>
<td>(0.176–0.513)</td>
</tr>
<tr>
<td>Family complexity- &gt; Financial management ($H_{2b}$)</td>
<td>0.238 ***</td>
<td>3.009</td>
<td>0.003</td>
<td>(0.312–0.571)</td>
</tr>
<tr>
<td>Business management- &gt; Financial management ($H_{3a}$)</td>
<td>0.043</td>
<td>0.504</td>
<td>0.615</td>
<td>(−0.137–0.195)</td>
</tr>
</tbody>
</table>

**Indirect effects**

<table>
<thead>
<tr>
<th>Indirect Effects</th>
<th>Path Coefficients</th>
<th>T-Statistic</th>
<th>p-Value</th>
<th>95% BCCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business complexity- &gt; Business management ($H_{1d}$)</td>
<td>0.189 ***</td>
<td>3.871</td>
<td>0.000</td>
<td>(−0.057–0.084)</td>
</tr>
<tr>
<td>Business complexity- &gt; Financial complexity ($H_{1e}$)</td>
<td>0.139 **</td>
<td>2.548</td>
<td>0.011</td>
<td>(0.021–0.232)</td>
</tr>
<tr>
<td>Family complexity- &gt; Financial complexity ($H_{2c}$)</td>
<td>0.017</td>
<td>0.461</td>
<td>0.645</td>
<td>(0.069–0.264)</td>
</tr>
</tbody>
</table>

**Family complexity**

<table>
<thead>
<tr>
<th></th>
<th>Business management</th>
<th>Financial management</th>
</tr>
</thead>
<tbody>
<tr>
<td>$R^2$</td>
<td>0.239 ***</td>
<td>0.346 ***</td>
</tr>
<tr>
<td>$Q^2$</td>
<td>0.033</td>
<td>0.074</td>
</tr>
</tbody>
</table>

The significance of the loadings was estimated through a bootstrap sampling (5000 sub-samples). *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; n.s. non significant, t-one-tailed test (4999).

Figure 2. Structural model. Note: The significance of the loadings was estimated through a bootstrap sampling (5000 sub-samples). *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; n.s. non significant, t-one-tailed test (4999).

5. Discussion

The purpose of this work was to expand knowledge of family business management practices in Latin America [92,93].

The basic model of three circles developed by Tagiuri and Davis [17] has evolved in recent years to the “open systems approach” model proposed by Pieper and Klein [18], which includes four levels of analysis: environment, family business, subsystem, and individual. To date, most research in this field has been developed in North America and Europe [17,18,25,94], explaining how family businesses are managed in those regions;
thus, the application of these findings in Latin American or Asian countries could lead to erroneous or limited conclusions due to the lack of analysis of factors associated with the culture, religion, politics, and national contexts in these countries [95].

Our main contribution to the body of knowledge is the identification of the variables that are significant in the management of family businesses and that explain the performance, complexity, and contribution to competitiveness of these businesses in Latin America.

Previous studies have identified the variables independently [96,97], the factors and the relationships between them, and the effects on the complexity of the family business [13,25,98,99].

Our work confirms the previous models and expands the knowledge about the influence of these variables and their relationships in the management of family businesses.

The management model developed here could be a generalization of existing models in Latin American countries. It provides relevant information on activities, resources, competencies, and finances that are significant in the management of the business strategy and allows a business to achieve a competitive advantage [100] since the model describes in general terms how family businesses are managed in Latin American countries.

5.1. Business Complexity

The educational level, understood as the technical competencies of the family members, has implications for the development and growth of the business model [101] and in the construction and development of the value chain.

We observe that when a family has higher levels of education, it can identify and use new technologies, which makes the company more productive and less complex.

Contrary to the evidence found by López-Fernández et al. [102], our results show that family businesses engage in the process of innovation, using new technologies in their production processes. Moreover, we cannot confirm that innovation is limited by the lack of information, as observed in previous studies [103,104]. Although some of our findings support those reported in other studies [105], more in-depth studies are necessary to ratify them.

According to Gimeno et al. [13], the relationships between the variables that explain complexity are also linked to the number of employees that the organization has. As the number of employees increases, the organization needs more competent managers to manage its operations, which are determined by the number of activities that the company performs to satisfy customers, reflecting the influence of the number of employees on greater or lesser complexity.

5.2. Family Complexity

The results show that the Salvadoran companies in this study were recently founded and operate only at the national level. It can also be observed that the generation in charge (mostly the first generation) does not have a remarkable educational level, although the following generations show a slightly higher educational level.

The foregoing finding exposes the difference between family businesses that value career over training (Salvadoran companies) and those that value training over career, as occurs in countries such as Mexico [106], where companies’ longer-lived relatives have effective succession processes, which contribute to the growth in the size and international expansion of family businesses. Furthermore, this study confirms previous findings that a multigenerational company produces a higher level of complexity, thus putting the family and the business at risk [107].

We identify that the complexity of the family business in El Salvador is managed by implementing a basic organizational model, including the family protocol and the family council, which are components of the process used to resolve conflicts. These governance practices regulate possible conflicts between the company’s interest groups [43].
complexity is probably influenced by the economic, cultural, and institutional contexts that affect the creation, development, and survival of family businesses [108].

The findings were obtained to answer the question of how economic, cultural, and institutional contexts affect the creation, development, and survival of family businesses [108].

According to the literature review [36,52], “family motivation” reveals that the most important interests among the members of Salvadoran family businesses are economic and protective interests [109]; however, in some tourism companies in Latin America, these may be secondary priorities [92].

In addition, the sociocultural base of Salvadoran society values family ties and the protection of its members; this is facilitated by the geographic space that fosters social interaction and constant contact among its residents.

These social relations expressed in Salvadoran society are sufficient evidence to confirm the postulates of Hall and Nordqvist [51], who argue that business management is based on two competencies: formal and cultural. The former is observed in the technical skills of family members, while the latter strengthens family ties.

The evidence in Latin America shows that the family structure, the decision-making process, and business control are significantly important for the continuity of the family business and conflict management [48]. In addition, we find that time, mode, and motivations are factors that intervene in the succession process and contribute to participation and a sense of belonging to the company [110].

5.3. Business Management

In our research, we observed that the management tools used by entrepreneurs include strategic planning, the vision statement and key performance indicators (KPIs). We discard the use of other management mechanisms, such as the reward system and adaptation to changes in the environment. Our work partially confirms the anecdotal references of Ferreira and Otley [57] on the generalization of performance management systems. Moreover, the results confirm previous studies [111,112] by showing that the presence of the family in the corporate governance and succession process determines the objectives, scope, and organizational goals established in strategic planning and, as a whole, in the business performance management model. The leadership style and decision-making in the family business help to explain this latent variable [22], but they are not the most important elements to explain the latent construct. We find that family businesses in El Salvador practice a type of autocratic leadership and centralized decision-making, which makes management difficult.

The literature on family businesses in Latin America indicates the contribution of nonfamily employees to improving the effectiveness of family members in management positions. This is because nonfamily members provide a more objective view of financial and accounting performance evaluation processes [48]. However, although nonfamily employees bring management skills and experience to the company [113], we find that managers are limited in the performance of their functions in the field of strategic decision-making and leadership, which limits the balance and objectivity that they provide. In contrast to Latin American companies, Salvadoran family companies practice decision-making that is centralized in the founder. In general, we find that these problems are the result of the existence of more than one generation working in the company and the hiring of nonfamily managers.

In accordance with previous studies [21,59,114], we validate that strategic planning is decisive in improving the performance of the company and guaranteeing succession in family businesses, even when it is difficult to apply [115].

5.4. Model Relationship

The origin of the model is centred on the business complexity factor, which explains the way of doing business and generating income, supporting our initial hypotheses ($H_{1a}$, $H_{1b}$, and $H_{1c}$). For this reason, as suggested by Chrisman et al. [116], business complexity
has a direct influence on the way of doing business and generating income rather than vice versa, affecting family mediation in the performance of the company in different ways and conditioning its decision-making regarding the company’s business model. Moreover, business complexity indirectly affects business management and financial management, validating Hypotheses $H_{ld}$ and $H_{le}$.

This research shows that the influence of business complexity (BC) on family complexity (FC) is the most significant in the model. This means that as BC increases, its impact on FC increases, producing more complexity in the relationships between the variables of this construct. For this reason, families must prepare to face these challenges by emphasizing the factors that reduce FC and increasing the resources necessary to decrease BC.

The positive influence of BC on business management (BM) implies the strengthening of resource management efficiency based on the indicators of BC (company size according to number of employees, economic sector, number of activities, new applied technologies, and study level). This result confirms that as the company grows or its integration into the value chain increases, it will be more difficult to implement an efficient management process. For this reason, the model suggests the incorporation of technology and knowledge to reduce BC and help manage the organization’s resources.

This study confirms previous studies by Olaz and García [28] on the positive influence that FC exerts on BM. This influence reflects the adaptation of business families and their governance structures to administrative processes such as strategic planning and business vision, which are essential for succession. In addition, the family business seeks to not only maximize the profitability of the company but also to protect the company as a legacy for future generations. This is why business families seek to guarantee the fulfilment of these objectives, positively influencing the management of the company and, indirectly, financial management.

According to Basco [117], the family has no direct influence on the financial performance of the company. Contrary to this evidence, the results obtained in the present study confirm that Salvadoran business families have direct and positive relationships with the financial management of the companies. These relationships are mainly influenced by the number of nonfamily members (NFM), the profile of family members expressed by language level (LL), and family motivation (FM).

The FM construct, as a final product, is the result of a set of relationships existing between the factors that make up the model. This construct is directly affected by business complexity and family complexity. It also has indirect effects caused by the influence exerted by business complexity through business management.

In general terms, this study reflects that financial performance depends on business management, the complexity of the family, and the complexity of the company.

5.5. Theoretical and Practical Implications

From a theoretical point of view, this work contributes to the understanding of the variables that decrease or increase the complexity of family businesses. Furthermore, the findings reveal the cultural differences between Latin American companies in relation to other contexts.

This research shows that the main motivations to continue the family business are related to the economic and protective interests of the family. Family ties, the protection of its members, and the social approach are part of the cultural competence that characterizes Latin American business families.

The study of the complexity of the family business demands an effort to develop a holistic understanding of the problems faced by this type of company. This work represents an initial approximation of the knowledge of this problem and allows us to identify some practical implications.

The influence of business complexity on family complexity suggests that business families should prepare for business growth by increasing factors that reduce family com-
plexity. To reduce the complexity caused by growth, the model suggests the incorporation of technology accompanied by knowledge management.

To address the family complexity associated with professionalization, managers, entrepreneurs, and consultants can improve the cultural and formal competence of the family, strengthen family ties, and raise the level of technical competence of the family and the managers who run the business.

Technology and technical competence must be accompanied by a succession plan to guarantee the transfer of knowledge and the business' competitive position.

This study demonstrates the need to change the autocratic management style aimed at improving the professional performance of managers and the execution of strategic planning.

Policymakers may consider providing technical and financial support to family businesses with the aim of increasing their competitiveness.

6. Conclusions

To the best of our knowledge, this is the first study on this topic to be carried out in El Salvador. Due to the lack of empirical studies on family business management models, the study makes a notable contribution to the body of knowledge for consultants, researchers, and entrepreneurs. Although this research has limited transferability to countries with similar economic and social situations, its implications and contributions have an influence in similar contexts.

This work has revealed that, in conditions where high rates coexist with political conflicts and a complex economic situation, family businesses are a pillar for the development of the country towards sustainable models.

This study has practical implications for entrepreneurs and professionals. First, we identify a management model that allows us to identify the variables that increase or decrease the complexity of the company and guides entrepreneurs in taking concrete actions to reduce this complexity. In general terms, this model explains that financial performance depends on business management, the complexity of the family, and the complexity of the company.

Second, it is necessary for families to develop a set of competencies to reduce business complexity.

Third, thus far, research in Latin America on the governance of family businesses has focused on the property system. The identified knowledge gap suggests the importance of studying the characteristics that best describe the governance structures that Latin American family businesses have used to manage their companies and respond to their complexity.

Fourth, the use of technology is another significant variable in our model and explains the complexity of the company. The application of technology has a positive impact on the competitiveness of the company. Therefore, it is necessary to study the processes in which technology would be useful and what type of technological implementation the company requires.

Fifth, we find evidence that the leadership style of these companies is autocratic, with decision-making centralized on their founders. This type of leadership causes conflicts with other family members and increases tensions with the managers in charge of the administration. For this reason, it is necessary to identify the types of conflicts that occur within the company, their impacts on the finances of the organization and their relationships with other variables that intervene in the process of succession, sustainability, and complexity of the family business.

Sixth, we show that the interests that motivate business families to create and develop their businesses are based on the desire for profitability, family protection and entrepreneurial motives; however, it is unknown which of these three reasons has the greatest impact on the profitability of the company and the sustainability of the business over time.

Finally, the evidence we found indicates that entrepreneurs have a defined strategic plan and consider it to be a very important management instrument; however, we do not
know the results of the implementation of their strategic plans, what types of competitive strategies these companies use, which are the most used key performance indicators (KPIs) and the type of leadership that has the greatest impact on the company to achieve short- and long-term objectives.

This work is a first approximation of a family business management model in Latin America. For this reason and considering the limitations of the study, it is necessary to further develop this model by carrying out this research in other neighbouring countries, which will allow us to verify whether the model is generalizable to this region. To address these limitations, a more thorough investigation is required to answer questions such as the following: What is the professional profile that the organization requires to be less complex and more productive? What type of technology and in what processes could it be used to make the family business more productive and competitive? Which of the main characteristics found are essential for family businesses to improve efficiency and thus influence the economic and sustainable development of countries in a similar way to that in El Salvador?

Supplementary Materials: The following supporting information can be downloaded at https://www.mdpi.com/article/10.3390/su14116773/s1, The Survey.

Author Contributions: All authors conceived the study. E.R.F.-H. and A.E.P.-C. provided the survey and the exploratory data analysis. M.L.R.-C. designed the methodology and implemented the main computation. E.R.-H. and M.L.-R.-C. wrote the manuscript. All authors contributed to the interpretation of the results. All authors have read and agreed to the published version of the manuscript.

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