

# Exploring the Dynamics of Generational Succession: Understanding How Social Capital and Motivation Affect SME Performance

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**Abstract.** This study aims to determine the role of generational succession in SME family businesses. Further, this study analyzes social capital and business motivation in the performance of SMEs with family business backgrounds. The type of research is quantitative with the population of SMEs in East Java Province; this study uses simple proportional random sampling techniques. The research sample amounted to 124 SMEs with a family business background—data analysis techniques using Partial Least Square (PLS). The results showed that social capital has a positive and significant effect on business motivation, and then business motivation has a positive and significant effect on business performance. In addition, succession between generations as moderation shows results that have a significant negative effect on business motivation and business performance. This study has limitations, namely the low response rate of SMEs with a family business background. The contribution of this research is that it is one of the family business studies that take a quantitative research approach because, previously, many studies on family businesses were carried out with a qualitative approach.

**Keywords:** family businesses, generational succession, motivation, social capital, SMEs

## 1. Introduction

Most SMEs are family businesses, and the problem that is often faced is that SMEs are unable to become sustainable family businesses. Due to various challenges faced, for example, declining performance so that the next generation experiences a decrease in motivation, which can result in the family business that was built by the first generation not being able to continue. On the other hand, SMEs have advantages in utilizing their social capital. Social capital can be in the form of trust, business similarities, or goals. Social capital should be a superior value for SME performance [1].

Several determinant variables, namely social capital, business motivation, and intergenerational succession, are used to explain their influence on business performance, which are analyzed theoretically and empirically. The theoretical relationship between social capital and increased motivation is the theoretical study in this research. One of the originators in social capital theory is described by [1] who states that it is only necessary to consider motivation at the individual level. So, the role of social capital in the perspective of increasing business motivation starts from a person's expectations and goals when entering into a social group. Many previous studies have studied the succession of family business generations through a qualitative approach [2], [3], [4], [5], [6], [7], [8] so there has not been much quantitative

research conducted on family business succession. [9] stated in a recent critique of family business research that most family business research is qualitative, case-oriented, or anecdotal. It is for these main reasons that this research includes the fact that succession processes evolve over a considerable period, business dynamics within families can be very complicated, information regarding family relationships can be very sensitive, key players or founders may no longer be easily assessed for information, and representative participants from firms undergoing succession are not easy to find. Therefore, a quantitative approach is needed to the family business phenomenon in order to cover a wide range of business types and issues [10].

As such, our study aims to explore whether social capital affects business motivation, whether business motivation affects business performance, and whether succession between generations strengthens/weakens the relationship between business motivation and business performance.

## **2. Literature Review**

### **2.1. Theory Review**

This study wants to examine the various determinants of business performance so that the underlying theory is strategic management theory. The theoretical study of strategic management begins with the emergence of a modern approach. The main theme of this approach is how an organization is able to solve problems so that it can create a competitive advantage and good profitability. The focus is on the importance of balance between what happens internally (individual) (Resource-based View - RBV) and external organization (environment) (Market-based View - MBV) by developing core competencies and adapting to change while optimizing effectiveness and efficiency in order to minimize the use of scarce resources.

### **2.2. Empirical Studies**

From the role of intergenerational succession in influencing business performance by research [2]. At the individual level, the founders strive to develop the interest and desire of the next generation to continue the business that has long been built. At the corporate or organizational level, the founders have established corporate governance so that it becomes a corporate culture and power-sharing among successors to prevent conflicts.

This research is reinforced by several other researchers, such as (4), (5), and (7). [7] and [8] study various factors that support and hinder the succession process to determine their role in performance or sustainability through the dimensions of financial and non-financial factors such as social performance and psychological performance. Studies on the influence of social capital on business motivation explained that social capital has a significant effect on business motivation [11]. In addition, [11] also explains the effect of business motivation which has a significant effect on business performance. Social capital based on similar backgrounds of entrepreneurs is a great force in creating sustainable business motivation and performance.

[12] discusses the influence of social capital formed between families and communities so that it has a significant effect on business motivation and business performance. [3], [13], and [10] state that social capital derived from family and community relationships affects business networks and performance. The effect of business motivation on business performance is shown in [14]. The results of this study explain that Chinese entrepreneurs have a variety of different motivations to become business people. The desire to be the boss, freedom in making decisions, and freedom in time distribution are some of the motivations that business people want to achieve so that they try to become successful entrepreneurs.

### **2.3. Relationship between Variables**

[15] states that the social capital used by entrepreneurs and the impact it may have on business and society are also determined by the way entrepreneurs experience social relations in their communities through experiences gained in the social environment and motivate individual decisions in the business creation process. Then [16] mentions that social capital can be broken down into two elements: first, the social relationships themselves that allow individuals to claim access to resources owned, and second, the amount and quality of these resources.

[17] mentions that the psychological factors of entrepreneurship can be useful as a distinguishing factor between entrepreneurs and individuals who cannot be said to be entrepreneurs. In addition, it is an important part of supporting business success. [11] explains the understanding of the material conditions that drive the formation of social processes. Entrepreneurs can reflect different typologies, depending on the extent of the need for competition. This means that competitive rivalry derived from a dynamic business environment further shows the difference between someone who has entrepreneurial behavior and someone who does not have it. Social capital is explained according to [13] that social capital is generally non-tradable and non-imitable. Hence, it is a unique resource to facilitate the creation and exploitation of entrepreneurial opportunities. Finally, the need for freedom to be an entrepreneur is a psychological trait that is a characteristic of entrepreneurs or a driver to increase business motivation. Therefore, this study develops a hypothesis:

H1: There is a relationship between social capital and business motivation

The relationship between business motivation and performance is explained by [18], confirming that the factors of independence, general self-confidence, achievement motivation, drive to action, egoistic passion, and tenacity become a specific group of motivational drivers in the form of goals and vision and self-efficacy that affect business performance as an outcome. The theory is reinforced by [19] through a theoretical model entitled "A model of entrepreneurs' personality characteristics and success". The theory explains that goals, vision, and action are forms of motivation that support the performance or success of the business being built. Therefore, the relationship between business motivation and business performance is shown theoretically through several previous researchers' thoughts, so based on this, this study develops a hypothesis:

H2: There is a relationship between business motivation and business performance

According to [3], the phenomenon of family-based businesses has been completed or is in the process of succession between generations, second-generation managers. Second Owner Generation (SOM) can emerge as a major force in family businesses. The second generation receives more formal education than the founding parents but with less hands-on career experience. The next generation needs their achievements in the form of business performance to avoid the 'shadow' of the founding parents' success. It tends to be more entrepreneurial by seeking out potential markets. As economic development increases, the next generation will likely be more motivated to create opportunities and acquire other resources to utilize its education as strong capital. However, [20] explains that the second and third generations experience a decline in surviving to continue the family business. [20] emphasizes that intergenerational differences can also be drawn between operational transitions in the business itself and family management transitions. Based on the existing relationship, intergenerational succession becomes a necessary study by developing research hypotheses, namely

H3: There is a significant effect of intergenerational succession that moderates the relationship between business motivation and business performance

### 3. Research Methods

The study employs a quantitative approach. The research was conducted in five major cities in East Java province, namely Malang Regency, Batu City, Surabaya City, Probolinggo City, and Sidoarjo City. Furthermore, by following a proportional simple random sampling technique, the distribution for the sample in each region is as follows:

**Table 1:** Sample distribution

No.	Location	Population (UKM)	Sample (UKM)
1.	Surabaya	48,537	$(48,537 : 292,173) \times 124 = 20,59=21$
2.	Batu	14,649	$(14,649 : 292,173) \times 124 = 6,21=7$
3.	Sidoarjo	44,509	$(44,509 : 292,173) \times 124 = 18,88=19$
4.	Probolinggo	83,851	$(83,851 : 292,173) \times 124 = 35,58=36$
5.	Malang	100,627	$(100,627 : 292,173) \times 124 = 42,70=43$
<b>Total</b>		<b>292.173</b>	<b>124 respondents</b>

This research uses primary data sources, which refer to information obtained first-hand by researchers. The Likert scale is used to measure the attitudes, opinions, and perceptions of a person or group of people about social phenomena [21]. This study constructs a structural model by including intergenerational succession variables as moderator variables that are predicted to strengthen or weaken the relationship between business motivation and business performance. The position of intergenerational succession as a moderator variable has not been studied before, and the theory used is not strong. PLS is an appropriate analytical method as theory confirmation (hypothesis testing) and can also be used to build relationships when there is no theoretical basis [22]. Second, PLS is suitable for research with large and small sample sizes, so it is relevant for this study [23].

### 4. Demographic Analysis Results

Here are the demographic data of the respondents in our study.

**Table 2:** Respondents by age

No	Age of Respondent (Year)	Total Respondents	Percentage
1	19 s/d 26	11	9%
2	27 s/d 34	29	23%
3	35 s/d 42	30	24%
4	43 s/d 50	28	23%
5	51 s/d 59	18	15%
6	> 60	8	6%
<b>Total</b>		<b>124</b>	<b>100%</b>

Source: Data processed (2023)

**Table 3: Respondents by gender**

No	Gender of Respondents	Total Respondents	Percentage
1	Male	53	43%
2	Female	71	57%
<b>Total</b>		<b>124</b>	<b>100%</b>

**Table 4: Respondents based on family business' generation succession**

No	Respondents' Generation	Total Respondents	Percentage
1	Second generation	107	86%
2	Third generation	12	10%
3	Fourth generation	2	2%
4	Others	3	2%
<b>Total</b>		<b>124</b>	<b>100%</b>

**Table 5: Respondents by business sector they work on**

No	Business Sector worked on	Total Respondents	Percentage
1	Agriculture	6	5%
2	Farm	10	8%
3	Commerce	30	24%
4	Industry	32	26%
5	Mining	7	6%
6	Transportation	9	7%
7	Tourism	6	5%
8	Information and communication technology	15	12%
9	Services	9	7%
<b>Total</b>		<b>124</b>	<b>100%</b>

### 3.1 Hypothesis Testing Results

**Table 6: Path coefficient (mean, t-values)**

Hipotesis	Original sample (O)	T statistics ( O/STDEV )	P values	Note
H1	0.505	5.016	0.000	Significant
H2	0.344	3.522	0.000	Significant
H3	-0.166	1.733	0.083	Not Significant

Source: Data processing with PLS (2023)

Table 6 confirms the results of hypothesis testing conducted with the SmartPLS 3 statistical test. The explanation for each acceptance and rejection of this research hypothesis is as follows. Social capital (X1) has a positive and significant influence on business motivation (Y1) and confirms the first hypothesis; thus, Hypothesis 1 is accepted. Business motivation has a positive

and significant effect on business performance, which is in accordance with the fifth hypothesis, where business motivation (Y1) has a positive and significant effect on business performance (Y3). Thus, Hypothesis 2 is accepted. Intergenerational succession (M) weakens business motivation (Y1) on business performance (Y3); thus, Hypothesis 3 is rejected.

## **5. Discussion of Research Results**

### **5.1. Social Capital Affects Business Motivation**

Trust that is built and continuous interaction with fellow SMEs can provide a sense of security and maintain business motivation to keep trying to maintain positive business relationships. The research results show the relationship between social capital and business motivation supports the social capital theory emphasized by [15]. The theory described is based on the recognition that social capital is belonging to the individual rather than the collective. This means that social capital starts with each individual who seeks to build relationships that are beneficial for both economic value and social life. This is in accordance with this study because the unit of analysis studied in this study is an individual as an SME actor. So, the social capital owned by each individual is a form of results and investment, which in turn is related to various forms of benefits or progress, especially for business progress. In addition, [15] explains social capital as a form of competence of each individual, of course, can be related to the business motivation of SMEs. If associated with McClelland's motivation theory [26], there are three main motivations of a person in relation to managing a business. Namely for the needs of achievement (achievement), the need for affiliation (affiliation), and the need for power (power).

In particular, this theory is useful for the development of the leadership of the unit of analysis in this study, namely SMEs. For SMEs who also act as leaders, understanding this theory can help them become more effective and purposeful leaders in managing their businesses. By knowing the need for power, a leader can use the power wisely and motivate employees to achieve common goals. In addition, to achieve the target of affiliation, an SME actor who is also a leader will try to increase social interaction. People with high affiliation needs tend to seek close interpersonal relationships and want to feel accepted, valued, and supported by others. Affiliation needs become important when there is a sense of togetherness, intimacy, and emotional attachment in relationships with others. It returns to Bourdieu's theory (1986), which states that social capital is the result of each individual's efforts to build and expand this capital in order to achieve basic needs in McClelland's motivation theory [26], such as the need for achievement, affiliation, and power.

The results of research showing the effect of social capital on business motivation among family business-based SMEs in East Java Province:

- a. Similar business characteristics allow SME actors to build strong social capital. The goal is to get the latest information related to the business being managed. This is in accordance with the axiological aspects that answer the question about the benefits of strong social capital. So, in practice, the perceived benefit is the ease of information for business development.
- b. SMEs come in large numbers and dominate the Indonesian economy, so social capital from fellow SMEs is easily formed either intentionally or naturally, but in practice, SMEs are also prone to failure. Associated with the results of this study, social capital can have a positive effect on maintaining business motivation when SMEs face challenges or decreased business performance. Sometimes, SME owners face great stress and challenges. Social capital can be a source of emotional and social support that helps get through difficult times.

## **5.2. The Effect of Business Motivation on Business Performance**

This study supports the theoretical relationship between business motivation and performance explained by [18] that the factors of independence, general self-confidence, achievement motivation, drive to action, egoistic passion, and tenacity become a specific group of motivational drivers in the form of goals and vision and self-efficacy that affect business performance as an outcome. The theory is reinforced by [19] through a theoretical model entitled "A model of entrepreneurs' personality characteristics and success." The theory explains that goals, vision, and action are a form of motivation that supports the performance or success of the business being built. In addition, empirically, this study supports the results of previous research, namely [14], [18], [24]. The results of these studies explain that business motivation influences business performance. When associated with the conditions in the research object, business motivation is formed due to a strong drive in the form of goals to develop and succeed. As a business actor who is still included in the small and medium business category, the desire to go up from the SME category is a future goal (business exit). SMEs expect to grow bigger as a way of fulfilling the need for self-affiliation.

## **5.3. The Effect of Intergenerational Succession to Moderate the Relationship Between Business Motivation on Business Performance**

The continuation of family ownership may present problems related to personal interests, which can affect objective business decision-making. Involving outside professionals in the management of the business can help ensure that decision-making is based on performance and business interests. Other factors include competency and leadership issues; sometimes, not all family members have the right competency or leadership to manage and grow the family business. In addition, resources and growth factors involving external parties, such as investors, business partners, or non-family management, can bring additional resources and open up greater growth opportunities.

Another factor is the passing on of values and corporate culture. Passing on values and a strong corporate culture are key to the success of family firms. However, it is not always the case that all family members share the same vision, values, or interests necessary to pass on the company's values and culture effectively. Engaging external parties with aligned values can help maintain and develop a good culture within the organization. And finally, a factor that can be a consideration for a family business ending up in non-family hands is the safety and security of the business. In some cases, a family business may face financial or sustainability risks if the next generation of the family does not have the interest or ability to continue the business properly. Selling a business or transferring ownership to an external party that can maintain business sustainability can be a safer option.

Several reasons explain that a family business performance does not necessarily bring more harmonious family relationships. Although a family business has good performance in terms of financial and operational aspects, it does not always guarantee harmonious relationships among family members involved in the business. This can occur due to differences in vision and values, unclear roles and responsibilities, and the issue of inheritance and succession; the issue of who will take over the leadership and how to divide the ownership of the company can be complex and cause tension. Other factors, such as the influence of family dynamics, such as personal conflicts, rivalries, or unresolved family issues, can affect workplace relationships. It can also occur due to difficulties in distinguishing between business and family roles. In addition, there is a lack of communication and participatory decision-making. And external factors such as business competition, market changes, or economic challenges can create stress and pressure for family business owners.

The results of this study found that the current results do not support the theory of subjective business performance or non-financial performance. As explained by [12] must also be maintained and improved. However, the results of this study show that family harmony is not a guarantee when a business increases; besides that, the results of this study also do not support the family business, which is considered a medium to improve social status. In terms of the theory of intergenerational succession, the results of this study also do not support the internal social capital theory in family businesses, which explains that the internal perspective, known as bonding, encourages the creation of a strong network of collective relationships characterized by a high level of trust in the internal family environment in order to achieve company goals jointly [25].

Another factor is a lack of recognition or appreciation; if the second generation feels that the contributions and efforts that have been made are not recognized or appreciated by the previous generation, it can cause a loss of enthusiasm and motivation to continue contributing to the family business. Lack of freedom to develop creativity. The values that have been instilled in the family business can be an inhibiting factor to get the opportunity to innovate or develop new creative ideas, so the motivation to be involved in the business can decrease. In addition, there is difficulty in finding a role and identity as an independent individual. This can lead to a sense of confusion and a lack of motivation to be involved in the family business. Another natural factor is losing interest in the business field; if the second generation does not have an interest or love for the business field run by the family, they may feel forced to continue the business, which can lead to decreased motivation and quality performance.

## **6. Research Contribution**

As a form of scientific development, this research formulates questions based on empirical and theoretical studies in an effort to find the truth. The object of science developed in this research is the performance and existence of family businesses in the context of SMEs. The result is that there is a nature and reality of family businesses in the context of SMEs that have unique characteristics, and family business succession also affects performance. In addition, the results of this study also respond to the novelty proposed; it is stated that many previous studies by [2], [3], [4], [5], [6], [7], [8] have studied the succession of family business generations through a qualitative approach so there has not been much quantitative research conducted on family business succession. [9] stated in a recent critique that most family business research is qualitative, case-oriented, or anecdotal. So, the results of this study are one of the developments in science that seeks to use findings from qualitative research in the context of quantitative research or apply them to a larger sample.

## **7. Research Limitations**

The following are some of the research limitations. When compared to the large number of SMEs with a sample of 124 respondents, the small sample size is a limitation in the representation of the results of this study. In particular, the geographical conditions that are located in several cities in East Java can certainly affect the type of industry, the characteristics of different business actors, or the competitive advantages that vary. SMEs, being a research subject, are often less responsive as owners are busy with day-to-day operations and may not have extra time to participate in research.



## 8. Conclusion

Based on the research results that have been described, we draw the following conclusions. Social capital has a significant effect on business motivation. This means that social capital is an antecedent of business motivation in family business-based SMEs in East Java. Business motivation has a significant effect on business performance. This means that business motivation is proven to be an antecedent of the business performance variable in family-based SME business development in East Java. The next conclusion is that intergenerational succession, as moderation between business motivation and business performance, has a negative and insignificant effect. This means that intergenerational succession weakens the relationship between business motivation and business performance in family business-based SMEs in East Java. The following suggestions are given for future researchers. Further studies can discuss social responsibility in family businesses and the contribution of family businesses to the surrounding community. They can further enhance family business-based research, specifically on large family businesses (non-SMEs), because of the big differences in character in terms of management, corporate values and culture, or business performance.

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