

# Internalization mediation towards the relationship between entrepreneurial action and individual performance for the next generation of family companies in Surabaya

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## ABSTRACT

*This study examined the effect of entrepreneurial action for the performance of the next generation using the sample of students who joined the Family Business Community. In this study, there is a high contribution given by the role of entrepreneurship education in preparing the next generation in the family business. In addition, entrepreneurship education is considered possible through the process of internalization of the learning process that is going on. For example, it is noted that entrepreneurial action can have a significant effect on the performance of the organization. In the context of the family business and entrepreneurial education at the University of Ciputra, both variables (entrepreneurial action and individual performance) are necessary to be tested and therefore, the researcher finds it possible to carry out a research that is supposed to have a contribution to the family business. This study uses a hierarchical regression analysis, to test the stages of the mediation process. The results showed that most of relationships mediate internalization entrepreneurial action and individual performance.*

## ABSTRAK

*Penelitian ini akan menguji pengaruh entrepreneurial action pada performance generasi penerus dengan sampel mahasiswa kelas family business yang tergabung dalam Family Business Community. Peran pendidikan entrepreneurship dalam mempersiapkan generasi penerus pada bisnis keluarga memiliki kontribusi yang tinggi. Melalui pendidikan entrepreneurship dimungkinkan terjadi proses internalisasi dalam proses learning yang terjadi. Misalnya saja, dinyatakan bahwa entrepreneurial action dapat memiliki pengaruh utama di dalam kinerja organisasi. Pada konteks bisnis keluarga dan pendidikan entrepreneurial di Universitas Ciputra kedua variabel tersebut perlu diuji dan oleh karena itu peneliti mengujinya karena bisa memungkinkan memberikan kontribusi pada penelitian bisnis keluarga. Penelitian ini menggunakan hierarchical regression analysis, untuk menguji tahapan proses mediasi. Hasil penelitian menunjukkan bahwa internalisasi memediasi sebagian hubungan entrepreneurial action dan individual performance.*

## 1. INTRODUCTION

Family company is the term coined by many people referring to a company owned by a family or it is controlled, operated, and managed by a family member or a few family members. In connection with this type of company, Poza (2007) in (Lily 2014), stated that the family business is a unique combination of several factors: first of all, the control of ownership (15% or more) is by two or more family members. Secondly, corporate strategies are

influenced by family members who are actively involved in the management to be able to continue the establishment of a family culture within the company, serving as an adviser to the company, or act as an active shareholder. Thirdly, it is concerned with family relationship, and the fourth these families have a dream to continue the business into the next generation.

The important factor is that the company's achievement of success of actions is carried out as a

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follow-up interaction of all individuals within the company. Schumpeter (1934) in Bernard (2013) described that the interaction or individual action within the company can be termed as an entrepreneurial action. Schumpeter also stated that Entrepreneurial Action describes the action of the organization or companies to get out of the daily life pursue the business competition in an entrepreneurial advantage. Furthermore, entrepreneurial action in the company can affect the company's performance through individuals who have contributed in it. Similarly, in the family company, when the predecessor generation and the next generation can synergize with the optimal interaction, the entrepreneurial action could affect the company's survival. Hmieleski (2015) also stated that the action is a series of processes of entrepreneurial activity between individuals in the organization in accordance with their respective responsibilities that contribute to great in performance.

The success of a succession in family companies depends on their performance. Besides that, it also depends on the quality of human resources. Organizations that has optimal performance is a reflection of the performance of individual (Individual Performance) that exist within the organization. Individual Performance in an organization can also contribute to the performance of the organization, for all organizational interaction processes in an effort to improve corporate performance through a process of managing internal and external resources. It is also related to how each individual is prepared to deal with barriers and challenges and is able to survive within the scope of the competition (Bernard 2013).

Again, the process of succession in family business success can be done either by the process of internalization of synergy between the predecessor generation and future generations through a variety of methods. For example, Bedosky (2002) in Sudarmiati (2009) explains that the internalization process is a learning process that occurs in the interaction between individuals. Through the possible internalization, it can improve individual performance. Besides that, in the family business, the internalization process can also be inspired by the culture that formed the company. This internalization process can also be seen through formal and informal education obtained by the individuals. Internalization in this study is believed to be the black box variable that mediates the effect of the entrepreneurial action on individual performance.

In reference to the above description, this study aims to examine the role of mediating va-

riables that is the internalization of the relationship between the two. This is done because the research is mostly with the respondents of the members in the family business community. They had studied at the University of Ciputra Surabaya, so the process of internalization obtained through both formal and informal learning process. In particular, the research examined the influence of entrepreneurial action against individual performance and the presence or absence of internalization effects in mediating the relationship between entrepreneurial action and individual performance.

This study entails the sections that provide the theoretical framework and hypotheses. Then, it discusses the research method followed by data analysis and then part of the discussion, and finally it is ended by the conclusion.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESES

This study was done to contribute to family businesses, especially related to the next generation in the family business with the dynamics of family business succession. A discussion of the family business can be based on two major theories, namely agency theory and resource dependence theory. Agency theory is built as an attempt to understand and solve problems that arise when there is incomplete information at the time of the contract (engagement). The contract is that between the principal and the recipients of the command.

In the context of the family business, they indirectly have a relationship of family ownership. Therefore, the agency theory can be used as the basis of the theory in this study.

Besides that, based on agency theory, this study is also based on the resource dependence theory. Agency theory explains the conflict while resource dependence theory analyzes the conflict in the context of an imbalance of power with the bargaining power. In this case, the power which is related to the next generation of family business relationships and previous generations (Gudono 2014: 102, 147).

### Entrepreneurship

It has been described that entrepreneurship consists of actions and business approaches applied to an entrepreneur in order to achieve performance (Schermerhorn 1999: 64), the Goddess (2013). Entrepreneurship is needed to improve the ability to compete, change, innovation, growth, and durability of the company's business. In addition, entrepreneurship can be used for short-term business

strategy and long-term as life in general tips (Kris 2005: 29), in Dewi et al. (2012). Entrepreneurship is defined as a person who is full of innovation and have a mature concept of doing business (Kuratko 2016).

Ciputra (2011) in Mustikarini (2014) states that an entrepreneur is someone who is willing to take risks, be able to create opportunities and the ability to innovate through product or process. Therefore Ciputra University students are educated to be able to become an entrepreneur through real projects students are strung in the course of an entrepreneurial project. As such, entrepreneurship is a creative and innovative capability as the basis of, tips, and resources to find opportunities for success (Suryana 2003: 57), the Goddess (2012). The essence of entrepreneurship is the ability to create something new and different through the creative and innovative thinking. In addition, creativity is the ability to look at old things from a new angle, while innovation is the ability to implement new ideas, which will give more value.

### **Entrepreneurial Action**

Naffziger et al. (1994) in Bernardus (2013) argued that entrepreneurial action has a significant effect on the organizational performance. Furthermore, Ireland, Hitt, Camp, Sexton (2001) also argued that entrepreneurial action is a key part of the strategic combination with the action. Strategic action focuses on achieving a competitive advantage in related industries and market context. Meanwhile, entrepreneurial action tries to exploit other opportunities lost or opportunities that have not been exploited to the maximum by the organization.

There are six measurement dimensions for entrepreneurial action by Ireland et al. (2001), Hmielecki (2015) and Kuratko (2016). The sixth dimensions in question are as follows: (1) innovation, (2) the network (3) internationalization, (4) learning organization (5) the top management team and governance, and (6) growth. The dimensional growth is not considered a research instrument because the context is the overall performance of the company.

### **Individual Performance**

Schumpeter (1910), in Jia-Sheng & Chia-Jung (2010), stated that entrepreneurship is a new driving factor of production. The aim of entrepreneurship is to gain competitive advantage and to improve performance. The scope of the following performance dimensions are commonly used in the literature. Walker and Ruekert (1987), in Kaleka

(2012), distinguished between the measurement of effectiveness, efficiency, and adaptability of the performance. The measurement of the effectiveness of adaptation measures the individual's ability to respond to changes and opportunities in the environment. In this case, Sink and Tuttle (1989), in Poonan (2014), suggest that the performance has a complex relationship between the effectiveness, efficiency, quality, productivity, innovation, and profitability. Bredrup (1994: 24) in the Goddess (2012) also argues that the effectiveness, efficiency, and changeability are all the dimensions of performance.

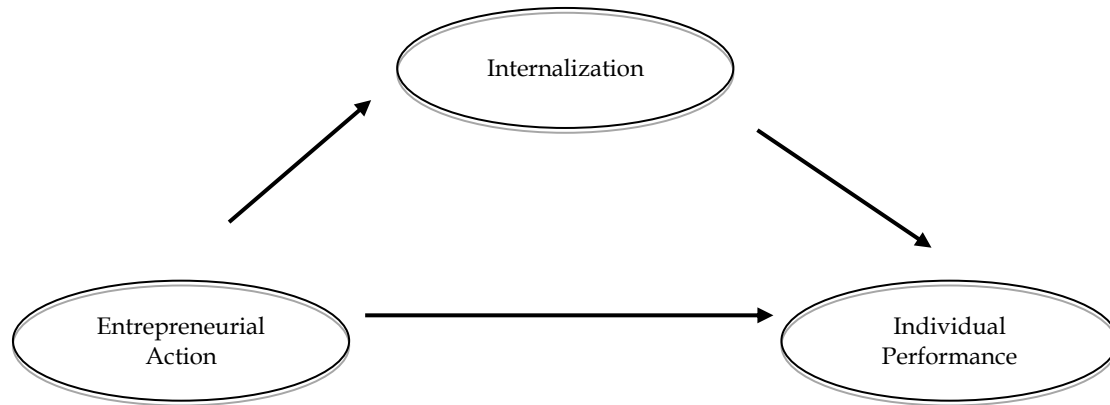
### **Internalization**

Pratikto (2012) and Anggraeni (2013) stated that the process of internalizing the values of the company formed by the culture of the organization both being prescriptive, through obedience, imitation, adoption, and compliance with the scenario from top or from outside the cultural factors that are concerned. However, it can be through the learning process, which starts from the inside of cultural actors, ranging from a truth, belief, assumption or belief basic foundation that is held firmly as the establishment of the actualized action into reality through attitudes and behavior. Generation founder (founder), owner and head of the organization have a strong share of a culture of the organization.

The indicators of internalization through formal education will look at the curriculum, instructional design of the semester, and the implementation of learning and evaluation. Internalization through formal education can be found in teaching materials and learning media, as well as teaching and learning situation. The implementation of positive entrepreneurial environment can greatly benefit the more meaningful to the process of internalization through formal education.

Bhatti (2016) asserted that the internalization could be realized through a learning process that can improve the performance of individual. In this case, it is the absorption of information. Bernard (2013) added that entrepreneurial action could affect individual performance. Entrepreneurial action can also be realized through individual learning process.

Based on the theoretical framework that is summarize in the research model as shown Figure 1, this study states two hypotheses as the following: H1: Entrepreneurial action has a positive and significant effect on individual Performance. H2: Internalization mediates the relationship between entrepreneurial action and individual performance.



**Figure 1**  
**Research Model**

### 3. RESEARCH METHOD

#### Sample and Data Collection

This study has a unit of analysis that is the individual. The population consists of all the successors to the family business in Surabaya. The sample consists of the next generations who have joined the family business in the business community. They were taken by using purposive sampling method of the no probability sampling (Cooper 2013). The data were collected by distributing questionnaires to the successors of the family business as the class project in which they are the students of family business at the University of Ciputra Surabaya of 200 respondents. They are the members of the family business community, using questionnaires. They were taken and obtained by 130 questionnaires.

Determining the number of the sample is based on Mustikarini (2014), explaining that the rules of thumb in determining the sample size must be greater than 30 and less than 500 respondents to be used on various types of research and the number of sample is 10 times or more than the number of variables in the multivariate study.

#### Measurement

The research instrument for collecting the was done by using a self-administered questionnaire. Each variable was measured with the items of different questions. All the instruments were adapted from a multi-item scale that has been used in some previous studies. The variables that were analyzed consist of entrepreneurial action, internalization, and individual performance. The independent variable is entrepreneurial action while the dependent variable is individual performance. The internalization is as a mediating variable. The summary of the variables, number of items, and sources are shown in Table 1.

### 4. DATA ANALYSIS AND DISCUSSION

The hypothesis testing was done using multilevel regression analysis (hierarchical regression analysis). The mechanical regression calculation was done using the model developed by Baron and Kenny (1986) in Mustikarini (2010) and analysis instrument was by using multilevel regression analysis. The concept of Baron and Kenny (Mustikarini 2010) was chosen because it comprises the steps of statistical detail and consists of criteria which indicate that a variable shows the full mediating effect (fully-mediated), partial mediating effect (partially-mediated) or mediator that no effect at all.

The model that is developed shows that the mediating variable has a causal relationship with the independent variable and the dependent variable (outcome variable). First, the independent variable has a direct effect on the mediating variable (path a). Second, mediating variable has a direct effect on the dependent variable (path b). Third, the independent variable has a direct effect on the dependent variable (path c).

Based on Figure 2, the steps for testing the mediating variable in this study are as follows:

- Regression Analysis of Entrepreneurial Action towards Individual Performance  

$$Y = a + b_1 (X_1) \quad (1)$$
- Regression Analysis Entrepreneurial Action toward internalization.  

$$X_2 = a + b_2 (X_1) \quad (2)$$
- Analysis of internalization and Individual Performance  

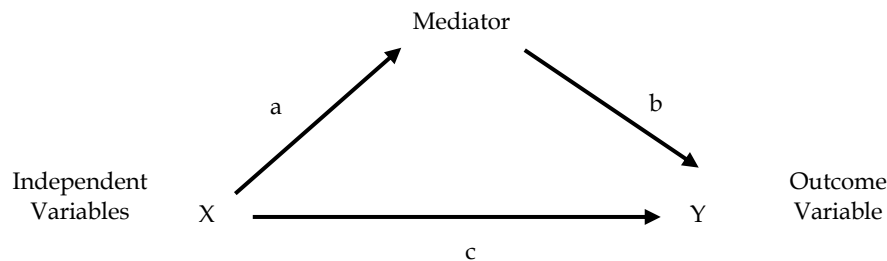
$$Y = a + b_3 (X_1) \quad (3)$$
- Regression Analysis Individual Performance towards Entrepreneurial Action and Internalization  

$$Y = a + b_4 (X_1) + b_5 (X_2) \quad (4)$$

Description:

**Table 1**  
**Summary of Variables, Items, and the Sources**

Variables	Concepts of Variables	No of Items	Sources
Entrepreneurial Action	Measurement to assess inter-individual entrepreneurial action interaction through the perception of a family's next generation of contributor given.	5 Items	DF Kuratko et al. (2016), Ireland et al. (2001), Hmieleski (2015)
Internalization	Measurement of the organizational culture/ corporate actors, ranging from a truth, a belief, a basic assumption or a basic belief firmly held as an establishment.	6 Items	Bernardus (2013), Bhatti (2016)
Individual Performance	The perception of future generations in assessing their attitudes/behaviors through contributions provided in family companies.	8 Items	AE Randel et al. (2003), Poonan (2014)



**Figure 2**  
**Mediation Model by Baron and Kenny**

$Y$  = Individual Performance (Outcome Variable)

$a$  = Constant value of Individual performance

$b_1...b_5$  = Regression Coefficient

$X_1$  = Entrepreneurial Action (Independent variable)

$X_2$  = Internalization (Mediating variables).

The effect of fully mediated will happen, when the entrepreneurial action originally has a significant effect on the individual performance when internalization is controlled. If it has a significant effect, entrepreneurial action on Individual Performance will be controlled by the intrinsic motivation. Then, there is a relationship of partially mediated.

### Characteristics of the Respondents

The unit of analysis consists of the individual students and graduates who focus on family business at the University of Ciputra incorporated in Family Business Community. The response rate of the questionnaire that can be processed is 65% of the 200 questionnaires. This can be distributed with 130 questionnaires. The 130 Characteristics of the sample can be seen in Table 2.

Based on the frequency distribution, it shows that most respondents are female. They are given the interest in the successors of the family companies that are dominated by females. Meanwhile,

from the age distribution of respondents, most of them are aged less than 30 years, most of the active alumni and students who are members of the Family Business Community. From the level of education, most respondents are high school graduates and some have graduated and went to college of master degree. The period of involvement in the organization or family business, they are 100% joined the family firm. It indicates that the majority of respondents have been in the family companies more than 1 year that are 47.6%. This condition indicates they responded to the phenomenon as it was intended.

### Validity and Reliability

Analysis of the validity and reliability was done by using confirmatory factor analysis. It was due to the fact that all the instruments have been used previously by the previous studies. The validity and reliability tests were done only to confirm whether the instruments were never used before so that they can be used for setting the research in this study. Testing the validity of the instrument was done using factor analysis.

To obtain good results of the factor analysis, Hair et al. (2016) suggested that the rule of thumb that is normally used to make a preliminary exami-

**Table 2**  
**Characteristics of the Sample**

No	Characteristics	Total	Percentage
Sex	Male	60	46.2%
	Female	70	53.8%
Age	< 30 years	130	100%
	30-40 years	0	-
	> 40 years	0	-
Education level	SMP	0	-
	SMA	98	75.3%
	D3/S1	27	20.7%
	S2	5	3%
Period involved	< 6 months	10	7%
	6 months-1 year	58	44.6%
	> 1 year	62	47.6%

Source: Processed data 2016.

nation of the factor matrix that is to be considered so that they have met the minimum level, for loading considered better and for loading considered practically significant. Therefore, the higher the value of the loading factor, the better role in interpreting the factor matrix.

The next is the reliability analysis that was done by calculating Cronbach alpha values with the rule of thumb alpha value and it should be greater than 0.7 even if the value of 0.6 is acceptable to the exploratory nature of the study (Hair et al. 2016). Table 3, presents the results of Confirmatory Factor Analysis for getting the values of nilai loading and alpha Cronbach.

As shown in Table 3, all the instruments have values of loading factor and alpha Cronbach complied with the rule of thumb, as it has been determined. This indicates that the research instrument consists of three variables with some questions for setting the research focus.

### Data Analysis and Hypothesis Testing

The test of hypothesis 1 and 2 was done by using multilevel regression technique, as evaluated by using R square for dependent variables and coefficient value of standardized regression weights for independent variable. Then, the significance was tasted based on t-computed value for each path. Table 4 shows the result of multistage-regression analysis of relationship between the variables.

The result of the test of the relationship between variables in which it was done using multistage-regression analysis as the following:

As shown in Table 4, at model 1, the analysis of independent variable that is Entrepreneurial Action and that of dependent variable that is Indi-

vidual Performance. Statistically, Model 1 shows that Entrepreneurial Action has a significant effect on Individual Performance. ( $\beta = 0.683$ ;  $t = 10.546$ ;  $p\text{-value} < 0.000$ ). It means that the hypothesis is accepted.

For model 2, the independent variable of entrepreneurial action and individual performance were analyzed in which statistically, it shows that entrepreneurial action has a significant effect on individual performance. ( $\beta = 0.477$ ;  $t = 6.052$ ;  $p\text{-value} < 0.000$ ). Thus, statistically, model 2 shows that internalization has significant effect on Individual Performance. ( $\beta = 0.326$ ;  $t = 4.139$ ;  $p\text{-value} < 0.000$ ). Based on this evidence, it also indicates that the effect of mediating variable in this model is suitable for the model in Baron and Kenny in Mustikarini (2010). They stated that the effect of the independent variable on the dependent variable remains significant when the moderator variable is included in the analysis. Therefore, the mediation effect is as partially mediation. This means that hypothesis 2 is also accepted.

As described above, it is evident that the internalization through the learning process can contribute to improving the performance of individuals involved in the management of the family business. Basically, internalization in the learning process can be done anytime and anywhere. The next generations-involved in the family business community—are successfully helped by learning an integrated curriculum that has been designed. When it is viewed from the age of the next generation being interviewed, most are still relatively young. The entrepreneurial activity is also supported from their neighborhood who are generally young and energetic. Individual performance of the next gen-

**Table 3**  
**Results of Confirmatory Factor Analysis**

Variables	Items	Loading Factor			Cronbach's Alpha
		1	2	3	
Entrepreneurial Action	EA1			0.774	0.789
	EA2			0.795	
	EA3			0.569	
	EA4			0.874	
	EA5			0.641	
Internalization	IN1		0.691		0.868
	IN2		0.759		
	IN3		0.651		
	IN4		0.721		
	IN5		0.868		
	IN6		0.862		
Individual Performance	IP1	0.879			0.877
	IP2	0.636			
	IP3	0.558			
	IP4	0.670			
	IP5	0.773			
	IP6	0.666			
	IP7	0.834			
	IP8	0.862			

Source: Processed data 2016.

**Table 4**  
**Results of Multistage-Regression Test**

Model	Independent Variables	Beta	t	Sig.	R Square	F	Sig.
1	Entrepreneurial Action	0.683	10.546	0.000**	0.467	111.223	0.000**
2	Entrepreneurial Action	0.477	6.052	0.000**	0.531	71.244	0.000**
	Internalization	0.326	4.139	0.000**			

Source: processed data: \*\*) sig. < 0.001, dependent variable is Individual performance.

eration can surely have different results depending on the targets set in the family business.

## 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The researcher examined the role of internalization in relation to the individual performance of entrepreneurial action. This study provides evidence that there is a significant effect of entrepreneurial action on individual performance. It also shows that internalization has a mediating role between the relationship of entrepreneurial action and individual performance.

However, this study has several limitations, for example this study did not describe yet the family business level or the standard size of each respondent. For that reason, the business is still assumed

to be the same level for each respondent. In order that this generalization can be widely applied, further research can be done in another research setting with the models and relationships between more variables that can be used as a reference in the future.

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