

# Family Businesses and Portfolio of Innovation Ecosystems “Batiks” Small Medium Enterprises

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**Submission date:** 12-Jan-2024 12:44PM (UTC+0700)

**Submission ID:** 2269784574

**File name:** 125997247-2\_1.pdf (279.22K)

**Word count:** 3210

**Character count:** 19288



# Family Businesses and Portfolio of Innovation Ecosystems “Batiks” Small Medium Enterprises

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**Abstract-** The purpose of this paper was to explore how family batik small- and medium-sized enterprises (SMEs) in Indonesia overcome limited resources to accelerate the establishment of an innovation ecosystem through copreneurship business practices. A qualitative approach was used to analyze ten SMEs founded by couples. Data were obtained using in-depth interviews with couples responsible for managing SMEs. The findings of this paper show that the most important factor in strengthening the resilience of couple-managed SMEs is how to orchestrate a complex innovation ecosystem within an organization. From four perspectives, innovation ecosystems can be observed, including management literature, networks among companies and businesses, competitiveness and innovation policies as well as differences in local or national scale innovation ecosystems. Lastly, it also includes designing an innovation ecosystem with modern thinking structured to accelerate the growth of family SMEs.

**Keywords:** Copreneurship, family businesses, innovation ecosystems, SMEs.

## I. INTRODUCTION **5**

In the last decade, family businesses and small- and medium-sized enterprises (SMEs) have issues of prominence and are recognized by academics as being very diverse, thus stimulating a deeper exploration [1],[2]. SMEs managed by families or couples, often referred to as family businesses, are faced with such problems as business management, management conflicts and unclear roles for partners, especially gender issues, innovation management, agile business models, value propositions and long-term relationships with customers [3].

A family business is one managed by a couple's family to realize a sustainable business vision across generations of the couple's family [4]. According to [5], businesses built by couple families are naturally separate entities or systems, since business is oriented towards profitable outcomes while families are oriented towards emotions which are sometimes irrational. In addition, businesses are motivated by profits and losses while families are motivated by biological obligations and social norms. Thus, a more radical innovation model is needed based on copreneurship practices and couple leadership to

accelerate the batik SMEs towards corporatization and to be stronger to prevent conflicts of interest among family members. Copreneurship is characterized as a family business, management sharing and responsibilities of running the business together [6], [7].

A breakthrough to accelerate the creativity and innovation of batik SMEs is needed through innovation ecosystem management into new business incubations that produce a more competitive business model [8], [9]. A family business is managed by a dominant coalition of family members on an ongoing basis across generations [4]. The growing number of SMEs coming from developing countries, especially Indonesia, faces major obstacles in the process of accelerating toward corporatization, such as openness, networking, low human resources and limited mastery of technology. With the development of entrepreneurship theory, academics began to focus on developing a symbiotic model of various actors and stakeholders [10]. Therefore, the innovation ecosystem pays special attention to SMEs which are an issue of importance in recent years. Previous literature stated that an innovation ecosystem is a kind of complex system consisting of different but interrelated elements [11].

This construct emphasizes the co-evolution of a variety of actors to create a balance of all elements of the innovation ecosystem, including geographic elements, industry elements and dominant actors [12]. This finding implies that SMEs managed by couple families are organizations that occupy an ecological niche as a homogeneous and unique node, leading the innovation ecosystem to be more complex to implement [13]. Being homogeneous means that SMEs have the same characteristics in all family businesses, such as personality, egoism, greed and arrogance, bad behavior of ownership, control, governance and family values within the business [14].

A good family business model should balance economic and non-economic values and be able to deliver a unique value proposition and build long-term relationships with customers [15]. Conflicts often occur in management and there is unclear role of partners, especially in terms of gender, that woman's roles are often

invisible is always classic [15], [14]. Therefore, the authors found a gap in this subject of research, even though the theory has developed rapidly but it is unable to describe it properly. First, the existing literature discussing innovation ecosystems remains limited to the system level ignores sub-organizations and fails to study ecosystems at the substance level and coordination among lines remains not working properly and sporadic [16]. The perceived innovation only occurs in large and advanced organizational actors. This constitutes also an obstacle to changing the mindset of family-owned SMEs to be open to environmental developments that make their organizations more agile. Based on the foregoing, we also found a second gap: the logic underlying the mechanism of innovation management remains dependent on the investment in modern technological resources that do not accord with the situation of the organizational elements, giving rise to a contradiction between the phenomena and the theory of organizational development. Thus, it increases the authors' interest in exploring innovation ecosystem management more deeply [17],[18]. From a micro perspective, the ecosystem structure that fills the theoretical gap in this study should be redesigned to build an innovation ecosystem at the level of organization and coordination mechanisms.

Batik SMEs at the family business level is an appropriate organization for use as a unit of analysis in adopting our model. In particular, SMEs are expected to be able to go through the three main transitional stages to establish an innovation ecosystem. The first is to build internal and external ecosystem consistency. Secondly, there are two different coordination mechanisms under a new structure. Finally, companies do not only play similar roles in the innovation ecosystem but they should remove the boundaries that hinder the innovation process. Thus, the costs of innovation management are reduced and it is hoped that this can be a new guide toward building an innovation ecosystem for Batik SMEs more effectively.

## II. LITERATURE REVIEW

The innovation ecosystem approach has been existing over the last few years since the introduction of the definition of the ecosystem concept which refers to the interactions among various institutional and individual stakeholders to encourage innovation and growth of SMEs [19]. The concept of an innovation ecosystem is a dynamic organizational and structure interaction, including producers, suppliers, customers, standardization agencies, government and other stakeholders [20]. Innovation development combines strategic management and innovation management [13].

The innovation ecosystem includes innovation thesis, innovation framework, innovation portfolio, innovation accounting and innovation practice [21], [22]. Innovation management is done through a series of interrelated actors and supporting factors in an innovation ecosystem. To accelerate innovation, an ecosystem should be established that facilitates the innovation process and strengthens the resilience of batik SMEs. Meanwhile, to distinguish the innovation ecosystem actors in the organizational structure, they are divided into four layers: the core

organization, the innovation group, good practice for similar companies, and innovation actors that influence the internal layer [23]. Meanwhile, the views of the innovation team and complex interrelationships among systems are the main focus in accelerating SME innovation [24]. Relationships relate to resources, partners, market information, technology and product networks. Furthermore, according to [12], the integrated innovation ecosystem of various heterogeneous actors focuses on organizational value. The authors have a different view of innovation emphasizing realistic value propositions and then focusing on value creation that involves all stakeholders [25]. Thus, an innovation ecosystem requires networks and communities as important parts to support individuals in the innovation ecosystem so that they can interact regularly, share lessons among themselves, or obtain new lessons from experts. This is important to maintain innovation sensitivity, develop basic capabilities, and stimulate the emergence of innovation seeds [26].

The innovator does not work alone, but the innovation process runs through interactions among parties within the organization which will form an innovation ecosystem. An innovation ecosystem can only be realized if there is commitment and courage to change, an adaptation of abilities to each other, and a willingness to escalate oneself sustainably towards the same vision. Commitment is followed up by conditioning the atmosphere within the organization to support the internal ecosystem. Furthermore, in the innovation ecosystem attention needs to be paid to innovation strategy, innovation management, and innovation practices [22]. Establishing an innovation ecosystem depends on the agility of relationships among networks, being collaborative, rather than bureaucratic and flexibility [12]. Meanwhile, the ecosystem flow can be viewed from four streams starting from management literature, networks among companies and businesses, innovation, and competitiveness [27].

## III. METHODS

The determination of batik SMEs managed by couple families is highly relevant in the process of establishing an innovation ecosystem at the company level and a coordination mechanism, considering that this kind of business has limited resources. By adopting the exploratory research method of [28], a family business is a kind of business that is given serious attention, especially in Indonesia which was born in the aftermath of the Covid-19 pandemic since many couple families tried to switch professions, one of which being a batik entrepreneur. The second is the sustainability of the business which was partly born from this situation; thus, innovation is a challenge in itself, such as for the research and development team.

Primary data were obtained from 10 SMEs using semi-structured and in-depth interviews. The people interviewed were a couple of families who were considered to represent the decision-making process using the triangulation method as a means of verification to ensure the reliability of the present study. Data analysis was performed by adopting that of [29], in two phases. The first is to sort the data chronologically and describe how the evolutionary

process to establish an innovation ecosystem naturally occurs in family businesses. The second is to build a grounded model by analyzing the meaning and nature of each dimension and subsequently identifying its theoretical consistency.

#### IV. DISCUSSION

The success of developing an innovation ecosystem depends on actors who are capable of controlling the limitations of the innovation ecosystem [17], [18], and directly determining the resources needed. However, family businesses at the level of SMEs have the same characteristics, namely limited resources, and mainly technology, making it difficult to build and coordinate ecosystems in a modern way. The approaches that have always been used so far are traditional and rigid. Thus, SMEs managed by couple families create a closed structure, go their separate ways, unclear mechanisms and boundaries for ecosystem development, disharmony in coordination mechanisms to overcome weaknesses in creating innovation value, and weakness in orchestrating various existing resources. This phenomenon contradicts the existing theories and needs further validation. Results of the present study showed that the process of establishing an innovation ecosystem at the SME level occurred naturally and sporadically without any mechanism or alignment with a predetermined vision.

There are important findings about establishing an ecosystem at the family SME level: First, the main actors were limited to the head of the family who should be able to create platforms among actors and work together in a commensurate environment. Second, cohesiveness at the family SME level was not yet high which can be used as an integration node in participating in creating creativity and innovation. Third, rigid and complex structures impeded the participation of the entire innovation ecosystem both internally and externally simultaneously, as well as a clear and consistent coordination mechanism. Fourth, good corporate governance in the innovation ecosystem should be built through trust and giving freedom to express ideas. If the ideas being implemented fail, those who expressed the ideas should not be blamed directly, but there remains continuous proactive intervention from the core actors [30]. For example, in the batik SME ecosystem, the issues of competition for the same market share, serious differences in their infrastructure, credibility of resources, size of SMEs and business models adopted make the ecosystem unable to run effectively.

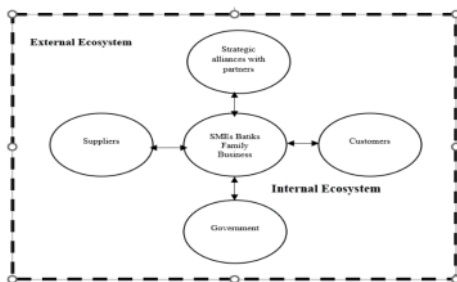


Figure 1: The structural diagram of the platform-based innovation ecosystem.

Thus, government intervention is needed as the core actor to establish ecosystems and assist resources through the involvement of government, academics, business entities or actors, communities, and the media to unite, coordinate and commit to developing knowledge innovations that have the potential to be capitalized or transformed into products or services of economic value for SMEs, especially Batik.

The government's role as a core actor offers interactive infrastructure between suppliers and producers by building a modular platform and automatic coordination among ecosystems through network effects. Technically, a modular platform should be applied which allows one common platform to be used continuously for various needs. This media is a bridge among members of the ecosystem to increase engagement to accelerate batik SME innovation. This positive circulation clarifies the direction of ecosystem evolution and development. Therefore, batik SMEs managed by couple families do not need to invest resources to maintain ecosystem stability which can maintain an innovation ecosystem by keeping costs down.

#### V. CONCLUSIONS

An ecosystem is established naturally and spontaneously from collaborative activities among agents or entities with the same motivation and goals. In particular, the design of the innovation ecosystem is built from a market-driven synergy among various stakeholders including the government, academics, business actors, the public and the media that work together to develop the potential of batik SMEs. An innovation ecosystem generated by on- and off-network collaborative activities plays an important role in the innovation decision-making process. Developing an innovation ecosystem for batik SMEs should go through three phases of change. The first is the need for collaboration among networks of similar SMEs based on their core business. Second, strategic alliances should be made through an upstream to downstream integration. Finally, a modular platform-based structure should formed.

#### ACKNOWLEDGMENT

This study was funded by a grant from the Directorate of Research, Technology and Community Service (DRTPM) of the Directorate General of Higher Education, Research and Technology (DIKTI) of the Ministry of Education, Culture, Research and Technology (KEMDIKBUDRISTEK). No. 094/SP2H/PT/LL7/2023.

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