

SUCCESSION PROCESS IN THE FAMILY BUSINESS: A CASE STUDY OF PEKALONGANESE BATIK CLOTH ENTERPRISES, INDONESIA

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Abstract

Purpose: The main purpose of this study is to explain the role of parents in teaching business management to their children from an early age for the success of family business succession.

Methodology: It was a qualitative study and data were collected by observation, in-depth interviews, and documentation. The focus of this study was the succession process of the PekalonganBatik business analyzed from the entrepreneurial learning perspective. Interview questions focused on entrepreneurial learning and how parents teaching business management. Interviews conducted into 6 Informants. Each interview took between 35 - 45 minutes.

Main Finding: The results of this study showed that parents usually introduced business management to their children from an early age. They made their children involved in the business to know about the planning, producing and marketing of Batik cloths. The indicators of giving entrepreneurial learning to children are involving them in business activities; they learned to manage the business by doing those activities at their parents' business.

Implications/Applications: This study can be useful for another batik enterprises center to guidelines for succession.

Novelty/Originality: This research was to explore the parents to involve their children from an early age to help manage businesses in preparation for business succession.

Keywords: Succession Planning, Succession Process, Entrepreneurial Learning, Family Business, Batik Cloth.

INTRODUCTION

To foster the entrepreneurial spirit; it cannot be done in a short time. It needs more time and it is not easy to prepare the next generation for managing the family business. Regenerating the family business management is a natural thing to continue the business. There are family businesses that can survive up to several generations, but some are unable to survive; even they get bankruptcy. Thus; business regeneration or succession is very crucial to maintain a business. Succession is very important for the future of the family business. But little is known about how the next generation truly experienced the succession process (Handler, 1992).

In our experience working in family businesses, we have seen the failure of function and even failure in strategic implementation when the needs and wants of family members are different (Braun et al., 2016). Managing a family business is not easy because there is a kinship relationship in the authority delegation. Conflicts of interest are usually a major problem in a family business. Therefore; the expertise of a manager is needed to manage the company's human resources well.

Poor regeneration will lead to a bad business's performance or a decline in business. Thus; regeneration needs to be considered complete because it may become an obstacle for business sustainability. The research conducted by <u>Fristia & Navastara</u>, (2014) find that one of the factors lead to be motionless development of the Batik business center in the Sidoarjo area was the lack of technical capabilities of production activities. It happens because in producing Batik; it requires a long time to develop the technical capability. The experience of helping at the family business before it is completely given to the successor is the most effective strategy to shape children's technical capabilities.

The slow development of the Batik industry also happens in many enterprises, because of the failed regeneration. Many entrepreneurs from the Batikcloth industry do not want to continue the Batik skills from their parents. If it is analyzed on enterprises or businesses which succeed in regenerating for several generations, it is found that the process of preparing the generation carried out by the predecessor is vital and influential. The business generated to the 2nd or 3rd generation is intentional; it is not accidentally. Thus; making good planning to do the succession takes up to many years.

The initial succession stage may be important to promote new stewardship attitudes at the new generation (Meier & Schier, 2016). Business succession in the Pekalonganese Batik cloth business is generally carried out from generation to generation. Children participate and help to manage the business before they manage their own business. Batik production business which is not based on family education usually faces difficulties in its development. Thus; the role of the family in teaching Batik business management is very important for the next generation. Hayati (2016) states that the Batik business sustainability in Pekalongan happens because transformation and regeneration as important social capital can be conducted success completely to maintain the Batik business. Successful social capital transfers from predecessors to successors are important for succession success in family businesses (Tata & Prasad, 2010).



The succession of the Batik production business is based on economic motives or values. The economic motive is the driving factor for the parent/business owners to regenerate the business to children. The parents consider that the business has a good prospect or is profitable in the future; so the parents strive to educate the next generation to continue managing the business. Regeneration is not only based on an economic motive but also based on maintaining Batik culture which has been passed down for generations. Knowledge is often the basis for strategic competitive advantage. Therefore, it is very relevant to better understand how knowledge is transferred to the next generation of family businesses (Boyd et al., 2015).

LITERATURE REVIEW

Family Business Succession

Sharma et al., (1997) suggest that "The management of the family business is handled by family members and it is rarely given a chance for non-family members to participate in". Batik business is generally managed by the family members, both nuclear and or extended family. The model of business inheritance is also carried out for generations. Batik business in Pekalongan City generally starts from the family or it is based on family involvement. Oludare & Olanipekun (2016) states that "Family business owners need to understand that the family business may not survive up to the next generation if they are not serious in managing the potential conflicts which may arise. Family conflict is thus an important practice that should be cautiously managed".

A family business is the usual business/enterprise; it can be also influenced by other businesses. It needs to innovate the products to win the competition. Family firms need to perform innovation as much as non-family firms because profit and competitiveness come as a result of the innovation strategy (Lopez-Fernandez et al., 2016). Family businesses consist of a family system, a business system, and an ownership system (Burch et al., 2015). The family business is a union of ideas that came from its family members involved in a family. Thought and resources are shared ownership which should be managed and maintained together in the family. Revilla et al., (2016), states that family involvement in management, which is not just in ownership, will reduce the risk of failure.

Succession planning

Handler (1994) succession in a family business is defined as the passing of leadership stick from the founding owners to the better substitutes; it can be either to family members or non-family members as long as they are professional managers. Business succession to the next generation is expected to improve the company's performance. Thus; it needs succession planning for successful succession. As it is stated by Kowalewski et al., (2011) that Succession planning involves identifying and developing successors in an organization. This plan prepares important future vacancies from management positions by estimating the talent needed for this role to provide the basis and understanding of the characteristics needed to maintain the company's strategic plan. Furthermore; that regeneration or succession needs good planning also stated by <u>Hnátek (2012)</u> that generation transition is a long process it needs good planning and consideration. If leaders shift is done without any planning, it leads to the problem for business sustainability. Succession planning can be defined as an effort to plan the right amount and quality of managers and employees that includes retirement age, death, serious illness or it can be for promotion and any new positions that can be created in the organization's factory in the future.

<u>Smith (2014)</u> argued that a clearer understanding of the second generation of entrepreneurs will enable these individuals to better understand their entrepreneurial heritage and how it relates to their family business story. <u>Filser et al., (2013)</u> suggest that inter-sibling competition can make it difficult to determine who the next generations. Thus, determining the successor who will take control of the company should be carried out with careful calculation.

To make a successful succession, the right strategy is needed as stated by <u>Blumentritt, (2006)</u> that "The two most prevalent types of planning that occur within family businesses are strategic planning and succession planning. Strategic planning improves the performance and longevity of all types of firms". Strategic planning will make the company ready to manage and to make the company's sustainability longer. Succession becomes an important part of a long plan. If there is not an accurate succession strategy, it certainly leads to bad succession. Planning early for succession can increase the probability of success (Bozer et al., 2017). The succession process can be influenced by the strength of family ties and the frequency of interactions within family members which makes this structural dimension of social capital a major factor influencing the choice of successors (Bizri, 2016). Involving the successor early in the process will increase a commitment to the plan (Bozer et al., 2017).

Entrepreneurial Learning

These successors possess relevant knowledge, skills, and abilities for the firm and are considered to be a group or team of owners and managers. We refer to these groups as successor leadership teams (Cater et al., 2016). The factors influencing the succession are entrepreneurial learning conducted by the parents and children's ability to acquire the knowledge and skills, and socialize and cooperate with more people. Therefore; parents should provide those abilities; especially technical and non-technical capabilities for children who are selected to continue the business. Remiasa & Wijaya, (2014) suggest that leaders should provide important values (technical and psychological abilities) for prospective successors or the next leaders. Then, parents should also involve prospective successors to cooperate and



interact with the partners or colleagues or relations. It is important as stated that "relations at work are also important for the success of workplace learning" (Spaan et al., 2016).

Understanding business management can be obtained from good communication habits between children and their parents. Children will learn on patience when helping the parents' business activities, especially when there are problems with the business. It is as stated by <u>Spaan et al., (2016)</u> that working with parents gives more context to learning, by specific and individual knowledge about the patience, their problems, and the consultation.

The role of entrepreneurial learning in a family is to shape children's behavior. Family is the most effective institution to teach children how to behave in business. The successful succession depends on entrepreneurial learning in the family. As already explained previously, the parents teach children on business management; it emphasizes more on the affective and psychomotor domains. Those domains complement the cognitive domain of formal education institutions. <u>Hamilton, (2011)</u> stated that entrepreneurial learning in family business focuses on three main principles, or core concepts, drawn from that perspective: communities of practice, legitimate peripheral participation, and cycles of reproduction and transformation.

Learning to manage the Batik business starts from the simple to the more complex practices. In these activities, the prospective heirs or successors will begin to recognize the business environment which includes various business activities from planning, production, and marketing. During the learning of the business environment; there is a knowledge transfer from parents to children and it takes a long time. Riady, (2017) suggests that the success of business succession has several stages. One of the stages is the learning stage. It means that succession can be done if the successor has received training and learning. The learning stage creates good strong characters; strong commitment, good management, effective decision making. The successors finally can manage the business without any doubt and have full of responsibility.

Theoretical Framework

Leadership succession in a company is a must to maintain business sustainability. To do a succession, it requires careful preparation. The purpose of this preparation is to select and to determine the business heir/successor who has the willingness and ability to continue the leadership of the company. To make it successful; it requires the involvement of prospective business heirs in management. The role of parents in teaching business management to their successors is very important. The understanding that heirs have for a continuing business is a factor influencing successful succession. The heir's abilities to continue the family business is the result of economics education carried out by their parents.

THE RESEARCH METHODS

Research Design

It was qualitative research. The research set the succession pattern based on economic and cultural values. It analyzed succession's perspective on entrepreneurial orientation conducted by the parents in preparing the succession process at the Batik production business. This research was conducted for four months from May up to August until November 2018. The focus of this study was the succession process of the PekalonganBatik business analyzed from the entrepreneurial learning perspective. Interview questions focused on entrepreneurial learning and the succession process. The number of informants is 6. Each interview took between 35 - 45 minutes.

The objective of the research was to explore what and how children get the mechanism and experiences to study on Batik business and entrepreneurship from the parents. The result of this research was understanding the implementation of entrepreneurship teaching delivered from the parents for their children. The respondents or informants of the research were owner batik production business. The criteria of being an informant were Batik producers who have successfully received and continued the businesses from their parents.

Data Collection Methods

Data were collected through observation, interviews, and documentation. The study used in-depth interviews and outside observation. It was conducted at the owner Batik production business at Pekalongan Batik Center of Indonesia.

RESULT / ANALYSIS

Succession planning

The succession process is a transferability activity of management from the generation to the next generation. In this activity, the parents begin involving their children in the business. It starts with the simplest thing in managing the business. When children are young, they are involved to help parents based on their capacities and abilities. It makes them understand the family business which will be managed in the next future. It is indirectly a training process for children to continue the family business. Then, when the child is getting older, he/ she gets more responsibilities.

I was trained when I was in junior high school. After at home from studying at the school, I had to help my parents. For about 10 years now, I run my business, there were about 4 years I was supervised by my parents. Then the parents released me for about 6 years now. (LB Batik).



The parents taught business management informally for children when they were in junior high school. They taught through learning by doing and it was not training. The child was involved since his/ her childhood so they had a sense of belonging to the family business and then they are eager to continue the family business.

Then, another main activity of the Batik business is coloring. Understanding the color making cannot be done quickly, a child should learn for a long time to mix the basic colors to get the desired results.

When there is a coloring activity, I was requested to make a color; for example, making a red color. After I can create the red color, I was asked to make blue or other colors. As time went by, I can make all the colors. (HL Batik).

Next, for marketing the products, the parents have started to introduce their children to the owner of the store (Seller)to accompany the parents when they delivered the Batik products to the store owners or customers. It makes their children know the customers as a Batikcloth buyer and vise versa; the customer knows the prospective leader of the Batikbusiness. Children should also promote the products to more customers for getting more orders in the future.

Succession process

The role of parents in Batik cloth production is very important. They teach their children how to make Batik by involving them in the process of making the Batik. As time goes by, children will understand how to make it. Learning Batik motives cannot be done quickly but it takes time. Parents are enthusiastic to teach because they want their children to successfully manage the business in the future.

The parents'enthusiasm makes children also excited to continue the family business; thus, the parents do not need to force them to continue the Batik business in the future. It will also make children optimistic to build the company. Then, the parent's skills in producing Batikalso inspires children to develop the business. Children will learn and imitate making motives, doing coloring and mixing the formulas to produce the batik cloth from their parents' skill. Therefore; the parents'skills play a very important role in business succession because children can study and learn the skills.

The skills of my parents are very observant. He observant to innovate the motives, to mix the formulas and many more. Our parent has mastered all the processes, so I only follow in the footsteps of our parents and it automatically makes me understand because I directly practice (AB Batik).

It means that the role of parents is vital; they teach to make various Batik motives, teach to mix the formulas and also teach to sell and market the products. All those skills will be transferred to children for making a successful succession of the business family. The children's experiences to manage the business will form the main basis in improving business management. The experience to participate in the family business is not obtained from formal education institutions. Furthermore; the parents' teaching styles on managing the business are different but the main purpose is the same, they want to make their children understand how to produce and to manage the Batik business. The parents teach business management incidentally. Therefore; learning to manage the business will take place at any time and any place.

Entrepreneurial learning

The role of entrepreneurial learning done by the parents in succession is that their son is involved in the discussion and join to make decisions in the business family. The son can be trusted to help to manage the family business if they are ready. It is started when the child is at junior high school, they are usually involved in helping the Batik cloth production process. They will be trained to understand the coloring process. Then in senior high school age, they begin to be involved in making motives and choose the color. Learning the combination of art and business elements is started. It needs their good intuition to create good Batik cloth. But when a child enters adulthood or graduates from senior high school; they start to be involved in business management which includes the production process, human resource management and also marketing. At this time, the parents are getting more serious in preparing them to take over the family business. It is in line with ND's opinion below:

A long time ago, when I was in junior and senior high school, I was not serious to help my parents. But after graduating from university, I was getting more serious. I started practicing how to manage the business. However; my parents did not leave me; they still kept their eyes on and backed up my business. (ND Batik).

When the parents hand over the business leadership to the successor, it is preceded by conditioning the child to help to manage the business before. Then, when the Batik cloth businesses handed over to their son, the parents do not completely give the family business to him. The parents still accompany and assist him in managing the business before finally being handed the family business over to the son completely.

Although the son is requested to help to manage the family business, the involvement of the child was done in his free time. It will not disturb or interfere with his time as a student with formal learning activities. The involvement is not a force from the parents and the child still has time to play with their peers. Children should finish the job before his school time or playing time. If the child does not complete the job properly, the playing time will be reduced, but if the tasks from the parents are carried out earlier, then the playing time will be longer.



DISCUSSION

The parents'role in succession the Batik cloth business management is very important. Children'sinvolvement in managing the business from an early age has made children have a sense of belonging for the family business. Having a sense of belonging, it will foster their confidence to continue the family business. Success in managing a business is inseparable from the love of someone for the business they are engaged in. A good succession plan can improve cooperation with stakeholders, enhancing the chance of a smooth and effective succession in family firms (Pham et al., 2019).

Besides the sense of belonging, children involved in business activities make children practice managing the business. Batik cloth production business is a combination of art and business elements, thus; children's involvement will foster children's entrepreneurial and artistic spirit. It means that the spirit of art and entrepreneurship is expected to exist when they manage their own business. Furthermore; children's involvement can improve the insight and expand socialization with fellow businessmen. It makes children know more people and businessmen because they already interacted and communicated with many parents' colleagues. Thus; when children had to manage the business by themselves, they already made the networking and created the business community. Involving the successor intimately in the planning activities to ensure a successful succession process (Bozer et al., 2017).

Batik cloth production business is generally a hereditary endeavor. The ability combination of art and business in managing the Batik business has made this business not easy for everyone to run. It takes a long time for the parents to teach not only on art skills but also on management skills. It will make the succession done from generation to generation going well. The relationships a successor needs to deal with include the relationship with the predecessor, core and extended family members (Deng, 2015). This business is unique because it combines art and business elements. Batik cloth production business usually focuses on art motives. Its production cannot be mass-produced because the motives change fast based on the market taste which also changes all the time. Thus; the number of production is not a lot. It is a family business due to the changing motives all the time which needs concerns on art and business.

Succession in Batik cloth enterprise/ business is generally not well-planned as in large companies. Thus; to maintain its sustainability, the parents introduce itas early as possible to their children. The purpose of the introduction is to establish the children's love for the family business. The parents of batik enterprises owner introduced the business to children since they were junior high school age. Children are given the task to complete certain works after returning home from school. If the work given by the parents did not execute by children, they could not play with their friends. Therefore; giving the task can make children accustomed to being responsible for completing the work first before playing. At first, it seems that it forces children to help their parents however; the task from the parents to children is a means for children to be more responsible.

The succession processes of the son to manage a business starting from the beginning to the end are important. They help to manage the business from an early age up to their adulthood which makes them ready to manage the business. A son of Batik cloth business owner is prepared to lead the family business through some stages. They did not immediately become the head of the company, but they became an employee to find out the rule of managing the company. It happens at all Batikcloth enterprises. Succession is a key determinant of generational continuity involves the advancement of family "blood" over external employees (Sharma et al., 2001).

The parents will train the son for a certain period before the business is given to him. Then, when he can manage, the parents will hand over the business to him even though it is not completely handed over. The parents are still monitoring and supervising for the next several years before the business is completely handed over to the son. When he is given the task of helping the parents' work, the parents begin to give responsibility to him to manage one of the activities in Batik cloth production based on his capacity.

At the son was in junior high school age, he helps the production process after he comes home from studying at school. Next, when he was in senior high school age, he helps to mix the formulas to make motives and colors. These are the processes that should be through by children from an early age; consequently; they know and understand the family business and they can have a sense of belonging to the family business. When the son is getting older, he will be adults and already have the ability and willingness to manage the Batik cloth business. Then, the parents begin to give responsibility for managing it, however, the main control is in the parents. The parents' control of his son's management will take different time from one to other businesses. If the parents feel that their children have the ability to manage the business, then the parents will give responsibility to him. It means that his son who has good responsibility and ability, can build a new business and manage it independently. The success of succession is inseparable from the well-managed entrepreneurial orientation. Succession should be well-planned to produce the successful regeneration of business management. It takes a long time. The entrepreneurial orientation of the successor is an invaluable lesson for the sustainability of the business. The ability to anticipate any environmental changes is obtained from learning (Jantunen, 2005).

Business management learning is usually done from an early age. To foster a love for the family business of Batik production; the parents introduce business to children as early as possible. The step taken by parents in introducing this business is to involve them in the business as early as possible according to children's ability and capacity. the informal



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decision-making process involves the use of past work experience, interaction with customers, and the observation of other businesses (Lussier & Sonfield, 2015). The parents usually give the task to children based on their abilities. After going home from school, children help to work in the family business. Children help to fold, packing and distributing the products so they can understand *Batik's* motives and the distribution of the goods. Then, as time goes by, they help to work at the production. They help to color the cloth to make it Batik cloths. The job is carried out when they are at home and it does not interfere with the school activities. It makes children understand how to produce Batik cloth well.

On the next stage, the jobs children do are getting more complex. The parents assign children to make colors using a variety of existing color combinations. The way to make the color is by mixing the basic colors and certain colors. Making colors requires carefulness, thoroughness, and intuition to produce good colors. The parents usually request children to wake up in the early morning and help to work at the business. It makes them get used to getting up early and if they do not wake up early, they can be late for school.

Unfortunately; the fact shows that some Batikcraftsmen in the era of the '70s do not pay attention to the level of education for their children. Therefore; their children generally only graduate from elementary or junior high school. But nowadays; the awareness of Batikcraftsmen is getting better; they provide a good education for their children. Then; the successors' educational background of Batik cloth business is getting higher; they usually graduate from senior high school education and or university. Then, the period for parents to hand over the family business depends on the child's capability and ability to manage the family business. However; a succession of the Batik family business needs many stages since the business is unique and considers both; art and business.

CONCLUSION

The Batik cloth business succession cannot be done quickly. The long-time learning is needed to make someone become a skillful Batik craftsman. The combination of art and business in the Batik cloth production business makes the business difficult to be mastered. To anticipate that there are not many children who are willing to continue the family business, the parents usually introduced their business to their children from an early age. The parents involve their children to help at the family business. Then; to foster the entrepreneurial spirit, the parents teach managing business from joining the discussion, helping the producing, doing the packing and marketing of the products.

SUGGESTION

It is suggested that (1) the parents need to introduce the family business as early as possible to sustain and maintain the business in the future; (2) the government should pay attention to owner Batik production business because they are working under the store owners and get the payments based on the store owners orders only. They need to be protected and appreciated to sustain the Batik cloth as the hereditary goods from our ancestors.

LIMITATION

This study uses owner batik business who are the successors of the 3^{rd} or 4^{th} generation businesses as informants. Different research results might occur if the informant is the main founder (1^{st} generation) of the family business. Also, our research object is a family business in a batik enterprise. The results might be different if using family business in other fields.

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AUTHORS CONTRIBUTION

Kusumantoro contributed to the concepts, theories, methodology and worked on this research. These concepts were discussed with Agus Suman and Hari Wahyono. This discussion resulted in better concepts, theories, and methodologies. Furthermore, the results of the study were reviewed by Sri Umi Mintarti Widjaja. Then the results of this review are discussed by all authors to improve the quality of this manuscript.

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