Challenges Encountered by Family Businesses in the Era of Digitalisation and A.I. - A Perspective Article

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Abstract

Purpose- This is a perspective article which highlights the performance of family businesses across the world in the new era of digitalisation and artificial intelligence (A.I.). Comparisons between family businesses in India and other countries have revealed that India has a lot of capability and can easily create space for itself in this new era of digitalisation.

Design/Methodology/Approach- The authors conducted a systematic review of the existing literature to identify research gaps so that potential areas of future research can be found in the area of family businesses in India and across the world. This article also reflects upon the changing attitudes of families towards technology and acceptance of the same.

Findings: Though family businesses might be ahead in the adoption of Artificial Intelligence (A.I.) in countries like the U.S. and U.K., Indian families are also not far behind in adopting new technology.

Keywords: Family Relationships, Strategic Management, Artificial Intelligence

Paper Type: Perspective Article

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1. Introduction

From Ambani's Reliance (India) to Walton's Walmart (U.S.A.), family businesses are widely known across the world. Family businesses' contribution to the global economy is far more than non-family businesses (Collins and O'Regan, 2010). In India, family firms are the backbone of the economy, as they constitute around 85 percent of the total firms (Chahal and Sharma, 2020). They contribute two-thirds of the G.D.P. and 90percent of the gross industry output (Kota and Singh, 2016). As family businesses begin to expand in this new era of technology and digitalisation, artificial intelligence (A.I.) emerges as the key player. Hence, it's essential to study the existing literature, which is not only widespread but continues to evolve. This article aims to explore the current role of family businesses in India and globally in the era of digitalisation and A.I. by examining studies carried out over the past years, understanding the gaps in the literature and reflecting upon further scope of research.

2. Past Research

Family businesses are organisations that are controlled and managed by family members belonging to different generations (Chua *et.al.,* 1997). They are very different compared to non-family businesses in their attitude towards ownership, leadership and relationships (Miller and Le Bretton-Miller, 2005). Since they are owned and controlled intergenerationally, the process of decision-making becomes difficult and cumbersome. Maintaining a balance between familial ties and a profitable business can turn out to be very challenging. A major portion of the literature helps to analyse the complexity of family businesses and how family relationships can be improved rather than concentrating on strategic management and business issues (Sharma *et.al.*, 1997).

Given the complexity of the structure of family businesses, conflicts amongst the stakeholders of the business are very common. As per work-group conflict literature, conflicts can arise related to tasks and relationships. Individual workers of the organisation might believe that the firm's management takes care only of the family members and not the workers. Intergenerational disputes are also very common in family businesses due to differences in attitudes (Jehn, 1995). Literature even suggests how such disputes can be resolved to improve the firm's strategic management. Five conflict management strategies that can be adopted by family firms are: competition, collaboration, compromise, accommodation, and avoidance. As observed, though collaboration strategies have been successful, avoidance and competition strategies have failed in both aspects, i.e., maintaining family ties and a profitable business. Compromise and accommodation are better for family-related outcomes but not for business-related ones (Sorenson 1999).

Past scholars have undertaken the analysis of family firms and their performance. However, most of these studies are limited to selective countries and selective years. It has been well recognized in these studies that family enterprises aim to accomplish both non-financial and financial objectives (Davis & Taguiri, 1989; Olson *et. al.*, 2003; Stafford *et. al.*, 1999). The methodology used in a study by Sharma (2004) is particularly appealing as it categorises family businesses on the basis of whether or not they are able to strike the correct balance between managing family relationships and the strategic growth of the business. The study uses the term 'Warm Hearts' to refer to businesses that are able to maintain healthy family relationships and 'Pained Hearts' to refer to businesses that experience conflicts within the family. On the other hand, the term 'Deep Pockets' has been used to refer to businesses that have been profitable and 'Empty Hearts' refers to businesses running into losses. Following this methodology, four categories of family businesses were made, first, 'Warm-hearts and Deep Pockets', second, 'Pained-Hearts and Deep Pockets', third, 'Pained-Hearts and Deep Pockets' and fourth, 'Pained-hearts and Empty Pockets'. Unfortunately, limited literature is available on empirical studies on relationships between Indian family businesses and their growth performance.

Family firms in India comprise not only the big business houses like Birla, Godrej and Reliance but also many small and medium enterprises. In fact, most small and medium enterprises in India are owned and managed by families. Studies have also revealed that organising small and medium enterprises as family businesses might entail higher profits than a non-family business (Jayaram *et al.*, 2014). This is because when an enterprise is owned and run by the same individual, it's likely to succeed as the motives of the manager and the owner are aligned.

In an ever-evolving globalised and digitalised world, it's impossible to keep family businesses and technology apart. It has been observed that initially, family businesses are very sceptical of using technology, especially A.I. However, not utilising artificial intelligence can seriously hamper their performance, and they can lose the competition to non-family businesses (Garzella *et. al.*, 2021). Family firms, in which the major decision-making power lies with the senior members of the family, have experienced this. Many families do not see technology as a way of innovation, but simply as a symbol of corporate culture. They rely more on their tried and tested traditional methods. While some families do not even see technology as a driver of profit, some lack the guidance and skills to adopt it (Ratten and Tajeddini, 2017).

Studies have also shown that family businesses in countries like the U.K. are experiencing a much swifter move towards technology. Today, using Chat-bots in small family businesses has become very common. Algorithms, software, machine learning and deep learning are being heavily utilised to give a more personal touch to conversations with chat-bots. As digital platforms and e-commerce take over the world markets, connecting with customers through these chat-bots is gaining popularity (Rizomyliotis *et. al.*, 2022). Even Walmart in the U.S. makes use of A.I. in almost every activity, including inventory management, customer experience, demand estimation etc.

Though, it could be said that Indian family businesses have been slow in transitioning to technology, it is not wrong to say that India will not stay far behind its counterparts for long. India continues to be one of the major emerging economies in the world. With changing attitudes and the coming in of Generation Z (people born between 1997 and 2012), family businesses in India are also seeing a gradual shift (Upadhyay *et. al.*, 2023). Indian family firms aspire to remain competitive and make significant contributions to the economy. Now it is not just the large firms like Reliance and Godrej, but also family firms in the micro, small and medium enterprises sector that are readily accepting technology and A.I. (Upadhyay *et. al.*, 2023). Digital modes of making and accepting payments have become the norm. Chat-bots have become essential to manage the needs of the huge and diverse customer base.

3. Future Research

With the new generation of family businesses, i.e. the Gen Zs and the Gen Alpha coming in, the pace of adoption of A.I. into family businesses is expected to increase. The new generation, born and brought up in the era of digitalisation, can easily switch to new technology (Lannon *et. al.*, 2023). Integration of A.I. into family businesses is still a 'green field' for research. The central focus of new research in this field should be on how A.I. can be integrated into family businesses. The new generation could be given formal education to improve their technological skills, so that they are able to make technology, especially A.I., a part of daily business operations. Changes in attitudes and their willingness to adapt are essential. Better strategic management of firms will result in higher profits. Studies may focus on the costs and benefits associated with the same. Today most governments play an active role in the functioning of family businesses of a country (Chaudhari *et. al.*, 2023). Hence, given the contribution of these firms to the economy of developing countries like India, governments should frame their policies in a way that encourages family businesses to accept technology.

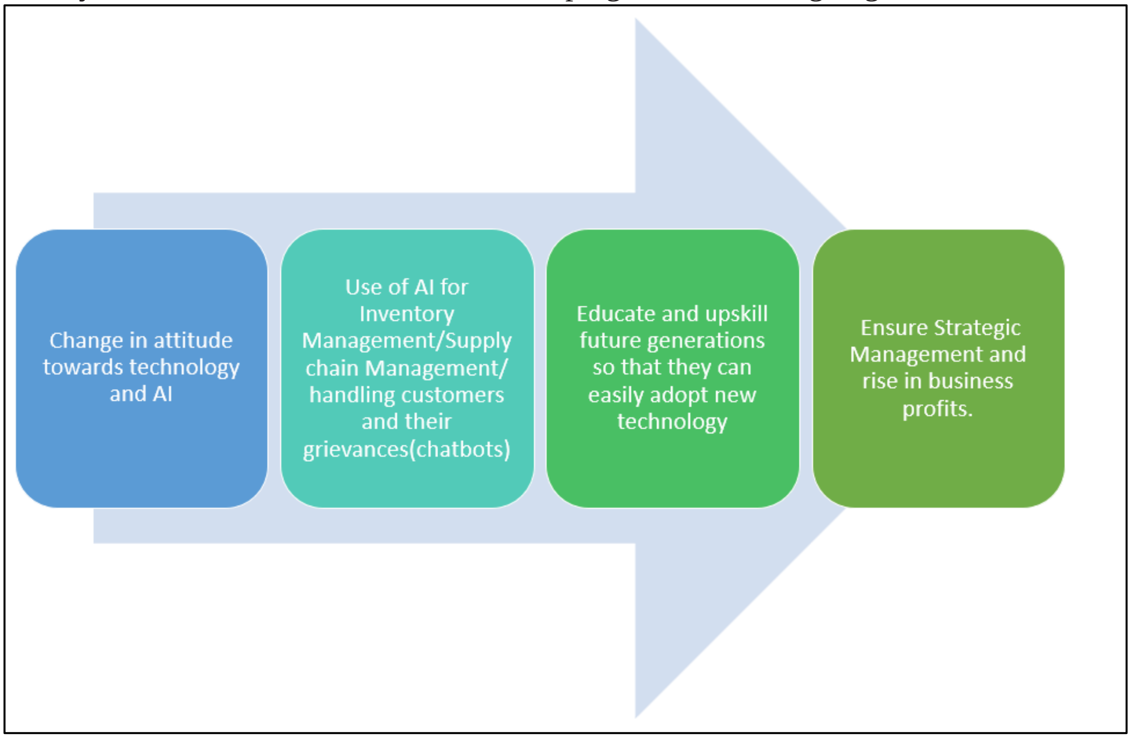
Literature speaks volumes about the stakeholders involved in a family business. Stakeholders include individuals, who are directly influenced by the firms' choices (Freeman, 1984); founders, who can significantly influence the culture, performance and values of their firms (Collins & Porras, 1994; Schein, 1983); women, who manage all the household chores (Fitzgerald &Muske, 2002); and the youth of next generation who will carry forward the businesses. However, research in the area of potential usage of A.I. and digital tools by all the stakeholders of a family business in India and other developing economies is limited. This is a research gap that can be used in future research.

Despite their high level of competence, family firms in India need to catch up to multinational enterprises in terms of scale, hiring more digitally skilled labour, market

ISSN: 2583-8814 (Online)

capitalisation and profitability (Kota and Singh, 2016). There's a major opportunity to investigate the reasons for witnessing small-sized Indian Family businesses and develop strategies to increase the profitability and scale of these firms. Figure 1 below gives a framework on how digitalisation and A.I. can improve performance and productivity of family businesses in India and other developing countries.

Fig. 1: Flow chart (framework) on how to improve the performance and productivity of family businesses in India and other developing countries using Digitalisation and A.I.



Source: Created by the authors

4. Conclusion

Family businesses contribute significantly to an economy. This is especially true in the case of developing countries like India. However, these family businesses have further scope for improvement, especially in their performance and productivity. Adopting A.I. in these businesses will improve their performance by leaps and bounds. Further study in this direction is essential, especially for Indian small family businesses.

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