ISTORY OF FAMILY ENTERPRISES, THEIR NATURE AND STRUCTURE

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Abstract: This article discusses the history of family businesses, as well as their nature and structure.

Keywords: family businesses, history of family businesses, nature of family businesses, structure of family businesses, centralized functional structure, management corporation.

Today, family businesses are not merely small shops; they serve as the "locomotive" of the global economy. More than 70% of all enterprises worldwide are organized based on family management. They account for 60–70% of global Gross Domestic Product (GDP) and provide more than half of all jobs in the private sector [1].

The uniqueness of family enterprises lies in their long-term strategy. While ordinary corporations focus on quarterly reports, family businesses care about the next generation. This enhances their resilience during economic crises. According to projections for 2026, the revenue of the 500 largest family firms is growing 1.5 times faster than the overall growth rate of the global economy [2].

In Uzbekistan, family entrepreneurship is also becoming a driver of the national economy. State incentives, such as leasing buildings and providing preferential loans, are specifically aimed at ensuring employment through family businesses. National traditions like the “Master-Apprentice” (Ustoz-Shogird) system and "dynastic craftsmanship" are being successfully integrated into modern business models.

Despite the great importance of the family enterprise, defining it precisely remains difficult. In contrast, large managerial enterprises (where management is in the hands of professional leaders) have very distinct characteristics. Such enterprises first appeared in the manufacturing sector of the United States between 1870 and 1890. This was driven by large-scale technological innovations in transportation and production, commonly referred to as the “Second Industrial Revolution.”These types of enterprises spread primarily into capital-intensive sectors—chemicals, electrical engineering, transportation systems, oil refining, metallurgy, certain branches of the food and beverage industry, tobacco production, and several other fields [3].

The growth in scale and the complex activities connecting production and distribution also brought about an organizational revolution. The relatively simple structures of the first industrial revolution evolved into much more complex U-form (Unitary form) a centralized functional structure—and M-form (Multidivisional form) a diversified, decentralized structure. These management structures were filled with salaried lower, middle, and top-level managers. As their specialization increased, they became increasingly independent of the owners and the founder’s family. Alfred Chandler described this best: “The technical knowledge of salaried managers and the ability of their firms to generate the funds necessary for constant expansion meant that they soon began to control the destiny of the enterprises for which they worked. In large, multi-divisional enterprises, salaried middle managers, who held little or no stake in

ownership, became responsible for coordinating the flow of goods and supervising operating units" [4].

Owners (shareholders) excluded from middle management soon lost their roles at the top of the firm as well. As corporate growth required more investment and financial resources, a transition occurred from personal and family capitalism to financial capitalism—where bankers and other financiers participated in top management decisions. However, ultimately, due to the increasing complexity of operations in new modern enterprises, the managers themselves became responsible for resource allocation and the most critical strategic decisions.

"No family or financial institution was large enough to provide the management hierarchy necessary to run modern multi-divisional enterprises. Because salaried managers developed specialized knowledge and their enterprises were capable of independently generating the funds necessary for expansion, they ultimately wrested top-level decision-making authority from owners or financiers. Owners or their representatives rarely had the time, information, or deep experience to propose alternatives; they could veto proposals, but do little else. Consequently, family members soon began to view their enterprises as "renters"; that is, their interest in the enterprise was no longer in managing it, but in the income derived from profits. Firms where founding families or representatives of financial interests no longer make high-level management decisions can be called "managerial enterprises" [5].These changes in the ownership structure of large corporations were documented in the famous study by Berle and Means (1932). They provided clear evidence of the increasing separation between ownership and control, as well as how the fragmentation of share ownership led to the birth of the "public company." The profound changes this new entity brought to social and political life cannot be overstated. Similarly, its impact on the structure of nations and the revolution in economics following the emergence of oligopolistic and transnational corporations is incomparable [6].

With the rise of the managerial corporation, the transformation of industrial enterprises spread globally and revolutionized the competitive advantage of nations (within a few decades, the US and Germany overtook the world leader, Great Britain, in GNP and international trade). This also spurred the emergence of "first movers" who achieved sustainable success in their fields and gained long-term leadership in national and international markets.

Thus, a modern business enterprise can be defined as: "An economic institution that owns and manages a multi-divisional system, relying on a multi-level management hierarchy to administer it." It goes without saying that such an organization type cannot be owned and controlled by a single family alone. Most importantly, when this definition is accepted, the study of the modern firm becomes an investigation into when, where, and why business hierarchies were established to manage functional and vertical integration as the overall concentration of assets increased.[7]

A sectoral criterion does not function adequately, either. In fact, efficient family firms are found not only in the craft-based, traditional, and labour-intensive industries, but also in scale-intensive industries and especially in specialised, customer-oriented industries. This means that a clear-cut sectoral division is impossible, even if it is evident that research-intensive activities characterised by long-term investments are found in large corporations with institutionalised research and development, while technology-intensive family firms exist largely in well-defined market niches with a limited innovative activity. It is easy to maintain that technology and capital-intensity growth coincide with a decline in the role of family firms.

Also in this case, however, it is not difficult to find examples of family firms committed to innovation and technological research with considerable capital intensity at the same level as managerial corporations. The sectoral typology is crucial; in some cases for instance, in finance and insurance - the family firm is still resilient and largely present. David Landes provides a telling example of the role of family dynasties when high-transaction cost sectors are concerned. The story of the Bleichröder House from the mid nineteenth until the second half of the twentieth century provides an interesting example of the rise and fall of a family firm caused by the weaknesses of the dynastic motive as well as a powerful illustration of the relevance of kinship ties in the early phases of the life of the enterprise. Landes particularly shows this to be the case when a crucial asset for the activity is rapid and reliable information.

In conclusion, studying the history of family businesses is not merely an exploration of the past, but a vital tool for understanding the sustainable foundations of the modern global economy. While the transition from personal capitalism to the managerial enterprise marked a significant shift in corporate governance, the enduring legacy of family firms highlights their unique resilience and long-term vision.

The historical evolution—from the small artisan workshops of the first industrial revolution to the complex U-form and M-form structures of today—demonstrates that successful family businesses are those that effectively balance traditional values with professional management. Learning from the "first movers" and the separation of ownership and control, as documented by Berle and Means, provides invaluable insights into how today's family enterprises can navigate the challenges of succession and global competition.

Ultimately, the history of family business proves that when "trust capital" is integrated with modern institutional frameworks, it creates an economic force that is not only profitable but also socially and intergenerationally stable. For emerging economies like Uzbekistan, these historical lessons serve as a roadmap for transforming traditional family-run crafts into modern, competitive global entities.

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