Measuring the Financial Impact of Family Businesses on the US Economy

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Those of us who work with family businesses are so familiar with these numbers that we often cite them without considering the source or the attribution. In the United States:

- Family businesses employ **62%** of the workforce.
- Family businesses contribute **64% of the GDP.**
- There are **24.2 million** family businesses in the United States.

We use those stats to underscore the importance of family business in the US economy, and often by proxy, the world economy. The origin of those numbers dates back to 1996, and a groundbreaking study of the impact of family businesses on the U.S. economy authored by **Joe Astrachan and Melissa Carey Shanker (http://www.familyenterpriseusa.com/wp-content/uploads/2016/09/Shanker-Astrachan-96.pdf) .** The authors updated the study and their framework in 2003. That article remains one of the most oft-cited studies of the impact of family businesses on the overall US economy (1,470 Google Scholar cites as of May 29, 2021).

And then, nothing.

Consider the economic events since the early 2000s – the Global Recession, the post dot-com bust and subsequent growth of the internet and artificial intelligence, and we will include the Coronavirus pandemic just for good measure. More importantly, however, has been the significant growth and evolution of the literature surrounding family business.

Torsten Pieper, co-author of the updated study, speculates on the current state of family business research in academia: “I think the field has come a long way since its inception in the 1980s. What we see today is quite amazing in terms of the growth and where the field is headed. One of the useful things that the 2003 study was instrumental in was designing and recrafting the Contract with America and on influencing tax laws. Family business research has had a tremendous impact on the people on Capitol Hill. Journal editors and reviewers would frequently challenge academics about their family business research, asking ‘Why does this matter? Why should we look at family businesses?’ When citation numbers demonstrate there is relevance -- and we are talking about 87 percent of all companies -- is that not relevant? Also, look how many employees they collectively put to work. What is it that they contribute to new growth of jobs? So apart from its important policy implications, the work by Astrachan and Shanker has significantly helped pave the way for more family business research to enter the scientific debate over the past 20 years.”

Indeed, much has been added to the family business literature in that time, but no updates on the scope of family business impact until this year.

Why now?

In January 2021, a team of authors released Update 2021: Family Businesses’ Contribution to the US Economy. The team included Pieper, who is associate professor of Management in the Belk College of Business at the University of North Carolina-Charlotte in Charlotte, N.C.; Franz W. Kellermanns, the Addison H. & Gertrude C. Reese endowed chair in International Business and professor of Management, also in the Belk College of Business and an affiliated faculty member at WHU Business School in Germany; Astrachan, one of the original authors of the report, a Cornell Family Business Fellow and now emeritus professor and the former executive director of the Cox Family Enterprise Center at Kennesaw State University in Kennesaw, Ga.; and Nina Anique Hadeler, a research fellow at the University of Leipzig in Leipzig, Germany.

One primary driver to resuscitate this study was Family

Enterprise USA (FEUSA). FEUSA President Pat Soldano had been looking for the best partner to undertake this research with, which took longer than expected, even with adequate funding in hand. Soldano explains why they chose to underwrite this research, in the midst of a global pandemic:

"Legislators, educators and others needed to know the economic impact of family businesses on the US Economy and the last time this was researched was 2003 so it was very dated information. To discuss the importance of family businesses in the US with legislators, we needed to know how many there are, how many people do they employ, and how much GDP do they generate and what is their economic impact on the US economy? Family businesses have not been fairly represented in US policy making, because the significance of their economic impact was not known or represented to those who make our laws in the US. FEUSA's mission is to promote family business and their job growth, and so with this updated information we are now able to explain how significant family businesses are to the US and encourage legislators to help rather than penalize family businesses with the laws they are proposing."

Definitions: Broad, Middle and Narrow

Conceiving family businesses along a continuum of definitions -- ranging from narrow, to medium, to broad, depending on the level of family influence on the business -- the findings provide nuanced insights into their contributions to employment and economic activity. The authors updated the "Bull's Eye of Family Business Impact (https://journals.sagepub.com/doi/pdf/10.1177/08944865030160030601) " which helped to identify the differences across the spectrum of family business ownership (figure 1; larger graphic available for download above).

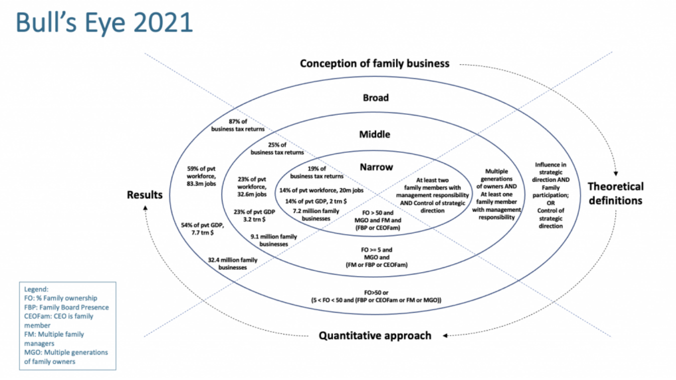

Figure 1

Since the authors improved the method in the 2021 update, comparisons to the 2003 study cannot be conclusive. Nevertheless, a few observations are worth mentioning. First, the sheer number of family businesses appear to have increased; up from 24.2 million in the 2003 study to 32.4 million in 2021. Soldano agrees: "The most significant finding to me was just how many businesses in America are family businesses. There are 37 million businesses and 32.4 million are family businesses, or 87%. So how can legislators ignore them when they constitute such a large portion of ALL businesses?"

2003	**2021**	**Observations**
EMPLOYMENT		
Using the broadest family business definition, family businesses employed **62%** of the US workforce, or approximately 82 million individuals.	In the broadest ring, family businesses are responsible for employing **59%** of private sector workforce, accounting for 83.3 million jobs.	Employment numbers in the broad ring remained similar between 2003 and 2021. Differences in the medium and narrow rings are primarily a result of the stricter definitions used in the updated study.
In 2003, family businesses in the middle ring made up **58%** of the workforce or 77 million jobs.	Family businesses in the middle ring account for **23%** of the US workforce or 32.6 million jobs.	
Under the narrow	In the current	

definition this resulted in family businesses employing **27%** of the workforce, or 36 million people.

narrowest ring, family businesses make up **14%** of the US workforce or 20 million jobs.

GROSS DOMESTIC PRODUCT (GDP)

With the broadest ring, this resulted in family businesses contributing **64% of the GDP**, or $5,907 billion ($5.9 trillion).

In 2021, family businesses in the broadest definition generated **54% of private sector GDP** or $7.7 trillion.

Applying the formula for the middle definition results in family businesses contributing 59% of the GDP, or $5,481 billion ($5.5 trillion).

In the middle ring, family businesses contributed 23% of private sector GDP or $3.2 trillion.

Applying our narrow definition to this data results in family businesses contributing 29% of the US GDP, or $2,566 billion ($2.6 trillion).

Finally, in the narrow ring, family businesses generated 14% of private sector GDP or $2.0 trillion.

Results of the broad ring are still remarkably similar to the ones obtained in 2003, with a slight decrease in the contribution to GDP and workforce. Apart from stricter definitions used, these differences may also be attributable to an overall reduction in the percentage of contribution of small businesses to the U.S. GDP since the year 2000.

TOTAL NUMBER

The outer ring of our bull's-eye (broad) definition finds a total of **24.2 million** family businesses in the United States, or 89% of all 2000 tax returns.

The broad ring of the bull's eye was estimated to contain **32.4 million** family businesses, representing 87% of all business tax returns in the United States.

The significantly greater number of (family) businesses in the 2021 update is remarkable. While we cannot exactly pinpoint the causes of this increase, one may speculate that it has been a result of an increase in the number of businesses in the economy overall, or [illegible] as well as some other factors.

According to our middle definition [illegible] businesses operate [illegible] 39% of all 2000 tax returns.

Using the high-family-involvement definition the researchers found **3 million family firms** in the United States, representing 11% of all 2000 tax returns but 54% of all “employer” businesses.

Figure 2.

The narrowest ring encompasses **7.2 million** family businesses, totaling 19% of business tax returns.

Astrachan clarifies even further, “Since we improved the research method, some comparisons cannot be conclusive. There were a lot more family businesses in general, this is for sure as the economy grew. There did not seem to be any big differences in the number of businesses as a percentage of tax returns, though the new method resulted in less overall GDP (54% vs 64%).

Now What?

While updating these numbers is an important research accomplishment, there are many additional measures by which this report becomes useful. In the case of FEUSA, Soldano indicates that “Congress will now see and understand that they cannot ignore the importance and impact of family businesses in the US. When Congress is contemplating new legislation, they must now consider the cost to businesses, the jobs lost and cost to employees. Making changes to tax legislation such as income tax, capital gains, or the estate tax will have a serious consequence on family businesses, their employees, the local communities they support and the economy. Adding new regulation, making the tax code even more complicated or changing trade practices or policies will do the same.”

As with all good research, more research is indeed needed. The authors “call on the research community to provide up-to-date estimates of family firms worldwide, which would allow researchers, practitioners and policymakers to assess the global impact of family firms beyond sometimes questionable estimates and

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anecdotal evidence currently available." Replicating this study, both here in the United States at a regional or state level, or in other countries, could open up new data sets for additional review and inquiry.

For business owners, why does any of this matter? There is strength in numbers, and Family Enterprise USA, which helped to fund the research, uses this data as they talk with lawmakers on Capitol Hill to underscore that family businesses as a whole cannot be overlooked. FEUSA is actively advocating for favorable tax laws and policies that support continued growth and strengthening of these businesses, The fact that nearly 10.2 million more family businesses exist now than in 2003 also signals that entrepreneurs beget family businesses, and vice versa. This flies in the face of the common narrative that family businesses are insular, lack innovation, or are a "thing of the past."

Regardless of how one dissects the report, it remains clear that family businesses are a pillar in the US economy by a number of metrics. Nearly 60% of employment, 54% of GDP, and over 32 million businesses are all in the domain of family owned. Family business owners should understand they are not alone, clearly, regardless of which industry they might exist in. They can be a powerful force when organized, which is what FEUSA attempts to accomplish. For business owners, Joe Astrachan adds, "They can be proud of owning a family business and they can pass some of that pride onto their kids. It's in the nation's interest to reduce estate tax on them since it severely saps growth capital and perhaps they should speak up about that with a collective voice."

The full research report, as well as summary and supporting materials, can be found on the **FEUSA website**(**https://familyenterpriseusa.com/polling-and-research/family-business-economic-research/)**. Torsten Pieper, the report co-author, along with Pat Soldano, recently sat down with Daniel Van Der Vliet to discuss the report in more detail. That conversation can be viewed **here** **(https://vod.video.cornell.edu/media/Connected+ConversationsA+Family+Businesses+Contribution+to+the+U.S.+EconomyA+A+Closer+Look/1_d49d19sc)** .

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