FAMILY BUSINESSES AND THEIR IMPACT ON THE CALIFORNIA ECONOMY

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Contents

EXECUTIVE SUMMARY

Family businesses have become a popular topic of economic research in recent years. Our review of these studies indicates that family businesses have many unique characteristics that set them apart and allow them to behave in ways that provide numerous benefits not only to their direct stakeholders, but also to their local communities and to society at large. Our review also shows that family businesses represent a significant portion of the economic activity at both the state and national level.

Many recent studies focus on how family businesses perform relative to their nonfamily peers. These studies indicate that family businesses generate higher returns for their shareholders. They also have lower borrowing costs, indicating that family businesses are perceived as safer investments with better long-term prospects.

Other studies have examined the unique attributes that make family businesses behave differently than their nonfamily competitors. These studies show that family businesses invest more in their employees in terms of training and benefits. Family businesses are also more likely to promote women to the highest levels of management, and are less likely to lay off their workers or downsize in tough economic times.

In terms of their commitment to their communities, family businesses engage in higher levels of philanthropic activity and donate more to local causes. They also have been shown to be better stewards of the environment by virtue of their long-term perspective and their commitment to protecting the local and natural resources upon which their success ultimately relies. In these ways and others, family businesses provide numerous benefits not only to their direct stakeholders, but also to their local communities and to society generally.

In terms of their impact on the economy, family businesses represent a considerable share of economic activity at both the state and national level. While the exact measure of their contribution varies significantly depending upon the definition used, a targeted definition that includes only those businesses most commonly understood to represent family businesses results in estimates that family businesses account for approximately 20 to 35% of all California businesses, contribute 20 to 40% of the state's GDP, and provide between 20% and 40% of the state's jobs. Because of their prominent role in the state's economy and the many positive benefits they provide, policies that nurture family businesses will likely yield benefits to the state's economy as a whole. Further, consideration of policies that support the health of family businesses should be at the forefront of efforts by state and local policy makers to encourage sustainable growth and address the state's current economic and unemployment problems.

INTRODUCTION

Family businesses constitute the world's oldest and most common form of business organization. The number of empirical studies that focus on family businesses has increased considerably in recent years, not only in the U.S. but throughout Europe and the rest of the world. In many countries family businesses represent a large majority of firms and play a key role in economic growth and workforce employment. Family businesses range in both size and organizational structure, from family farms, to small and medium-sized companies structured as sole proprietorships or private partnerships, to large well-known public companies such as Ford and Wal-Mart. While they may come in a variety of sizes and organizational structures, family businesses as a group have been shown to benefit the economy and society at large in numerous ways, making them a valuable part of the economic landscape.

This report seeks to provide a better understanding of the economic impacts and social benefits of family businesses in California. To do this we first provide a summary of the most recent empirical studies to better understand the attributes that make family businesses different from nonfamily businesses in the way they interact with and impact their various stakeholders, including their investors and business partners, their employees, their customers, and the communities in which they operate. To examine the economic impact of family businesses we then explore the criteria most commonly used to define family businesses and adopt a framework that uses a range of definitions, from very broad and inclusive to very narrow, to quantify the impact of family businesses on the national and state economies.

FAMILY BUSINESS ATTRIBUTES

Much of the recent research on family businesses has focused on testing the "stewardship" perspective of business management and stakeholder influence. Under the stewardship theory, family businesses are differentiated from nonfamily businesses by a higher level of commitment to their long-term prospects, primarily because the business is not simply a short-term profit-maximizing enterprise but rather the embodiment of their family's fortune, reputation and future economic security. This higher level of stewardship can be observed as a higher level of commitment to the continuity of the company, by higher levels of investment in employees, and by a deeper commitment to establishing and maintaining connections with customers and communities. These connections are not only aligned with the values of family business owners, but also strategically important to sustain the business over the long term.[1]

To test whether they are in fact more likely to exhibit these characteristics, many researchers have conducted empirical studies to compare family businesses to nonfamily businesses along these dimensions. In the following sections we review the existing literature with a focus on these four areas: the relative performance of family businesses, their investments in and commitment to their employees, their commitment to the communities in which they operate, and their commitment to the environment as a long-term resource.

Performance

Because of the lack of available data for private companies, it is difficult to analyze the relative performance of privately held family businesses. As a result most studies that attempt such comparisons have either relied on a survey or limited their analysis to public companies, for which such information is much more readily

[1] Miller, D., Le Breton-Miller, I., & Scholnick, B., "Stewardship vs. stagnation: An empirical comparison of small family and non-family businesses," Journal of Management Studies, 45(1), 2008, p. 52.

available. A 2003 study of S&P 500 firms for the period from 1992 through 1999 found that large public firms under family control performed better under a variety of economic measures. The study reported that EVA (Economic Value Added) is 5.5% greater when founding families maintain an ownership stake, and ROA (Return on Assets) is 6.65% greater than that of nonfamily firms.[2]

Other studies have shown that family businesses benefit from a lower cost of debt financing than nonfamily businesses, indicating a market perception that they are more stable and likely to outperform nonfamily peers in the long term. For example, a 2001 study analyzed a sample of 252 industrial firms with publicly issued debt that were included in both the Lehman Brothers Index and the S&P 500 index and found that the cost of debt for family firms was approximately 40 basis points below that of nonfamily firms, suggesting that bond investors find family firms to be a safer investment than nonfamily firms.[3]

Commitment to Employees

As discussed above, because they are more concerned with the continuity of the business and have a long-term perspective on economic performance, family businesses are likely to invest more in training and retaining their employees. Indeed, a 1997 study found that workers and managers employed by family businesses were paid better, given more hours of training, and granted more generous benefits—specifically long-term benefits like pensions and health insurance—than employees at their nonfamily rivals.[4]

There is also evidence that family businesses have made more progress in promoting women in the workplace. A 2007 survey of family businesses found that 24% of respondents had a woman as CEO or President, and 57% had women in top management, while only 2.5% of Fortune 1,000 firms had women leaders.[5]

In addition to investing more in training and compensating their employees, family businesses are also less likely to resort to layoffs during times of economic difficulty. A recent study from 2010 examined the companies in the S&P 500 from 1994 through 2003 and found that family-owned firms were less likely to downsize (defined as a 5% or greater reduction in workforce) than nonfamily firms, indicating a greater commitment to their employees and, in general, a more stable employment environment.[6]

Commitment to the Community

Under the stewardship theory, family businesses are more likely to exhibit strong ties to their communities, both to develop and strengthen the long term relationships with their many stakeholders and to protect the family's standing and reputation within those communities. Here again, research on the relative difference in philanthropy and community involvement between family and nonfamily business is difficult due to the lack of available data for private companies; thus most analyses to date have focused on public companies. One

[2] Anderson, Ronald C. and Reeb, David M., "Founding-Family Ownership and Firm Performance: Evidence from the S&P 500," Journal of Finance, 58(3), 2003, pp. 1301–28.
[3] Anderson, Ronald C., Mansi A. Sattar and David M. Reeb, "Founding Family Ownership and the Agency Cost of Debt," *Journal of Financial Economics*, 68(2), 2003.
[4] Le Breton-Miller, I. and Miller, D. "Why Do Some Family Businesses Out-Compete? Governance, Long-Term Orientations, and Sustainable Capability," Entrepreneurship Theory and Practice, 30, 2006, pp. 731–746.
[5] Kennesaw State University/MassMutual Financial Group, American Family Business Survey, 2007.
[6] Block, Jörn, "Family Management, Family Ownership, and Downsizing: Evidence From S&P 500 Firms," Family Business Review, 23(2), June 2010, pp. 109-130.

example that uses public company data is an empirical study from 2006 that compared firms within the Fortune 500 and found that family businesses contributed more to charity than their nonfamily peers.[7]

Further evidence comes from a variety of surveys of family businesses. In a 2011 survey by the organization Family Enterprise USA, 94% of respondents said that they donated money to one or more organizations, and 81% said that they personally volunteered in their community. The survey also found that the majority of respondents were actively involved in their communities in various other ways: 76% served on the board for at least one non-profit or charitable organization; 74% made in-kind donations of materials, supplies, or meeting space; and 53% encouraged their employees to volunteer locally.[8]

Based on these studies and surveys, it appears that family businesses do indeed exhibit a high degree of commitment to their local communities, providing additional social benefits by virtue of their philanthropic efforts, high levels of volunteerism, and involvement in local charitable causes.

Commitment to the Environment

The stewardship theory as applied to family businesses indicates that they should be more likely to utilize environmentally friendly practices. This is true both because of their long-term perspectives and their desire to maintain the family business on an intergenerational basis, both of which require higher levels of protection for the natural resources and environment upon which the business relies.

This may be less prevalent among nonfamily businesses, as the authors of one 2006 study point out: "As the long-term implications of intergenerational decisions are temporally and personally removed from decision makers, firms without family influences would potentially have a different perspective on natural-environment-related decisions than those that are family firms."[9] In this study, the researchers surveyed 2,200 randomly selected "small to medium-sized firms" (defined as those having 6 to 499 employees) and collected 396 usable responses, with 179 nonfamily firms and 217 family firms. By analyzing these responses, they found that "family firms are better able to facilitate environmentally friendly firm policies associated with improved firm innovation and greater financial performance more effectively than their nonfamily competitors."[10]

Some research has indicated that family businesses, by virtue of their long-term investment horizons, are more protective of the environment and more likely to make investments in sustainable environmental development. An empirical study that directly compared family and nonfamily firms in the S&P 500 from 1991 to 2000 found family firms to be more socially responsible than nonfamily firms along several dimensions, including environmental stewardship. The authors hypothesized that this is likely due to a greater concern among family businesses about protecting their image and reputation, as well as a desire to protect family assets.[11] These higher levels of environmental commitment exhibited by family businesses clearly provide social benefits to the state and the nation as a whole.

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[7] Stavrou, E, Kassinis, G., & Filotheou, A., "Downsizing and stakeholder orientation among the Fortune 500: Does family ownership matter?" Journal of Business Ethics, 72(2), 2006.
[8] Family Enterprise USA, "Annual Family Business Survey: General Results & Conclusions," March 2011.
[9] Craig, J., Dibrell, C., "The natural environment, innovation, and firm performance: a comparative study," Family Business Review, 19(4), 2006, p. 276.
[10] Ibid, p. 275.
[11] Dyer, W. G. and Whetten, D. A. "Family Firms and Social Responsibility: Preliminary Evidence from the S&P 500," Entrepreneurship Theory and Practice, 30, 2006, pp. 785–802.

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Contributions of Family Businesses

As this review has shown, family businesses provide a number of unique benefits. They outperform their peers using a variety of measures, including EVA (economic value added) and ROA (return on assets). Family businesses benefit from lower borrowing costs, with a cost of debt that is almost 40 basis points lower than comparable nonfamily businesses, a strong indication that they are perceived as safer investments with better long-term prospects. Family businesses invest more in their employees, providing them with more training and more generous long-term benefits. Family businesses have done a better job at promoting women to the highest levels of management, and they are in general less likely to lay off their workforce in times of economic hardship. Family businesses engage in higher levels of philanthropic activity, donate more to local causes, and are more likely to volunteer in their communities. Their long-term perspective and commitment to their communities also make them better stewards of the environment. In all of these ways, family businesses provide not only benefits for their direct stakeholders, but additional positive externalities for their local communities and society generally.

ECONOMIC IMPACTS OF FAMILY BUSINESSES

It is clear that family businesses account for a substantial portion of the modern economy. This is true not just in California, but throughout the entire U.S. economy, and indeed, even globally. Any definitive measure of the impact of family businesses on the economy as a whole, however, is difficult to estimate for a number of reasons.

First, there is the issue of how exactly one defines a family business. Clearly there are many possible criteria that might be used, such as family ownership or control, family involvement in managing the business, employment of multiple family members within the company, or even whether or not the business has continued to operate under family control through multiple generations. As a result, almost no two studies analyzing family businesses use the same definition. A 1999 literature review of 250 family business studies found 21 distinct definitions for family businesses with varying degrees of family ownership and family involvement in the business as their criteria.[12] Some studies have asked businesses to categorize themselves as family or nonfamily businesses, but this also can provide confusing results, with similarly situated businesses replying in both the affirmative and the negative.[13] Because of this, it can be difficult to interpret the findings presented and gauge their reliability. For example, a 1997 study found that the percentage of family business in one sample could range from 15% to 80% depending on which definition of a "family business" is applied.[14] Clearly it is difficult to evaluate the findings or any study, let alone compare findings across studies, if there is no commonly accepted definition of what constitutes a family business.

Second, under almost any definition, the vast majority of family businesses are privately held companies. This makes data collection extremely difficult, as there are very few sources of detailed information for private companies. Because of this, most empirical studies collect their data in one of two ways. Many limit their analysis to public companies and define family businesses based on percent ownership or intergenerational management of the company. To avoid using only public companies, other researchers use surveys to collect data from a relatively small sample of family and nonfamily businesses and draw wider inferences from this

[12] Chua, J. H., Chrisman, J. J., & Sharma, P., "Defining the family business by behavior," *Entrepreneurship Theory and Practice*, 23 (4), 1999, p. 20.
[13] Ibid, p. 19.
[14] Westhead P, Cowling M., "Family Business Research: The Need for a Methodological Rethink," Entrepreneurship: Theory and Practice, 23(1), 1998, pp. 31-57.

small sample. Under either approach, applying such findings to the entire universe of family businesses could lead to misleading conclusions.

To better understand the issues involved in defining the family business, the following section discusses the criteria commonly used to define family businesses and describes the framework that we have adopted to construct our estimates of their economic impact. We then apply this framework to both national and state data to estimate the number of family businesses, their share of GDP, and their share of employment at both the national and state levels.

Family Business Definition

While much research has been conducted in the past few decades on family businesses and their impact on the economy, no commonly accepted definition has emerged as to what exactly constitutes a family business. While different studies may vary in the level of the thresholds used to define family businesses, one widely cited study published by the *Family Business Review* notes that the criteria used are likely to include some minimum percentage of ownership or voting control, family power over strategic decisions, the Involvement of multiple generations, and some degree of active management by family members.[15]

Clearly, there is no single "correct" definition of what constitutes a family business, but rather a number of criteria that provide a continuum of possible definitions. To construct an estimate of the economic impact of family businesses, we follow the approach used by Joseph H. Astrachan and Melissa Carey Shanker in their aforementioned 1996 study and 2003 update published in the *Family Business Review*, in which they calculated a range of estimates using a very broad and inclusive definition, a "middle" definition, and a more restrictive narrow definition for family businesses. They describe these definitions as follows:

> Our broad definition…is the most inclusive and requires only that there be some family participation in the business and that the family have control over the business' strategic direction. This definition covers the gamut of possibilities, from a large public company that has descendants from the original founding family as stockholders or on the board to an independent building contractor whose daughter manages his books and whose grandson performs occasional manual labor for him.
>
> Our middle definition narrows the field by requiring that the business owner intends to pass the business on to another member of his or her family and that the founder or descendant of the founder plays a role in running the business. The latter requirement separates out those businesses where the original family may have a stake in the business or a role on its board but very little interaction in day-to-day operations. The other requirement—intention—is a tricky concept to quantify, but, we believe, an important delineator. We believe that if an entrepreneur's long-term vision for his or her business is to build something for his or her children, then the planning and strategic decisions he or she makes will be different from those of a nonfamily business.
>
> A family business [under] our narrowest definition, may involve a grandparent/ founder as chairman, two or three siblings in top management, one sibling with ownership but no day-to-day responsibilities, and younger cousins in entry-level

[15] Shanker M., Astrachan J., "Myths and Realities: Family Businesses' Contribution to the US Economy--A Framework for Assessing Family Business Statistics," Family Business Review, 9(2), 1996, pp. 107-123.

positions. In this scenario, multiple generations have a significant impact on the business. [16]

Using their template as our starting point, we have also examined the impact of family businesses under a range of definitions. The following table summarizes the qualitative differences that underlie our broad, middle and narrow definitions:

TABLE 1: SUMMARY OF FAMILY BUSINESS DEFINITIONS

Broad (Little Family Involvement)	Middle (Some Family Involvement)	Narrow (Significant Family Involvement)
▪ Founder/family maintains control of strategic direction	▪ Founder or descendant runs company	▪ Multiple family members with management responsibility
▪ Some family participation	▪ Intended to be passed to descendents	▪ Multiple generations involved

Our analysis is also similar to that of Astrachan and Shanker in that we use the same or similar data sources, and we follow their methodology of allocating published statistics using both business structure and size to estimate the impact of family businesses under the broad, middle and narrow definitions. Our estimates differ by virtue of the fact that we use more recent data and utilize detailed state-level data where available to quantify the impact of family businesses in California. In the sections that follow we construct state and national estimates for the same economic measures used in their study – namely, the number or share of businesses that are family businesses, their share of GDP, and their share of employment.

Number of Family Businesses

Published estimates vary widely, both for the number of family businesses and their share of the total number of businesses. As discussed above, family businesses can include both private and public companies, but the vast majority of all U.S. businesses are private. The IRS provides one of the few publicly accessible sources of data on all US businesses. State-level tax filing data from the IRS are also available but not as timely; the most recent state-level data are for 2007; thus, we have used 2007 data for our estimates. Businesses in the IRS tax data are broken down into subgroups based on their filing status, including farms, sole proprietorships, partnerships, and corporations (both public and private). Note that the farmers we report here represent sole proprietors that file a Schedule F with their 1040 federal tax return. Farmers who are organized as a corporation or partnership report income and expenses on the appropriate business tax return (e.g., a farm that is a corporation would file a corporate tax return and, in our analysis, would be treated like any other corporation). We differentiate sole proprietors into farms and non-farms because farms structured as sole proprietorships are considered more likely to be family businesses under the middle and narrow definitions. To estimate the universe of family businesses from the IRS tax return data, we follow Astrachan and Shanker's approach, relying upon their interpretation of the existing research to allocate these business structures into family and nonfamily businesses under the broad, middle and narrow definitions described above.

[16] Astrachan J, Shanker M., "Family Businesses' Contribution to the US Economy: A Closer Look," Family Business Review 16(3), 2003, pp.211-212.

As Table 2 shows, the 2007 IRS data report 31.9 million business tax returns filed nationally, including 1.7 million farms (Schedule F), 22.2 million non-farm sole proprietorships (Schedule C and C-EZ), 3.1 million partnerships, and 6.6 million corporations. For California there were just over 4 million business returns distributed in a similar manner, though as a share of the total there were more non-farm sole proprietorships (75% CA vs. 69% U.S.) and smaller shares in the remaining categories.

TABLE 2: ESTIMATED NUMBER OF FAMILY BUSINESSES IN 2007

	Source	Farms	Non-Farm Sole Proprietorships	Partnerships	Corporations	Total	Share (%)
Business Tax Returns Filed							
United States	[1]	1,669,900	22,176,700	3,147,000	6,623,900	31,947,600	
		(5%)	(69%)	(10%)	(21%)	(100%)	
California	[2]	69,837	3,029,716	341,249	670,262	4,041,227	
		(2%)	(75%)	(8%)	(17%)	(100%)	
Family Businesses:							
% for Broad Definition	[3]	100%	100%	60%	60%		
United States		1,669,900	22,176,700	1,888,200	3,974,340	28,039,240	88%
California		69,837	3,029,716	204,749	402,157	3,636,623	90%
% for Middle Definition	[3]	100%	25%	60%	60%		
United States		1,669,900	5,575,148	1,888,200	3,974,340	11,437,688	36%
California		69,837	761,660	204,749	402,157	1,368,567	34%
% for Narrow Definition	[3]	35%	9%	21%	21%		
United States		584,465	1,951,302	660,870	1,391,019	4,003,191	13%
California		24,443	266,581	71,662	140,755	478,998	12%

Sources:
[1] IRS Statistics of Income (SOI) Bulletin - Historical Tables and Appendix, Table 21.
[2] IRS Statistics of Income (SOI) Bulletin - Historical Tables and Appendix, Table 2 and IRS Data Book: 2007, Table 3.
[3] The percent of each business type allocated to family businesses taken from Shanker M., Astrachan J. (1996).

Under our broad definition, all farms and sole proprietorships are classified as family businesses under the assumption that they are likely to include primarily a company run by a single individual or family-run businesses, and that they would typically rely on some degree of family participation in the form of both paid and non-paid family labor. For partnerships and corporations we rely on Shanker and Astrachan's estimate that 60% would qualify as family businesses under the broad definition. This is based on earlier studies of public companies which found a range of 21% to 47% classified as family businesses, which Shanker and Astrachan adjust up to 60% to account for the fact that the majority of partnerships and corporations are private rather than public, and that private companies would be more likely than their larger public counterparts to be family businesses under this definition. [17] We believe these allocations to be reasonable and have used them here.

To qualify as a family business under our middle definition there must be at least the intention of passing the business to the founder's descendants. Here again we follow Shanker and Astrachan's approach and assume that only those sole proprietorships which represent the tax filer's "principal occupation" would be likely to

[17] Ibid, p. 214.

meet this criteria. Using the 1997 Census as their guide, they estimate that approximately 25% of the sole proprietorships are the tax filer's principal occupation and assume only 25% of sole proprietorships would be family businesses under the middle definitions. We have followed their approach and applied the same 25% for constructing our estimates. Partnerships and corporations remain at 60% for the middle definition.

Our narrow definition of a family business requires it to have two or more family members with management responsibility, and to have multiple generations involved in the business. Shanker and Astrachan again rely on Census data to first eliminate businesses that have no employees, as these cannot by definition involve multiple family members. They estimate that because these non-employer businesses are primarily small businesses, they are likely sole proprietorships rather than partnerships or corporations. They also cite earlier studies that showed that only one-third of post-start-up family businesses survive to the succeeding generation and a 1995 survey of family businesses in which 35% of respondents had multiple generations involved in the business. We therefore take 35% of the businesses from the "middle" definition for each of the business types to estimate that 35% of farms, 9% of sole proprietorships, and 21% of partnerships and corporations are likely to meet our narrow definition.

As seen in Table 2, we estimate that as of 2007 there were approximately 28 million family businesses in the U.S. under our broad definition, 11.4 million under our middle definition, and just over 4 million under our narrow definition, representing 88%, 36%, and 13% of all U.S. businesses, respectively.[18] For California we estimate that there were about 3.6 million family businesses under the broad definition, 1.4 million under the middle definition, and just under half a million under the narrow definition. This represents 90%, 34% and 12% of all California businesses, respectively.

As these estimates show, the choice of definition used to calculate the number of family businesses at the national or state level results in a great deal of variation in the resulting estimates. California has 3.6 million such businesses under the broadest definition, representing 90% of all businesses in the state. However, it is unlikely that such a broad definition would be used for making policy decisions at the state or local level, since such an inclusive definition would result in effectively all businesses qualifying as "family businesses" and therefore be less effective at promoting or rewarding the behavior that family businesses have been shown to exhibit. Some narrower, more targeted definition is more likely to produce the intended benefits, since those businesses that meet the stricter criteria of the middle and narrow definitions are more likely to represent "family businesses" in the traditional sense, and to possess the characteristics associated with family businesses as discussed earlier. Therefore, for the purpose of targeting state and local policy towards benefiting family businesses, the most appropriate definition would likely lie somewhere between the middle and narrow definitions presented above and fall in the range of 800,000 to 1.4 million California businesses, or 20% to 35% of all businesses in the state.

Share of GDP

The Gross Domestic Product (GDP) represents the total value of all goods and services produced within a region. The Commerce Department's Bureau of Economic Analysis (BEA) publishes estimates of GDP at both the national and state levels. These estimates are available at a more detailed level, broken down between the government and private sectors, with detailed industry breakdowns available for the private sector. In a 2012 report for the Small Business Administration (SBA), Kathryn Kobe combined this detailed industry-level BEA data with the annual Statistics of U.S. Businesses (SUSB) from the Census Bureau, the Medical Expenditure

[18] Our estimates are quite close to those presented in the Astrachan and Shanker's 2003 study, which found 89%, 39%, and 11% of U.S. firms were family businesses under the broad, middle and narrow definitions.

Panel Survey, the IRS Statistics of Income data, and information from the Statistics of Income combined with data by legal form to estimate the breakdown of private sector GDP into small and big businesses, where small businesses are defined as those with fewer than 500 employees.[19] Using her estimate of 46.2% we can further allocate non-farm private business GDP for the U.S. and for California into small and large businesses. Table 3 shows the GDP figures for 2007 and their allocation.

TABLE 3: GROSS DOMESTIC PRODUCT IN 2007

	US	California
Total GDP for 2007 ($millions)	13,969,323	1,874,783
Government	1,667,425	209,285
Farm	114,893	19,969
Non-Farm Private Businesses	12,187,005	1,645,529
Small Business Share (46.2%)	5,630,396	760,234
Large Businesses Share	6,556,609	885,295

Source: GDP figures from Bureau of Economic Analysis. Allocation to large and small businesses from Kobe, Kathryn (2012).

Following the Shanker and Astrachan methodology, we assume that very few sole proprietorships are large businesses with more than 500 employees and therefore allocate all of the large business share of GDP to partnerships and corporations. We still must allocate the small business share of GDP among all three types of businesses, as companies with fewer than 500 employees may be organized as sole proprietorships, partnerships, or corporations. The Census Bureau provides data on the share of business receipts and employment that come from small and large businesses, and further allocates them among corporations and non-corporations. Using these figures for 2007, we allocate 77% of small business GDP to sole proprietorships and 23% to partnerships and corporations as shown in Table 4.

19 Kobe, Kathryn, "Small Business GDP: Update 2002-2010," Prepared for the SBA Office of Advocacy, January 2012.

TABLE 4: FAMILY BUSINESS SHARE OF GDP IN 2007

	US	California	Notes
Total 2007 GDP ($millions)	13,969,323	1,874,783	
Farm	114,893	19,969	
Small Business GDP	5,630,396	760,234	
Large Business GDP	6,556,609	885,295	
Broad Definition:			
Farms	114,893	19,969	(100% of Farm GDP)
Sole Proprietors (total)	4,312,884	582,340	(100% of 77% of small biz GDP)
Partnerships & Corps (<500)	790,508	106,737	(60% of 23% of small biz GDP)
Partnerships & Corps (500+)	3,933,965	531,177	(60% of large biz GDP)
Family Business GDP	9,152,249	1,240,222	
Percent of Total GDP:	66%	66%	
Middle Definition:			
Farms	114,893	19,969	(100% of Farm GDP)
Sole Proprietors (total)	1,084,244	146,398	(25% of 77% of small biz GDP)
Partnerships & Corps (<500)	790,508	106,737	(60% of 23% of small biz GDP)
Partnerships & Corps (500+)	3,933,965	531,177	(60% of large biz GDP)
Family Business GDP	5,923,610	804,281	
Percent of Total GDP:	42%	43%	
Narrow Definition:			
Farms	40,213	6,989	(35% of Farm GDP)
Sole Proprietors (total)	379,486	51,239	(9% of 77% of small biz GDP)
Partnerships & Corps (<500)	276,678	37,358	(21% of 23% of small biz GDP)
Partnerships & Corps (500+)	1,376,888	185,912	(21% of large biz GDP)
Family Business GDP	2,073,264	281,498	
Percent of Total GDP:	15%	15%	

Sources: GDP figures from BEA. Private non-farm GDP allocated to small and large businesses from Kobe, Kathryn (2012).

As Table 4 shows, we estimate that family businesses contribute similarly at the state and national levels. Under our broad definition, family business account for 66% of GDP for both the state and the nation, while the figures vary slightly at 42% of the national GDP and 43% of the state GDP under the middle definition. Under the narrow definition they account for 15% of GDP at both the state and national levels.

Once again differences in the family business definition used to estimate the share of GDP result in considerably different estimates at the state and national level. Limiting our estimates to the range that represents those businesses most likely to be targeted by policy makers as “family businesses,” it is reasonable to estimate that such businesses represent somewhere between 20% and 40% of the state’s GDP.

Share of Employment

To maintain consistency of our estimates we have again used 2007 data to estimate the share of employment attributable to family businesses at the state and national level. The Department of Labor’s Bureau of Labor Statistics (BLS) publishes employment by sector, and reports total U.S. civilian employment of 116.6 million for 2007, of which 22.3 million (19%) were government employees and 93.2 million were private non-farm employees. The BLS does not report farm employment, but the Department of Agriculture (USDA) estimates a total of just over one million farm workers for 2007.

Because neither the BLS nor the USDA provides an estimate of farm workers at the state level, we have used data from the Employment Development Department (EDD) as the starting point for examining employment in California. For 2007 the EDD estimates a total of just under 17 million civilian employees in California, with government workers accounting for 2.5 million (15%), non-farm private businesses accounting for 14 million, and farm workers accounting for just under 400,000. For both the national and state employment figures, we have used a 2009 report by the Office of Advocacy at the SBA to allocate non-farm private employment into small and large businesses, with large businesses once again defined as those with 500 or more employees. The SBA report provided both national and state level data, reporting that small businesses accounted for 48.8% of private business employment at the national level and 51.0% in California. Table 5 summarizes the state and national employment allocation.

TABLE 5: U.S. AND CALIFORNIA EMPLOYMENT IN 2007

	US	California
Total Civilian Employment (2007)	116,638,000	16,960,700
Government	22,376,000	2,494,600
Farm	1,032,000	383,700
Non-Farm Private Businesses	93,230,000	14,082,400
Small Business Share	45,496,240	7,178,336
Large Businesses Share	47,733,760	6,904,064

Source: U.S. data from BLS (non-farm) and USDA Economic Research Service (farm). CA data from EDD. Allocation to small and large businesses from SBA, Office of Advocacy (2009), US=48.8%, CA=51.0%.

Applying the same methodology used to allocate GDP, we first assume that effectively all sole proprietorships are small businesses and allocate all of the large business employment to corporations and partnerships. We divide the small business share of employment among sole proprietorships, partnerships and corporations based on the Census Bureau's allocation, assigning 73% of small business employment to sole proprietorships and 27% to partnerships and corporations. Under these assumptions we estimate that family businesses under our broad definition account for 60% of employment nationally and 64% in California. Using our middle definition, the numbers are 39% and 41% respectively, and under our most narrow definition we estimate that family businesses account for 14% of employment at both the national and state level. Our findings are summarized in Table 6.

TABLE 6: FAMILY BUSINESS SHARE OF EMPLOYMENT IN 2007

	US	California	Notes
Total Civilian Employment (2007)	116,638,000	16,960,700	
Farm	1,032,000	383,700	
Small Business Employment	45,496,240	7,178,336	
Large Business Employment	47,733,760	6,904,064	
Broad Definition:			
Farms	1,032,000	383,700	(100% of Farm employment)
Sole Proprietors (total)	33,348,744	5,261,721	(100% of 73% of small business employment)
Partnerships & Corps (<500)	7,288,498	1,149,969	(60% of 27% of small business employment)
Partnerships & Corps (500+)	28,640,256	4,142,438	(60% of large business employment)
Family Business Employment	70,309,498	10,937,828	
Percent of Total Employment	60%	64%	
Middle Definition:			
Farms	1,032,000	383,700	(100% of Farm employment)
Sole Proprietors (total)	8,383,762	1,322,779	(25% of 73% of small business employment)
Partnerships & Corps (<500)	7,288,498	1,149,969	(60% of 27% of small business employment)
Partnerships & Corps (500+)	28,640,256	4,142,438	(60% of large business employment)
Family Business Employment	45,344,516	6,998,887	
Percent of Total Employment	39%	41%	
Narrow Definition:			
Farms	361,200	134,295	(35% of Farm employment)
Sole Proprietors (total)	2,934,317	462,973	(9% of 73% of small business employment)
Partnerships & Corps (<500)	2,550,974	402,489	(21% of 27% of small business employment)
Partnerships & Corps (500+)	10,024,090	1,449,853	(21% of large business employment)
Family Business Employment	15,870,581	2,449,610	
Percent of Total Employment	14%	14%	

Sources: U.S. employment figures from BLS (non-farm) and USDA Economic Research Service (farm). CA employment figures from EDD. Allocation of small business share from Kobe, Kathryn (2012).

As with the number of businesses and share of GDP above, it is unlikely that policy makers would use the broadest definition to target family businesses. Here again, if we restrict our estimates to just those businesses that fall somewhere within the middle and narrow definitions, we estimate that somewhere between 20% and 40% of the state's workforce is likely employed by such family businesses.

CONCLUSION

Recent studies have found that family businesses perform better than their peers using a variety of measures such as EVA (economic value added) and ROA (return on assets). These studies also show that family businesses have a lower cost of borrowing, which indicates that they are perceived as safer investments with better long-term prospects. Family businesses have been shown to invest more in their employees, provide more training and benefits, are do a better job of promoting women to the highest levels of management. Family businesses are less likely to lay off their workers, and are more likely to engage in philanthropic activity, donate to local causes, and volunteer in their communities. They also have been shown to be better stewards of the environment, likely because of their long-term perspective and their commitment to protecting the local and natural resources upon which their success ultimately relies.

Our analysis also shows that family businesses represent a substantial portion of economic activity at both the state and national level. While the exact measure of their contribution varies significantly depending upon the definition used, a targeted definition that includes those businesses most commonly understood to represent family businesses results in estimates that family businesses account for approximately 20-35% of all California businesses, contributing 20-40% of the state's GDP, and employing 20-40% of the state's workforce.

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