

**Department of Commerce
United States Census Bureau
OMB Information Collection Request
Annual Survey of Entrepreneurs
OMB Control Number 0607-0986**

Part A – Justification

1) Necessity of Information Collection

In an effort to improve the timely measurement of business dynamics in the United States, the U.S. Census Bureau conducts an annual survey focused on employer businesses. The survey is known as the Annual Survey of Entrepreneurs (ASE) and collects information on characteristics of businesses and business owners. The ASE is a supplement to the Survey of Business Owners and Self-Employed Persons (SBO), which provides economic and demographic characteristics for businesses and business owners by gender, ethnicity, race, and veteran status every 5 years. The ASE is an intercensal program that helps assess the health of the economy and provides detailed statistics on businesses and business owners more frequently. The ASE is a joint effort funded by the Ewing Marion Kauffman Foundation, the Minority Business Development Agency (MBDA), and the Census Bureau. On behalf of the Secretary of Commerce, pursuant to section 1(a)(3) of Executive Order 11625, the MBDA may enter into this agreement with the Census Bureau to establish a means for the development, collection, summation, and dissemination of information that will be helpful to persons and organizations throughout the nation in undertaking or promoting the establishment and successful operation of minority business enterprises. The Census Bureau will collaborate with the Kauffman Foundation, the MBDA, and other agencies to ensure the ASE is as robust and effective as possible.

The inaugural ASE began collection in September 2015 for the 2014 reference year. Corresponding estimates will be released in late summer of 2016. Estimates will include number of firms, sales/receipts, annual payroll, and employment by gender, ethnicity, race, and veteran status. The ASE includes questions from the 2012 SBO long form SBO-1 with additional questions to collect data on entrepreneurs' access to capital. The ASE introduces a new module each year focusing on an important component related to business growth. Proposed module topics include innovation, research and development, technological advances, Internet usage, management and business practices, exporting practices, and globalization. The 2014 ASE module covered innovation and research and development. The 2015 module, the subject of this request, will cover management and business practices. We are proposing no changes to the core questions currently asked on the ASE. The survey samples approximately 290,000 employer businesses stratified by metropolitan statistical area (MSA), frame, and age of business. This survey will help assess the impact young firms have on the growth of the economy. Additionally, the survey has a longitudinal component that will allow the growth of the firms in the sample to be tracked and analyzed over time.

This collection allows the Census Bureau to collaborate on the implementation of a key National Academies recommendation for improving the measurement of business dynamics in the U.S. economy, which recommended:

“The Census Bureau Survey of Business Owners (SBO) should be conducted on an annual basis. The survey should include both a longitudinal component and a flexible, modular design that allows survey content to change over time. In addition, the Census Bureau should explore the possibility of creating a public-use (anonymized) SBO or a restricted access version of the data file.”

-Lynch, Lisa M., John Haltiwanger, and Christopher Mackie, eds. Understanding Business Dynamics: An Integrated Data System for America’s Future. National Academies Press, 2007.

The additional sources of capital and financing questions provide information on the financial trends and financial challenges faced by entrepreneurs. Tabulation of the financing questions will offer insight into the type of funding acquired and used by women-, minority-, and veteran-owned businesses. For the 2015 reference year, the module selected will cover management and business practices. Questions for the 2015 module were developed in conjunction with the Ewing Marion Kauffman Foundation, MBDA, and the Census Bureau. Census Bureau labor economists contributed to the development of the management module by identifying relevant questions about entrepreneurs’ management, record-keeping, and other business practices. The Cognitive Testing Report, attached in Part B, explains the testing, results and recommendations that also aided in development of the module questions. The 2015 ASE module will allow for an assessment of management practices that contribute to business growth. Questions from the management practices module will also provide an understanding of the types of workers used by a business and the types of tasks they perform. The ASE is designed to retain certain businesses in the sample from year to year. This will help track and assess the growth of these firms and changes to their business characteristics over time. The module questions are listed on pages 19 through 22 in Attachment B, the ASE worksheet.

Under Title 13, United States Code, Section 182, the Secretary of Commerce has deemed it necessary to conduct an annual survey on characteristics of businesses and business owners. The ASE augments the quinquennial SBO collected and disseminated under Title 13, United States Code, Section 131. Title 13, United States Code, Section 8(b) allows the Secretary of Commerce to conduct surveys for other Federal agencies.

The ASE collection is electronic only. An initial letter that informs the respondents of their requirement to complete the survey and provides survey access instructions will be mailed from the Census Bureau’s processing headquarters in Jeffersonville, Indiana. For the 2015 ASE, approximately 290,000 letters will be mailed to employer businesses that were in business during 2015. Initial mailout will occur in June 2016, with a due date of July 27, 2016. There will be two follow-up letter mailings to nonrespondents after the due date. Closeout of mail operations is scheduled for November 2016. Upon the close of the collection period, the response data will be processed, edited, reviewed, tabulated, and released publically.

2) Needs and Uses

The survey will collect data on the gender, ethnicity, race, and veteran status for up to four persons owning the majority of rights, equity, or interest in the business. These data are needed to evaluate the extent and growth of business ownership by women, minorities, and veterans in order to provide a framework for assessing and directing federal, state, and local government programs designed to promote the activities of disadvantaged groups.

The SBA and the MBDA will use the data to allocate resources for their business assistance programs.

The data will also be widely used by private firms and individuals to evaluate their own businesses and markets. Additionally, the data will be used by entrepreneurs to write business plans and loan application letters, by the media for news stories, by researchers and academia for determining firm characteristics, and by the legal profession in evaluating the concentration of minority businesses in particular industries and/or geographic areas.

Information quality is an integral part of the predissemination review of the information disseminated by the Census Bureau (fully described in the Census Bureau's Information Quality Guidelines). Information quality is also integral to the information collections conducted by the Census Bureau and is incorporated into the clearance process required by the Paperwork Reduction Act.

Government program officials, industry organization leaders, economic and social analysts and researchers, and business entrepreneurs are anticipated users of ASE statistics. Examples of data use include:

- The Small Business Administration (SBA) and the Minority Business Development Agency (MBDA) to assess business assistance needs and allocate available program resources.
- Local government commissions on small and disadvantaged businesses to establish and evaluate contract procurement practices.
- Federal, state and local government agencies as a framework for planning, directing and assessing programs that promote the activities of disadvantaged groups.
- The National Women's Business Council to assess the state of women's business ownership for policymakers, researchers, and the public at large.
- Consultants and researchers to analyze long-term economic and demographic shifts, and differences in ownership and performance among geographic areas.
- Individual business owners to analyze their operations in comparison to similar firms, compute their market share, and assess their growth and future prospects.

- Researchers and businesses to understand the innovation and research and development activities conducted by entrepreneurs.
- Researchers and businesses to understand the record-keeping and management practices implemented by entrepreneurs.
- Federal agencies to assess the competitiveness of businesses by ownership characteristics.
- Data users to understand time-series data in certain industries for entrepreneurs.
- Business owners or perspective business owners to gain knowledge about the funding of businesses.

3) Use of Information Technology

The ASE will only be available in an electronic reporting tool. Businesses will be provided an initial letter with log-in information to access the secure electronic reporting tool (in English language only) known as the Centurion – Internet Data Collection System. Once a respondent has completed the online survey, a PDF copy of the responses may be printed or saved for business records.

By implementing an electronic-only collection, the Census Bureau will reduce the printing, mailing, and processing costs associated with the use of paper questionnaires and improve the quality of response data. The SBO program found that employer businesses preferred to respond to the survey via an electronic reporting tool. This is based on a 90 percent electronic check-in rate for the 2012 SBO. That is, 90 percent of respondents to the 2012 SBO reported electronically.

4) Efforts to Identify Duplication

The Census Bureau routinely monitors the content, coverage, and detail provided by other statistical programs in an effort to identify and eliminate unnecessary duplication. The ASE is modeled after the SBO program and offers comprehensive and regularly collected information on selected economic and demographic characteristics for businesses and business owners by gender, ethnicity, race, and veteran status. The ASE data will be available in between the 5-year collection cycle of SBO. While there are a number of lists available outside of the ASE and SBO identifying women-, minority-, and veteran-owned businesses, none are comprehensive, and none are comprised of self-designated firms.

The ASE universe will be matched to publicly available datasets from the U.S. Securities and Exchange Commission (SEC) and the IRS. This universe will identify publicly held and nonprofit organizations whose ownership by gender, ethnicity, race, and veteran status is unable to be determined and who should not be mailed to report for the ASE. In addition, the ASE universe will be matched to internal American Community Survey (ACS) and other Decennial datasets on the gender, ethnicity, race and veteran status of individuals.

For the 2015 reference year, the module selected covers management practices. Six questions on the management module are derived from similar questions on the Management and Organizational Practices Survey (MOPS). The MOPS only focuses on businesses in the manufacturing sector while the ASE covers all North American Industry Classification System (NAICS) industries except Crop Production (NAICS 111); Animal Production (NAICS 112); Scheduled Passenger Air Transportation (NAICS 481111); Rail Transportation (NAICS 482); Postal Service (NAICS 491); Funds, Trusts, and Other Financial Vehicles (NAICS 525); Religious, Grantmaking, Civic, Professional, and Similar Organizations (NAICS 813); Private Households (NAICS 814); and Public Administration (NAICS 92). Questions from the MOPS were edited to be more appropriate for firm-level collection and for smaller businesses covering the entire economy. A new module will be introduced for the 2016 survey. This module is yet to be determined, but will cover questions from the proposed topics in Section 1 above.

5) Minimizing Burden

The Census Bureau makes every effort to minimize the burden placed on businesses from data collections. For the ASE, we will select a sample of approximately 290,000 employer businesses from a universe of about 5.6 million. The ASE will use the following methods to minimize the burden:

- Predetermining the likelihood that a business is minority- or women-owned: Several sources of information are used to stratify the universe. Administrative data from the Social Security Administration (SSA) and lists of minority- and women-owned businesses published in syndicated magazines, located on the Internet, or disseminated by trade or special interest groups are used to identify individual proprietorships that are potentially owned by women or minorities; then this information is used to stratify the universe.
- Survey instrument design: All questions have been successfully tested through personal interviews. In addition, the electronic reporting instrument includes skip patterns throughout so that respondents will only read and answer questions pertaining to their specific owner and business characteristics.
- Use of existing business data: To further reduce respondent burden, rather than collect information directly, we will obtain data on industry classification, sales/receipts, annual payroll, and employment from IRS administrative records and the Census Bureau's 2012 Economic Census. In addition, the ASE universe will be matched to publicly available datasets from the SEC and the IRS identifying publicly held and nonprofit organizations. The ASE universe will also be matched to internal ACS and Decennial datasets on the gender, ethnicity, race, and veteran status of individuals. Only a small sample of these matched businesses will be asked to complete the electronic reporting instrument.

6) Consequences of Less Frequent Collection

The ASE will improve the measurement of business dynamics in the United States. If this collection were not conducted, the federal government would miss an opportunity to expand federal economic statistics in the area of entrepreneurship.

A less frequent collection would impact government agencies' access to information used to monitor and maintain assistance programs for women-, minority-, and veteran-owned businesses.

7) Special Circumstances

There are no special circumstances.

8) Consultations Outside the Agency

Although the ASE uses questions from the SBO (form SBO-1), efforts were made to collaborate with officials and agencies to enhance the ASE content. When feasible, their suggestions were incorporated into the electronic reporting instrument design and content used for the cognitive testing process. Their efforts resulted in additional sources of capital questions, and the management and business practices module.

The Census Bureau consulted the following officials and agencies:

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A presubmission notice was published in the Federal Register, Vol. 80, No. 27, Tuesday, February 10, 2015, pages 7411-7413, inviting public comments on our plans to submit this request. The presubmission notice generated a response from the National Women's Business Council (NWBC). The NWBC offered an appreciation for topics included in the ASE and recommended additional topics to collect. Further, they applauded the Census Bureau in this data collection effort, as they have previously recommended an annual SBO be conducted to enhance knowledge surrounding women-owned businesses. The Census Bureau informed NWBC that additional topics and questions will be considered for collection. Please see Attachment E for NWBC's correspondence. The presubmission notice generated one additional response from the public that focused on their disdain for government spending of taxpayer dollars. The response was a general comment on government spending and did not pertain directly to this information collection request, and so we did not respond. The presubmission notice referred to the collection as the Annual Survey of Business Owners. We have since changed the name of the collection to better describe the goal and uses of the data collected. Although the ASE is a supplement to the SBO, it is important to identify the surveys separately due to differences in scope, sample, and survey cycles.

9) Paying Respondents

The Census Bureau does not pay respondents and does not provide them with gifts in any form to report requested information on economic surveys.

10) Assurance of Confidentiality

The electronic reporting instrument and mailed letters notify respondents that responses are mandatory under Title 13, United States Code, Sections 224 and 225, and confidential under Title 13, United States Code, Section 9.

11) Justification for Sensitive Questions

The Office of Management and Budget (OMB) has mandated the race and ethnicity categories and definitions listed on our survey electronic reporting instrument. Both the Executive Branch and Congress developed these standards.

Business owner characteristics are important for assisting program officials, industry organizations, economic and social analysts, and entrepreneurs. They are important to understanding conditions of business success and failure, showing census-to-census changes in business performance, and comparing minority-/nonminority-owned, women-/men-owned, and veteran-/nonveteran-owned businesses.

By law (Title 13 of the United States Code Section 9), all responses to the survey, including sensitive questions, are completely confidential and may be seen only by persons sworn to uphold the confidentiality of Census Bureau information. The data are used only for statistical purposes and the responses are summarized so that the confidentiality of individual respondents and their business activities is fully protected. The law also provides that copies retained in respondents' files are immune from legal process.

12) Estimate of Hour Burden

This survey is scheduled to be conducted annually for three reference years (2014-2016). Plans to continue this collection after 2016 have not been decided. The estimated sample size is 290,000 employer businesses. Each year employer businesses will be surveyed for electronic responses. The average response time per respondent is 35 minutes. This estimate is based on previous SBO and ASE collections and the results of recent cognitive interviews conducted under the Census Bureau's generic clearance for Questionnaire Pretesting Research. The estimated total annual response burden is 169,167 hours. The Federal Register notice dated February 10, 2015, showed the number of respondents as 200,000 and the total annual burden as 116,667 hours. The figures presented in this request supersede those earlier estimates and reflect a recalculation of the sample size due to the acquisition of additional funding. This sample size increase allows for less variance in the estimates. Additionally, by increasing the sample size we can modify the sample parameters in an effort to improve the response rate for the research and development module questions.

Based on the Occupational Employment Statistics from the Bureau of Labor Statistics, the median hourly wage for accountants was \$31.70 in 2014. In fiscal year 2016, the annual cost to respondents for their time to respond is estimated to be \$5,362,594.

13) Estimate of Cost Burden

We do not expect respondents to incur any additional costs other than that of their time to respond. The information requested is of the type and scope normally known by respondents or carried in company records and no special hardware or accounting software or system is necessary to provide answers to this information collection. Therefore, respondents are not expected to incur any capital and start-up costs or system maintenance costs in responding. Further, purchasing of outside accounting or information collection services, if performed by the respondent, is part of usual and customary business practices and not specifically required for this information collection.

14) Cost to Federal Government

The Census Bureau, the Ewing Marion Kauffman Foundation, and the MBDA jointly fund this collection. The cost to the Census Bureau for three survey years (2014-2016) is estimated to be \$3.4 million. The MBDA will contribute another \$200,000 towards this collection. The Census Bureau has planned and allocated resources for the effective and efficient management of this information collection. Activities covered include data collection, data processing, data review and analysis, dissemination, and various support staff, including a call center.

15) Reason for Change in Burden

There is no increase in burden to this collection.

16) Project Milestones

<u>Milestone</u>	<u>2015 Reference Year Planned Completion Date</u>
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Content Drafted for Cognitive Testing	October 2015
Cognitive Testing Complete	December 2015
Content Final/Centurion Requirements Final	January 2016
Approval Request Submitted to OMB	February 2016
Usability Testing	May 2016
Initial Mailout	June 2016
1 st Follow-up	August 2016
2 nd Follow-up	October 2016
Closeout	November 2016
Micro Data Review Complete	December 2016
Production Processing	January 2017
Macro Data Review Complete	February 2017
Dissemination Processing	March 2017
All Publications Released	April 2017
Public-Use Microdata File Released (Pending IRS Approval)	July 2017

17) Request Not to Display Expiration Date

The assigned expiration date will be displayed on the collection instrument.

18) Exceptions to the Certification

There are no exceptions to the certification.

19) NAICS Codes Affected

This information collection is not industry-specific and covers nearly all U.S. nonfarm businesses. Economic activities that have the following NAICS classifications are out of scope of the ASE:

- Crop Production (NAICS 111)
- Animal Production (NAICS 112)
- Scheduled Passenger Air Transportation (NAICS 481111)
- Rail Transportation (NAICS 482)
- Postal Service (NAICS 491)
- Funds, Trusts, and Other Financial Vehicles (NAICS 525)
- Religious, Grantmaking, Civic, Professional, and Similar Organizations (NAICS 813)
- Private Households (NAICS 814)
- Public Administration (NAICS 92)

Additionally, companies owned by American Indian and Alaska Native tribal governments are out of scope to the ASE collection.