

MEMORANDUM

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TO: E. J. Reedy, Ewing Marion Kauffman Foundation

FROM: David DesRoches

DATE: 6/5/2009
KFS – 143

SUBJECT: Review of proposed business ownership questions on National Longitudinal Survey of Youth (NLSY)

The upcoming round of the NLSY contains a new module of questions on business ownership that will provide valuable information on self-employment, entrepreneurship, and innovation. Based on MPR’s experience conducting the Kauffman Firm Survey (KFS), and with survey methodology in general, the Foundation requested we review the new module and provide comments. Overall, we found the content of the new module to be comprehensive, and we think the questions will provide a detailed look at business ownership within the NLSY cohort. Below we provide some suggestions about particular questions in the new module. These suggestions include clarifying potentially ambiguous terms, standardizing text that is read to respondents, and modifying the question order to facilitate the retrieval of information. For some questions, cognitive testing or pretesting are suggested prior to using the module for full-scale data collection.

BUSOWN-1 - Ever Owned a Business

As currently worded, this question includes introductory text that specifies the kinds of activities that should be included and excluded from “business ownership.” Because this introductory paragraph is lengthy, it may be difficult for respondents to recall all of the inclusion and exclusion criteria as they think about their response. One possible improvement would be to ask this as a series of “yes/no” questions with a list of acceptable business types. This way the question would collect incidence of these types of businesses, and each type would be considered separately by respondents.

Also, terms such as “highly sporadic” and “purely as a hobby” are somewhat ambiguous and may be interpreted differently by different respondents. To ensure more consistent interpretation, we suggest the following revision:

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BUSOWN-1 (Continued)

The next few questions are about business ownership. By business, we mean any activity operated regularly for the purpose of generating *income or profit*.

NOTE: Do NOT count businesses where you were merely a shareholder or investor with no role in the operation of the company.

Since turning age 18, have you ever had an ownership share in an:

YES NO

1. *Incorporated* company or partnership?
2. *Unincorporated* businesses where you were the sole proprietor, an independent contractor, or a consultant, or free-lancer?
3. *Informal businesses* such as cleaning services, gardening services, or selling of goods out of your home?

Later in the module, the question on legal status (BUSOWN-12) lists “nonprofit organization” as a response category. Should this be included in BUSOWN-1 to ensure those establishing these organizations are asked this module?

BUSOWN-5 – Year Business Established

The concept of year of business establishment is one that can be interpreted in different ways by respondents. Cognitive testing conducted during design of the KFS showed that some business owners respond with the year in which they first thought of a business idea, whereas others respond with the year in which the doors to the business actually opened, or when the business’ first sale was made. One suggestion is to more clearly define business start in a way that will be meaningful for all business owners, such as when the business actively began operations or offering products and/or services.

For respondents purchasing existing businesses, would they be expected to report the year in which the business was originally established, or when it was purchased (and potentially re-named or re-organized)? An instruction could be added here to make that clearer.

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BUSOWN-7 – How Acquired Ownership in Business

Some respondents may have a difficult time distinguishing between receiving ownership as a gift versus inheriting a business (similarly, some respondents who inherited a business from an in-law may not be able to distinguish inheritance from receiving ownership through marriage). It is also possible that a business owner could use more than one of these methods over time (such as inheriting a share of a business and purchasing another share). A possible solution to both of these potential sources of confusion is to begin the question: “How did you first acquire an ownership share...” Also, adding an instruction for marking one response only would be helpful.

BUSOWN-8 – Reason for Establishing or Acquiring Business

People may have multiple reasons for establishing a business. The current wording implies that you are interested in their main reason for starting a business. If this is the case, then adding this to the question text will make that clearer to respondents. If you are interested in all the reasons someone may have for establishing a business, you may want to include an interviewer instruction that directs the interviewer to probe “Were there any other reasons?” until the respondent has provided an exhaustive list. In addition to the verbatim, you might want to include some common codes for the interviewer to field code during the data collection. This would save a lot of post-data collection coding effort. Cognitive testing and pretesting could help to provide a list of common reasons business owners give for establishing or acquiring an ownership share in a business.

It appears that this question is asked of respondents who said that they acquired the business as a gift, through an inheritance, or through marriage. It may be difficult for respondents to answer this question beyond what they already provided in BUSOWN-7. You may want to consider skipping this question for respondents who did not actively establish a business.

BUSOWN-10 – Sources of Funds for Establishment or Acquisition of Business

This question is currently set up as a “mark all that apply,” and an alternative is to ask these as a series of “yes/no” items. The “yes/no” format asks respondents to consider each item individually and provide a response, which reduces cognitive burden because respondents do not need to remember all of the items on a list. This format also reduces the risk that interviewers may accidentally stop reading all of the response options if a respondent interrupts with a “yes” response.

The instruction included with this question seems important for all respondents to know, so including it in the question stem would be worth considering. For example:

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Not counting any financing you might have received from the previous owner or any co-owners you might have, which of the following sources of money did you use to *establish or acquire* this business?

There are some other financing vehicles not included on the list, including venture capital, angel investors, and existing companies. Currently these would be collected in the “Other-specify,” but these categories of financing are often of analytical interest to entrepreneurship researchers, and having them broken out separately may make the data collected at this question more useful.

BUSOWN-11 – Amount of Funds Used to Establish or Acquire Business

It isn’t clear whether respondents should only include equity that the respondent provided, whether equity provided by other owners should be included, or whether debt obtained to establish or acquire the business should be reported. Including additional definition in the question stem is worth considering to clarify the question.

Also, given that some business owners spend years developing a business, some additional definition as to what to include in this figure would be helpful. One possible improvement would be to indicate that funds used in all years to establish the business should be included in the response.

BUSOWN-13 – Primary Industry

When asked what type of business this is, respondents may think of legal status, size, or how it is organized, rather than the industry the business competes in. The probe “What does this business make or do?” has been used successfully as the main industry question on business surveys in the past and would be easier for respondents to answer.

BUSOWN-14 - Employment

This question asks employment in terms of when the business was at its largest, which could be before the respondent obtained an ownership share of the business. As a result, respondents who purchased an established business may have difficulty responding. One possible solution would be to tie the measure more closely to the time they had an ownership share in the business. For example, respondents owning existing businesses that were received as a gift, purchased, inherited, or received through marriage, the question could begin, “At its largest during the time you owned this business...”

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BUSOWN-16 - Revenue

A concern with this question is that some respondents will use the last year of ownership as opposed to the last calendar year or a typical year, and which time frame the respondent used will not be measurable. If BUSOWN17 were earlier in the module, the proper fill (last calendar year or last year of ownership) could be provided at this question.

The question could also be improved by placing the frame of reference first in the question, so that it would read “In the last calendar year, how much did this business generate in sales or revenue?”

BUSOWN-17 – Current Ownership of Business

As mentioned above, moving this closer to the start of the module would allow proper fills for BUSOWN-12 and BUSOWN-16. Moving this and the follow-up questions (BUSOWN-18 and BUSOWN-19) to after the current BUSOWN-7 is a possible solution, it would follow BUSOWN-5 (Year established), BUSOWN-6 (Year acquired ownership share), and BUSOWN-7 (How acquired). Under the revised series, the timeline of the respondent’s relationship to the business would be captured early in the questionnaire, with the rest of the module drilling down to issues dealing with the business’ operations.

BUSOWN-19 – Reason for End of Ownership

This question assumes that all businesses will be wholly owned by respondents, rather than having an ownership share. Selling one’s share in the business is a common business exit for entrepreneurs, and adding this as a response category would improve the precision of this question.

BUSOWN-22 – Family Ownership

Since the ownership team of a business can change over time, specifying the time frame for respondents would provide more consistent data. One solution is to ask this about current ownership if the respondent still has an ownership share at BUSOWN-17, and to ask about it at the time he or she left the business if the respondent no longer has an ownership share.

The “please include” instruction might be clearer if changed to “Please include spouses, domestic partners, parents or guardians, brothers or sisters, or other close relatives.” The same comment applies to BUSOWN-23A, 23B, 24A, and 24B.

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BUSOWN-25 & BUSOWN-27 – Intellectual Property

Data on intellectual property are vital to most entrepreneurship and innovation research, and it is not clear whether the focus of this question is on patents or more general innovation work. The question could be made clearer by focusing on the whether the respondent has ever been named on an application for a U.S. patent, similar to questions asked on the National Science Foundation SESTAT surveys. For example:

“Have you ever been named as an inventor on any application for a U.S. patent?”

Questions could then be asked about the number of patent applications the respondent was ever named on, and how many of these patents were associated with work done at the business.

A “no” response at this question takes you to BUSOWN-29, skipping over BUSOWN-27, which asks if any of the work done at a business that the respondent own(s/ed) has led to a patent application. The response to BUSOWN-27 can be “yes” even if the response to BUSOWN-25 is “no,” given that BUSOWN-27 doesn’t specify that the patent application be one that the respondent significantly contributed to (unlike BUSOWN-25). Possible solutions are to change the focus of BUSOWN-27 to be about only patent application(s) the respondent contributed to in BUSOWN-25 (and leaving the same skip pattern), or changing the skip pattern so that all respondents are asked BUSOWN-27, and making the question be about any work at the business that contributed to a patent application, whether or not the respondent contributed to the application.

In conclusion, the proposed module contains the key measures needed to understand business ownership among the NLSY cohort. We recommend pretesting the module with a group of respondents that are similar to the NLSY population, to ensure that the terminology used will be familiar to respondents, and to provide an opportunity to add response options that may provide additional specificity to the data.