The Effect of Personal Financial Management, Bank Relationship and Small Business Characteristics on Small Business Productivity

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This study examined how personal financial management and bank relationship among small business owners affected their productivity. Factors to be investigated included: small business owners' characteristics (age gender, education), shopping for investments and shopping for credit, use of household assets and loans, bank relationship (number of relationships with financial institutions, distance from financial institutions, interaction with financial institutions), and business characteristics (duration of the business, capital intensity, acquisition of the business, and business type).

For this study, data were drawn from the Survey of Consumer Finances (SCF). Supported by the Federal Reserve Board and the Department of the Treasury, the SCF is a triennial survey about the detailed finances and demographic characteristics of U.S. families. Descriptive statistics and OLS regression analysis were used to test small business owners' productivity. After deleting missing and unusable responses, 1030 were selected.

The average sale was $61,000. The average business duration was 13 years. The average number of banks where small business owners did business was 2. About 23 % of small business owners borrowed personal assets for the business. About 25% of small business type was professional. About 78% of small business owners did their business with commercial bank. Only 7% of small business owners used "mail" or "phone call" to interact with their banks. About 10% of small business owners used "in person" service to interact with their banks. Younger business owners were more likely to increase the business productivity. Business duration, capital intensity and business type (professional) were positively related to the business productivity. The number of bank was positively related to the business productivity. Bank distance was negatively related to the business productivity. Using personal assets for collateral was negatively related to the business productivity.

Enhancing personal financial skills especially in regard to savings and investments and in relations with financial institutions could enable small business to be more productive. Both business financial management and personal financial management training should be provided in workshops and seminars on business planning. Enhancing personal financial skills especially in regard to savings and investments and in relations with financial institutions could enable small business to be more productive. From a policy perspective, small business assistance programs should help beginning entrepreneurs as well as current small business owners to understand the importance of business management and personal financial management.

The 2007 SCF which was used in this study was the most recent release of the data. The next release of data might show some of the effects of the 2009 recession on small businesses. It is anticipated that the recession will cause small business owners to be more likely to intermingle personal and business finances if they are struggling to survive.

Endnotes

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