Small Business Owner Satisfaction with Financial Performance: A Longitudinal Study

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This exploratory study examines the financial performance satisfaction of small business owners at two time periods: (1) nearing the end of the Great Recession and (2) three years into economic recovery. In addition to considering small business owners in general, special attention has been paid to women and minority owners. Using independent samples t-tests, results indicate that business owners are more satisfied with their financial performance in 2012 than they were in 2009. However, results were not consistent for all subgroups of the population; differences exist between men and women owners and between Caucasian and minority owners. Whereas men mirrored the results for all business owners, women did not report increased satisfaction in any of the five areas of financial performance examined. Caucasian owners reported increases in four of the five areas of financial health and minority owners saw an increase in only three. The study also provides practical implications and areas for future research.

Keywords: small business; financial performance; recession; women; minorities

The popular media is actively debating the current status of the economy and the impact that recovery is having on all Americans, including small business owners. Research by DeNardi, French, and Benson (2012) found that the Great Recession was characterized by “the most severe and persistent decline in consumption the United States has experienced...since World War II.” The activities of small businesses are typically dependent on the expectations of the owner; currently expectations for real income growth are still quite low (DeNardi, French, & Benson, 2012). If small business owners are not satisfied with their overall financial health, they are unlikely to act in ways such as increased hiring, marketing expenditures, and overall production, that contribute to the continued growth of the economy.

This study examines the satisfaction of small business owners with their financial performance at two points in time—2009 and 2012. Surprisingly, there is a paucity of research on small firm performance during economic recessions. Latham (2009) examined the impact of the 2001–2003 recession on small businesses in the software industry. The findings showed that small firms generally relied on their flexibility to serve customers and a renewed focus on their revenue-generating activities, while larger firms focused more on cost-reduction strategies. This indicated a situation in which small businesses are more customer-centered during tough economic times than their larger peers, which choose to concentrate more on reducing expenses. Furthermore, it is noteworthy that Latham found that managers of larger businesses felt more threatened by economic pressures during a recession than the managers/owners of small businesses. Perhaps this is due to the entrepreneurial mindset of small business owners, or their confidence in their abilities to adapt to the more uncertain environment. Nevertheless, it is important to provide additional research on the mindset of small business owners during tough economic times, particularly in regard to their perceived financial wellness. Thus, the purpose of this study is to examine small business owner satisfaction with financial performance during the most recent economic recession and several years into the current economic recovery.

Literature Review

Small Business and the Economy

The small business sector plays a significant role in the U.S. economy, functioning as a major source of innovation, supplier of goods and services, and creating economic opportunities for millions of Americans. In addition, small businesses account for approximately one half of the privately generated GDP in the country and 55 percent of jobs in the private sector; they have created approximately two out of every three new jobs in the United States since the early 1970s (National Federation of Independent Businesses (NFIB), 2012a). However, for small business owners to survive and thrive, they must maintain adequate levels of financial health. Small business owners, like most Americans, are not immune to the ups and downs in the U.S. economy.

Prior research has offered mixed findings with regard to the impact of a recessionary period on small businesses. Some argue that the flexibility and adaptability of small firms makes them more suited to environmental changes (Latham, 2009; Carr, Topping, Woodard, & Burcham, 2004; Andren, Magnusson, & Sjolander, 2003). Others suggest that the resource limitations of small businesses make them more susceptible to failure in harsh economic conditions (Lawless & Warren, 2005); resource constraints generally do not allow smaller firms the time needed to survive a prolonged slowdown in the economy and make them more sensitive to changing economic conditions. This, as suggested by Latham (2009), makes it critical for small businesses to employ the appropriate fiscal strategy to effectively deal with such situations because they cannot rely on excess resources to offset slow financial periods.

Consistent with this, Hofer (1980) developed a framework for strategic fiscal responses during an economic recession; the responses include asset reduction, cost reduction, and revenue generation. Hofer argues that the specific conditions of a recession can cause firms to adopt a strategy based on one of these three responses. The appropriate response is determined by cash flow and the firm’s proximity to its breakeven point. Since small businesses often struggle with economies of scale, simply reducing costs is typically not adequate to deal with strained financial conditions. Rather, small businesses should concentrate on revenue-generating activities, often in niche markets.
away from low-cost competition (Latham, 2009; Beaver & Ross, 2000). While larger firms may focus on reducing expenses during difficult times, small businesses may consider investing in resources in areas such as sales, marketing, and supply chain management (Latham, 2009). This indicates that organizational size can be a hindrance to the adaptability necessary for revenue growth and customer service in a recessionary period.

One potential indicator of small business health is the buying and selling of businesses. Some argue that the sale of small businesses is indicative of improved availability of credit in the market. If this is indeed the case, 2012 was on a positive upswing with business sales above 2011 figures, a higher median asking price, and higher median revenues for the businesses being sold (CNBC, 2012).

Another indicator of small business success is the actual perceptions of the business owners. In March 2011, only 9 percent of microbusiness owners said the overall economy was good or excellent; this was well below the 2007 pre-recession, 50 percent level (Shane, 2011). According to the Small Business Optimism Index (NFIB, 2012b), overall optimism of small businesses has been on the rise in the past several years with the index rising from 86.5 during the summer of 2009 to 91.2 during the fall of 2012. However, the increase in optimism is tempered by “uncertainty over economic conditions,” which is ranked as the second most pressing concern by small business owners (NFIB, 2012c). Although robust economic recovery has typically followed previous recessions, the current recession recovery has been quite slow, resulting in significant loss of consumer confidence.

Given the slowness of the current recovery in conjunction with increased sales of existing small businesses and apparent increases in overall confidence, it is difficult to predict the degree to which small business owners are actually satisfied with their financial health. As such, the current study aims to examine empirically owner-reported satisfaction with financial performance at two points in time—first in 2009 and again in 2012.

**Gender and Minority Issues**

The idea of a glass ceiling (a term coined to describe women in corporate settings who faced barriers when attempting to rise within the organizational ranks) is not new (Hymowitz & Schellhardt, 1986). Indeed, many argue that entrepreneurship among women and minorities has actually grown in response to this glass ceiling as business ownership may provide an alternative avenue to financial security and business success (Acs, Tarpley, & Phillips, 1998; Gibson, Harris, & Mick, 2007). Some research even indicates that future job growth is heavily dependent on women-owned small businesses; by 2018 women entrepreneurs are expected to create more than five million new jobs nationwide (Lesonsky, 2010). Women currently start businesses at twice the rate of their male counterparts; by the year 2020 women are expected to own nearly half of all U.S. companies (BizOffice, 2012). Similarly, minorities currently own 5.8 million firms, generating $1 trillion in revenues and employing almost six million people (U.S. Department of Commerce, 2007). Furthermore, the rate of business ownership by minority women is increasing more rapidly than nonminority women; minority women-owned firms account for more than half the increase in women-owned organizations (U.S. Department of Commerce, 2010).

Significant fiscal differences exist between businesses owned by women versus men and minorities versus nonminorities. For example, women and minorities are known to start with less capital, have greater difficulty obtaining loans, have less of a credit history, and are also less likely to take on additional debt to expand (Boden & Nucci, 2000; Shaw, Carter, & Brierton, 2001; Verheul & Thurik, 2001; Coleman, 2002; Fairlie & Robb, 2010; U.S. Department of Commerce, 2010). According to the census, minority-owned firms averaged $179,000 in gross receipts in 2007, but this is less than half the $490,000 average of those companies run by nonminorities (Fairlie & Robb, 2010). Finally, women and minorities are also more likely to fail with starting a new venture (Carter, Williams, & Reynolds, 1997; Boden & Nucci, 2000; Robb, 2002). Unfortunately, it is difficult to determine if this represents differences in preference and strategy or the impact of constraints such as less favorable loan conditions and diminished tolerance for risk.

Because we know that access to financial resources and overall success rates are not always comparable for men and women and minorities versus nonminorities in entrepreneurship, it is plausible that differences in financial satisfaction will also exist across these subgroups of the population.

**Method**

**Participants**

Small business owners who had received previous assistance from the North Carolina Small Business and Technology Development Center (SBTDC) were contacted via email and asked to complete an anonymous online survey regarding their small business and its developmental needs. The surveys were conducted at two distinct points in time. The first survey, conducted in 2009, had a total of 270 responses (18% response rate), of which 237 were usable (others were incomplete). This sample was 55 percent male and 50 percent ethnic minority (non-Caucasian). The average age of respondents was 49 years and the average length of time that individuals had been in business was 10.7 years. The second survey, conducted in 2012, had a total of 159 responses received (16% response rate), of which 105 were usable (others were incomplete). This sample was 40 percent male and 51 percent ethnic minority (non-Caucasian). The average age of respondents was 53 years and the average length of time that individuals had been in business was 15.6 years.

**Measures**

Satisfaction with one’s financial outcomes is a multifaceted construct. This article examines the degree to which small business owners have experienced a change in satisfaction with their financial health at two distinct points in time. It also considers whether changes in satisfaction are the same for men and women as well as for Caucasian and minority small business owners.

As part of both surveys, participants provided demographic information including gender, age, and ethnicity. Participants were also asked to indicate the level of satisfaction with various aspects of financial performance utilizing a five-point Likert scale. These items, along with their descriptive statistics at each point in time and for the subgroups of interest, are shown in Table 1.

**Analyses**

Independent sample t-tests were computed to ascertain if significant differences in financial satisfaction exist between time one (2009) and time two (2012). Although both groups of respondents represent clientele of the North Carolina SBTDC, they were not actually the same group of individuals; as such a paired-samples model was not appropriate.
Results

Overall, results indicate that small business owners have had increasing satisfaction with their financial outcomes during the past three years. Revenue growth (p=.001), profit margin (p=.006), cost containment (p=.037), market share (p=.004), and return on new products or services (p=.000) all had significantly higher ratings of owner satisfaction in 2012 than they did in 2009.

Despite this overall improvement in satisfaction, the improvement was not consistent across men and women business owners. Although men mirrored the across-the-board consistency in improvement seen in the overall group [revenue growth (p=.002), profit margin (p=.011), cost containment (p=.054), market share (p=.005), return on new products or services (p=.000)], women did not experience increases in satisfaction in any of these categories [revenue growth (p=.290), profit margin (p=.398), cost containment (p=.570), market share (p=.479), and return on new products or services (p=.187)].

When examining minorities and nonminorities in terms of satisfaction with financial outcomes, Caucasians showed satisfaction gains across four of the five categories [revenue growth (p=.004), profit margin (p=.012), market share (p=.032), and return on new products or services (p=.044)], but did not have improved satisfaction with regard to cost containment (p=.886). Minorities showed satisfaction gains on three of the five financial factors [cost containment (p=.015), market share (p=.033), and return on new products or services (p=.002)], but did report significant gains in revenue growth (p=.106) or profit margin (p=.352). Figure 1 depicts these changes in financial satisfaction as they were found for each subgroup between 2009 and 2012.

Discussion and Practical Implications

Although the NFIBusinesses survey found that 2009 was the worst year in decades for small business owner optimism, this optimism has improved in the years since. Furthermore, according to the Small Business Administration (SBA), credit conditions are improving for small businesses. In mid-2010 commercial banks began to ease the tight lending conditions placed on small businesses since 2007. Furthermore, venture capital investment dollars began to increase in mid-2010 (SBA, 2012). Consistent with these positive outcomes, the ADP Na-

### Table 1. Descriptive Statistics for Financial Health Items

<table>
<thead>
<tr>
<th></th>
<th>Time</th>
<th>Mean</th>
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<th>SD</th>
<th>Time</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Growth</td>
<td>2009</td>
<td>2.58</td>
<td>1.03</td>
<td>2012</td>
<td>3.03</td>
<td>1.23</td>
<td>2009</td>
<td>2.56</td>
<td>1.04</td>
<td>2012</td>
<td>3.11</td>
<td>1.18</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>2009</td>
<td>2.69</td>
<td>1.02</td>
<td>2012</td>
<td>3.05</td>
<td>1.14</td>
<td>2009</td>
<td>2.64</td>
<td>1.01</td>
<td>2012</td>
<td>3.06</td>
<td>1.08</td>
</tr>
<tr>
<td>Cost Containment</td>
<td>2009</td>
<td>3.08</td>
<td>1.00</td>
<td>2012</td>
<td>3.33</td>
<td>.97</td>
<td>2009</td>
<td>3.03</td>
<td>.99</td>
<td>2012</td>
<td>3.32</td>
<td>.86</td>
</tr>
<tr>
<td>Market Share</td>
<td>2009</td>
<td>2.67</td>
<td>.85</td>
<td>2012</td>
<td>2.99</td>
<td>.97</td>
<td>2009</td>
<td>2.64</td>
<td>.83</td>
<td>2012</td>
<td>3.03</td>
<td>.91</td>
</tr>
<tr>
<td>Return on New</td>
<td>2009</td>
<td>2.81</td>
<td>1.00</td>
<td>2012</td>
<td>3.26</td>
<td>.84</td>
<td>2009</td>
<td>2.84</td>
<td>.91</td>
<td>2012</td>
<td>3.34</td>
<td>.73</td>
</tr>
<tr>
<td>Products or Services</td>
<td>2009</td>
<td>2.95</td>
<td>1.11</td>
<td>2012</td>
<td>3.08</td>
<td>.94</td>
<td>2009</td>
<td>2.80</td>
<td>1.11</td>
<td>2012</td>
<td>3.08</td>
<td>.94</td>
</tr>
</tbody>
</table>

![Figure 1: Changes in financial satisfaction for each subgroup between 2009 and 2012](image-url)
added and the unemployment rate is down significantly from its peak. Obviously the rate of recovery has not been the same everywhere and business owners from other states may continue to struggle to a greater degree.

Unfortunately, improvements in financial satisfaction have not been universal in North Carolina. Research has noted that in general, women and minorities tend to be less optimistic overall with regard to their expectations for success in new enterprises (Carter, 2000). Our findings as related to financial satisfaction are consistent with this. These lower levels of satisfaction may indicate that these groups are experiencing slower levels of economic improvement. It also may be indicative of the fact that these groups are still having a more difficult time than their nonminority counterparts in obtaining access to capital and other resources that are related to financial success. Unfortunately, published research at the national level has not yet begun to report on these discrepancies in outcomes. However, given that North Carolina has been ranked among the top 10 states for women-owned business (American Express OPEN, 2012), the discrepancies found here likely indicate greater discrepancies in other states. As such, our findings indicate a significant need for further research across a national demographic.

Interestingly, prior research has indicated that minority business owners often have limited potential because they are overly dependent on a smaller customer base and often operate in segregated business environments (Sriram, Mersha, & Herron, 2007). Their inability to attract customers from more traditional markets often forces them to be involved in microbusinesses in the retail and service sectors, which generally have higher failure rates (Sriram, Mersha, & Herron, 2007). Fortunately, however, recent evidence indicates that the number of women and minority business owners has been on the rise since the 1990s and is becoming more of a viable career option (Fairlie, 2010; Martin, Wech, Sandefur, & Pan, 2006). As suggested by the Global Entrepreneurship Monitor, minority involvement in the entrepreneurial process can play a critical role in accelerating the overall pace of entrepreneurial activity within a national economy (Reynolds, Camp, Bygrave, Autio, & Hay, 2001).

Although ratings of satisfaction were improved in general, they still do not indicate a cadre of small business owners who are particularly pleased with their current financial health. Recovery is slow. Although real gross domestic product is growing, it is doing so less rapidly than in any other recovery period: nominal home prices are still at very low levels and prices have continued to fall, consumers continue to avoid taking on new debt, and the unemployment rate stubbornly remains high (Walker, 2012). This may explain why the 2012 ratings of financial satisfaction are not particularly high overall even though they improved statistically since 2009 (responses were provided on a five-point likert scale; the vast majority of means ranged from 2.5–3.0 and none exceeded 3.38). So, whereas improvement may indicate better outcomes in recent years, overall scores may represent an adoption of a new frame of reference. Perhaps the expectations of small business owners have shifted downward to reflect the realities of the current economy as opposed to actual improvement. If this is indeed the case, as a nation that relies heavily on its small businesses for job creation, technological innovation, and overall economic prosperity, we still have a long way to go.

Given this new reality and potentially lowered expectations, successful small businesses must continue to adapt to the strained conditions of the U.S. marketplace. This may require a willingness of small business owners to develop a more strategic approach that allows them to best serve customers and identify relationships with greater long-term potential. Research by Bumgardner, Buehlmann, Schuler, and Crissey (2011) suggests that during tough economic circumstances smaller firms must adopt a strategy that emphasizes product or service customization and superior customer service. This is often best achieved by focusing on niche markets where larger firms are unable to take advantage of economies of scale or scope (Bumgardner et al., 2011; Penrose, 1995).

In addition, small businesses should serve local markets and work with suppliers and vendors within their own geographical region. These types of connections allow smaller firms to develop agreements based on open communication and trust, thereby leading to more long-term mutually beneficial relationships (McDowell, Harris, & Gibson, 2010; Bumgardner, Romig, & Luppold, 2007). Fortunately, most small businesses already focus on their local customers and suppliers, but the missing link may be their inability in the past to adopt a strategic approach that maximizes the value of these relationships.

By focusing on niche markets, small businesses are able to use their flexibility to provide better service, which can help offset price sensitivity and resource limitations. Smaller firms rarely compete with larger corporations based on price or economies of scale. However, customer responsiveness and specialization can create a substantial competitive advantage, particularly during an economic recession (DeDee & Vorhies, 1998). Bumgardner et al. (2011) suggest that this type of advantage can help small businesses survive and perhaps thrive in harsh economic conditions.

Future Research and Conclusions

While this represents an empirical examination of the satisfaction levels of small business owners, additional research should delve deeper into the literal performance of small businesses during the past economic recession. Future studies should address the strategic decisions of small business owners as they adapt to the new realities of the business world. This should include research that critically investigates potential differences based on personal factors such as demographics, education, business skills, and prior entrepreneurial experience. Other studies should also consider the impact of organizational size and resources and how these factors affect financial and operational performance. Additionally, more geographic regions should be examined and compared to our findings. Certain regions of the United States may have infrastructure or resource advantages that can better insulate small businesses from the financial pressures associated with an economic downturn.

Our findings provide insight into the outcomes experienced by small business owners and point toward the need for future research. With a more nuanced understanding of small business performance during this most recent recessionary period and knowledge gained from future studies, actionable research can point the way toward preparing small business owners to adapt and survive during future economic downturns. Small business owners often encounter obstacles that can negatively impact new venture development, and any additional knowledge gained from similar studies can improve our understanding of how to best serve them. Fluctuations in the national economy are not a new phenomenon, but small businesses are often impacted to a greater extent and take longer to recover from such occurrences. This is especially true with women and minority-owned firms. Further research may identify strategies that small business owners can use to better withstand these recessionary periods.
References


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