

ISSUE BRIEF

Financial Literacy and Small Business Resilience

Tom Smythe, Professor, Lutgert College of Business

Amir Borges Ferreira Neto, Director, Regional Economic Research Institute

Shelton Weeks, Director, Lucas Institute for Real Estate Development & Finance

Zoey Reed-Spitzer, Undergraduate Research Assistant, Regional Economic Research Institute

Introduction

The Covid-19 pandemic is the most significant economic shock in modern history. Overnight, the country went from steady growth and full employment to a full stop. As lockdowns were implemented, businesses shuttered operations. Since March 2020, we have developed ways to cope with the virus, but even two years later, we continue to deal with supply chain disruptions, virus variants, and remarkably changed business landscape.

Arguably, one of the most valuable, but vulnerable, areas of the economy are small businesses. Small businesses generate 44% of economic activity and have been the most important source of job creation for decades, and collectively employ large numbers of people. While some businesses adapted, at least partially, to the early stages of the pandemic, many did not or could not, and even those that did have found a dramatically different playing field.

As legislators developed tools to mitigate the effects of the economic collapse, they focused attention on how to help small businesses from closing permanently. The primary legislation developed to target small business was the Paycheck Protection Program (PPP). As the program was implemented, stories, both locally and more broadly, surfaced that small businesses were having difficulty with the program.

As the pandemic progressed through 2020 and 2021, more stories surfaced about small businesses closing permanently, raising questions about what factors might have impacted small businesses the most: access to PPP, pre-pandemic relationships with professionals, use of other resources like Small Business Development Centers, business owner demographics, and finally, the level of basic financial knowledge a business owner possesses.

While other work examines small businesses at the onset of the pandemic in March 2020, the current study addresses how small businesses fared during the pandemic. Our survey was conducted in spring 2021, after vaccines had become available, so business owners' outlooks likely changed from March 2020. The survey was distributed to all Southwest Florida Chambers of Commerce and Economic Development Offices for redistribution to their members and partners and was open from March 1st, 2021 to March 31st, 2021. We had 38 respondents that complete the whole survey.

Survey results and analysis

While limited by our number of survey respondents, our results show that owners who qualified for PPP loans and applied, received them. Since our survey was conducted after the early glitches with the program were overcome, business owner expectations and success likely improved. Early work found that while small business owners anticipated using government assistance programs, a large proportion felt doing so would be difficult. Early work also found that most small business owners felt the financial impact to their businesses would be over by summer end 2020, while owners in the SWFL survey believed, even in spring 2021, that the pandemic effects on their businesses were likely to persist through 2021 and into 2022.

Of particular interest to this study is whether there were key relationships or resources that facilitated small businesses in the SWFL region to be better prepared for the pandemic. Our results indicate business owners that took advantage of Economic Development Centers held more cash on hand entering the pandemic and were more likely not to see a drop in 2020 sales. Additionally, owners making use of more than two resource organizations were less likely to need government assistance to meet cash flow needs during the pandemic. Finally, firms making use of bank credit lines extend more sales on credit, a finding that is intuitively appealing.

While relationships are crucial to small business success, our biggest goal was to examine whether there is a relationship between an owner's basic financial knowledge and firm characteristics. We find owners scoring above 90% on the knowledge test administered were likely to have more cash on hand and sell more on credit entering the pandemic. Additionally, these owners were much more likely to have seen sales either remain unchanged or grow in 2020 relative to peers. Finally, these owners were less likely to seek government assistance to meet cash flow needs. Further analysis shows an owner's understanding of basic risk/return and diversification principles and understanding of what inflation is are the most important areas of financial understanding.

	Cash-Total Asset Ratio	Sales on Credit Ratio	Long Term Debt to Total Assets Ratio	Decrease in Sales from 2020	Received Government Assistance
Overall Test Score	0.37**	0.38**	0.08	0.73**	-0.37*
Time Value of Money	0.21	0.29**	0.06	0.39	-0.19
Risk, Return, Diversification	0.39***	0.33**	0.06	0.50*	-0.27
Inflation	-0.14	0.28**	0.06	0.70***	0.02

Table compare groups of those businesses' owners scoring 90% or higher on the test and its components

Our findings have very practical implications. First, small business owners benefit from taking advantage of multiple organizations as resources. More importantly, small business owner understanding of basic financial principles is crucial, especially principles related to risk/return and diversification. The findings also provide insight for the development of continuing education programs for SWFL business owners, focusing on how banks and other organizations' resources may benefit small businesses. More importantly, the findings indicate that programming created to address basic financial principles, especially those relating to risk/return and diversification, is a crucial next step to help small business owners in SWFL.

In closing, the research team was pleasantly surprised by the statistical validity of the findings identified given the small respondent sample. It is our hope to reach out again to gather further information, which is likely to improve our understanding of how small businesses can be better prepared for an economic event like that caused by Covid-19.

Appendix

Descriptive statistics from respondents

Category	Fields	# of Responses
Demographics		
Gender	Male	16
	Female	14
	Prefer not to say	2
Race	White	28
	Other	4
Age	55 and Below	12
	56 and Above	19
Marital Status	Married	26
	Not Married	6
Education	Some college, no degree	4
	Bachelor's degree	16
	Post-college education	9
	Technical degree	2
Use of Service (Multiple Answer Possible)		
Bank Services	Cash Management	24
	Payments	27
	Term Loans	18
	Credit Lines	29
	Foreign Exchange	2
	Other	1
Organizations	SBDC	13
	Chamber of Commerce	40
	Economic Development Office	28
	Visitor Conv. Bureau	25
	SCORE	7
	Regional Planning Council	7
Advisor	Other	1
	Attorney	54
	Accountant	52
	Banker	48
	Financial Adviser	37
PPP	None	16
	Not Eligible	10
	Eligible & Not Applied	4
	Eligible, Applied & Not Received / No Response	2
	Eligible, Applied & Received	28