Money Matters! Basic Personal Finance for Aspiring Entrepreneurs

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Target Audience

Individuals and groups seeking to improve the impact of personal financial education.

Keywords: aspiring entrepreneurs; evaluation; money matters; small business

Abstract

Aspiring entrepreneurs seeking small business capital in addition to being required to demonstrate business viability, management competences, and acumen, also face scrutiny of their personal credit history and financial management (Jones & Tullous, 2002).The purpose was to evaluate a program whose aim was to increase positive financial behaviors of aspiring entrepreneurs in order to improve their creditworthiness for small business credit. Extension educators provided 36 workshops over a two-year period at various locations around a Southeast state. Participants completed a pre-test survey. Mail-in follow-ups were solicited six months after each workshop. However, due to low response rates, phone interviews allowing for open-ended descriptions of changes in financial lives were conducted instead. Pretest evaluations revealed that about half of the 258 participants, of whom the majority were female and minorities, did not engage in positive financial behaviors. The behavior changes that emerged in the six-month follow-ups included budgeting and spending control, saving by reducing high-interest debt, and putting cash savings aside. While generally feeling more 'focused' on their financial lives, some expressed the desire for further interventions to sustain personal financial behavior change and support business start-up. No direct links between taking the program and business activities were detected.

Background and Purpose

Entrepreneurial intentions are not limited to those with less financial constraints (Kim, Aldrich, & Keister, 2006). In recent years, several government initiatives were undertaken to try to revive the economy including the small business sector. Aspiring entrepreneurs seeking small business capital in addition to being required to demonstrate business viability, management competences, and acumen, also face scrutiny of their personal credit history and financial management (Jones & Tullous, 2002).

Faculty extension specialists at a large southern university developed a financial education program tailored towards aspiring entrepreneurs. The program was supported by a grant from federal stimulus funds. The goal of the program was to disseminate information and skills about sound personal financial management in order to build and maintain good personal credit reputations which inevitably improved access to business capital and creditworthiness. The desired outcome of the basic training in personal financial management was that participants would have positive outcomes in their financial behaviors six months from the intervention. Therefore, the purpose of the paper is to present the evaluation of the impact of the program on participants' financial situations and self-perceived readiness to start a small business.

Method

The workshops were structured around a PowerPoint presentation, educational activities, and worksheets. Each workshop covered four modules: 1) ‘Financial Readiness’ (topics included setting goals and priorities, making ends meet, and using financial institutions); 2) ‘Your Good Credit’ (topics included understanding your credit report, credit scores, and strategies for eliminating debt); 3) ‘Staying on Track’ (topics included establishing emergency savings, choosing appropriate revolving fund levels and savings instrument); and, 4) ‘Protecting Your Assets without Going in Debt’ (topics included using insurance and estate planning).

A mixed methods pretest-posttest evaluation approach was used (Nimon, Zigarmi, & Allen, 2011). Prior to the workshop modules, participants were invited to respond to their financial behaviors in each of these broad topics. Mail-in follow-up surveys were mailed approximately six months after the workshop. However, due to low response rates of the follow-up mail-in survey, follow-up semi-structured phone interviews were conducted. The pre-test and post-test self-recorded evaluations were analyzed using SPSS. The transcripts of the follow-up phone interviews were coded and analyzed in NVivo for emergent themes for behavior changes. The themes were triangulated (Creswell & Clark, 2007) with the few mailed-in surveys that were received which helped to validate the coded themes of the open-ended responses.

Results and Impact

Of the 258 participants statewide, 74% were women, 27% were white, 67% African American, and over 50% had Associate’s, Bachelor’s, or postgraduate college education. The pretest showed that about 23% did not have a deposit account at a financial institution, 66% did not have emergency funds set aside at a financial institution. Of the credit-related behaviors, 53% reported they did not review their credit reports annually, 46% did not compare costs of loans, and 45% carried balances on credit cards or did not make the largest possible payment on credit card balances. Interestingly, only 28% had created or examined their own personal balance sheet or net worth statement prior to taking to attending the workshop.

Almost half (45%) of the 45-53% who had negative credit behaviors in the pre-test survey alluded to having better spending on credit and paying down credit. Specific responses included, “Eliminated credit cards and paid off $3,600 in credit card debt and $500 in loans”, and, “Paid off credit cards. Put money in savings”.

Of those who wanted to start a business or were in business, the types of businesses included childcare center, bowling alley, funeral home, medical billing, residential real estate, and catering or restaurant businesses. Generally, respondents were somewhat satisfied or very satisfied on a scale of 1 to 5 with the program overall. Some suggestions signaled a need for more follow-up intervention were:

> “[The program would have] a follow up plan. [The program] would go more in depth and show what the next step was in changing our finances.”
>
> “I filed for bankruptcy.”

Significance and Implications

There was evidence of program influence towards positive financial behaviors. While no causal effects could be established for those who experienced positive financial changes and went into business or stayed in small business, this evaluation shows that there is potential for financial education programs to impact other individual economic prospects such as entrepreneurship. Public policy and community supporters of small business should emphasize auxiliary programs such as personal financial education that increase human capital, an important ingredient for entrepreneurship entry (Kim, Aldrich, & Keister, 2006).

The validity of the evaluation could have been demonstrated objectively if a robust quantitative analysis of the pre and posttest were possible. However, not enough mail-in follow-up surveys were returned. Despite this, open-ended questioning during the phone interviews provided more in-depth insight than the responses from the few mailed-in surveys which were still for triangulation to improve the validity of the qualitative analysis of emerging themes.

References

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