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The number of businesses owned and operated by women is increasing rapidly, and women owned businesses are becoming a powerful economic force. It is estimated that half of the businesses in this country will be owned and operated by women by the year 2,000. This article describes research conducted on women owned small businesses and the nature of their banking relationships. Findings revealed that over 90% of those surveyed used banking products. A surprisingly high percentage of the women surveyed had switched banks. Major reasons for switching included poor customer service, an arrogant and condescending attitude on the part of bank personnel, and errors and mistakes. These results suggest opportunities for bank managers to improve the quality of their interactions with women business owners, a growing segment of the market.

## I. INTRODUCTION

Businesses owned and operated by women have become a powerful economic force in the United States over the course of the last 20 years. At present, there are 7.9 million women owned businesses in the United States employing 18.5 million workers and generating $2.3 trillion in sales. (*Women-owned businesses in the United States*, 1996) Employment growth in women owned firms is more than twice that of all firms. It is estimated that women owned businesses will represent 50 percent of all businesses by the year 2000 (*Women owned businesses: breaking the boundaries,* 1995).

Women owned businesses share many of the characteristics of small businesses in general. Typically the owner wears many hats but does not necessarily have expertise in all the areas requiring attention. Small business owners frequently lack necessary expertise in financial planning and

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management (Hustedde & Pulver, 1992; Pellegrino & Reece, 1982). The vast majority of small businesses remain small. A 1995 study conducted by the National Foundation of Women Business Owners (*Women-owned businesses: breaking the boundaries*, 1995) found that 87 percent of women owned firms had fewer than ten employees compared to 81 percent for all firms. The same study found that women owned firms are more heavily concentrated in service and retail lines of business. The longevity of women owned businesses is comparable to all businesses; approximately one-third are less than four years old.

Prior research indicates that small businesses are more dependent on banks as a source of capital than larger companies (Ang, 1991; Cole & Wolken, 1995; Nielsen, Trayler, & Brown, 1995; Petersen & Rajan, 1994; Riding, Haines & Thomas, 1994; Weinberg, 1994). Unlike larger corporations, small businesses do not have the options of issuing debt and/or equity. Thus, they rely heavily on personal sources of finance, trade credit, and banks. Typically, banks provide lines of credit used to finance working capital and term loans to finance various types of equipment. Banks also provide commercial mortgages, home equity loans, credit cards, and personal loans, all of which may be used to finance small business capital requirements.

Prior research also suggests that small businesses often experience difficulty in working with banks. Small businesses tend to have relatively high failure rates and are thus perceived as being more risky. In addition, since small businesses are typically privately held, they do not prepare and publish the same types of financial information that publicly held corporations do. It is more difficult and time consuming to gather and evaluate information pertaining to small businesses, a problem referred to by economic theorists as the problem of asymmetric information (Ang, 1992; Ennew & Binks, 1994; Petersen & Rajan, 1994; Weinberg, 1994). If required information does not flow freely between a small business and its bank, the bank may be reluctant to lend. Lack of capital, in turn, may prevent the small business from realizing attractive growth opportunities.

Some researchers suggest that women owned small businesses may experience even greater difficulties in dealing with banks than men owned businesses (*Financing the business*, 1993; Stoner, Hartman, & Arora, 1990). Acquisition of capital is a frequently cited problem (Brophy, 1989; Brush, 1992; Riding & Swift, 1990). Women owned businesses often have a difficult time obtaining bank loans for their businesses because they are new and lack a track record of profitability, or because they are service businesses and lack assets which can be used as collateral (Hisrich, 1989). Since women owned businesses are typically very small, the problem of information flows which plagues small businesses in general may be even more of a problem for them (Fabowale, Orser, & Riding, 1995; Riding & Swift, 1990). It has also been suggested that women small business owners do not socialize and network as effectively as men small business owners do (Aldrich, 1989; Brush, 1992). Thus, they do not have as many informal opportunities to exchange information with bankers or accountants and attorneys who deal with banks on a regular basis.

This research explores the nature and extent of women small business owners' relationships with banks in one New England state. Issues explored include the extent of usage of various bank products and services, bank switching, and problems experienced. The results suggest opportunities for banking professionals to develop and improve upon relations with women small business owners, a rapidly growing segment of the market.

## II. METHODOLOGY

A mail survey was conducted to explore the banking relationships and financial issues of women small business owners. The questionnaire was divided into three sections totaling eighteen questions. The first section addressed general issues pertaining to financing the business. The second section explored banking relationships and services obtained from banks. Finally, the third section included demographic information and characteristics of the business. The survey instrument along with a self-addressed stamped envelope was mailed to 832 women small business owners in Connecticut. Two weeks later, a follow-up postcard was mailed to encourage further replies. A smaller sample of male surveys (400) was mailed for comparative purposes. Names were drawn from the membership lists of several small business organizations in Connecticut. A total of 249 usable, completed surveys were returned from women and 96 from men for an overall response rate of 28 percent.

## III. RESULTS

The characteristics of the women owned businesses in the sample do not differ markedly from those in prior research (Brush, 1992; Collerett & Aubry, 1990; Devine, 1994, Hisrich & Brush, 1984; Riding & Swift, 1990). Fifty-eight percent of the respondents had been in business for less than four years, and 88 percent reported annual revenues of less than $1 million. The vast majority were in the service or retail sectors. Fifty-four percent of the respondents reported themselves as the only "workers," and 34 percent reported having between one and four employees.

As is shown in Table 1, the women owned small businesses in this sample were significantly smaller in terms of number of employees than the men owned

**Table 1**
**Characteristics of Men Owned and Women Owned Businesses**

| | *Men* | *Women* | *Anova F* | *Sig.* |
|---|---|---|---|---|
| Number of Years in Business | 7.1 | 5.4 | 4.77 | .03 |
| Number of Employees | 11.3 | 3.7 | 14.65 | .000 |
| Amount of Start-up Capital (in thousands) | $223.7 | $50.3 | 8.27 | .004 |
| Current Annual Revenues (in thousands) | $2085.1 | $634.8 | 8.42 | .004 |
| Percent in Service or Retail Sectors | 63% | 74% | $\chi 2$=16.75 | .01 |

small businesses used in the sub-sample. The women owned businesses were also younger than those owned by men. In addition, the women in this sample started their businesses with significantly smaller amounts of start-up capital and generated significantly lower levels of annual revenues. Finally, there was a higher percentage of women in this sample in service and retail industries (74%) compared to men (63%). These comparative findings are consistent with prior research.

In the area of banking relationships, over 90% of both the women and men small business owners responding to the survey reported that they did use bank products or services to support their business. The majority of both, approximately 60 percent, used only one bank, although women were significantly more likely to use only one bank than men ($\chi^2$ = 8.615, $p < .05$). Major products used by women small business owners included business checking accounts (92%), savings accounts and CDs (33%), and loans for the business (25%).

Findings of this survey revealed that the dominant sources of financing for the women owned small businesses were earnings from the business (88%), their own savings (54%), home equity loans and credit cards (28%). The women were significantly less likely to use bank loans as a source of financing than the men included in the sub-sample ($\chi^2$ = 23.353, $p < .001$). In addition, although a number of the women used additional financial services including employee benefits and retirement planning, investment advisory services, and advice on business matters, for the most part they did not obtain those services from banks. Men were also significantly more likely to use cash management services than women, although the level of usage for this product was low for both men and women.

When asked which characteristics were most important to them in a banking relationship, the women small business owners selected location (73%) and

**Table 2**
**Business Services Obtained from Banks (Women)**

| *Service* | *Use of Service* n | % |
|---|---|---|
| Business checking | 229 | 92% |
| Loans for business* | 62 | 25% |
| Cash management/lockbox* | 9 | 3% |
| Employee benefits/retirement | 4 | 1% |
| Savings accounts/CDs | 83 | 33% |
| Investment advisory services | 6 | 2% |
| Advice on business matters | 7 | 3% |
| Other services | 14 | 6% |

*Notes:* *Differences between women and men were significant.

**Table 3**
**Importance of Bank Characteristics (Women)**

| *Characteristic* | *n* | % |
|---|---|---|
| Location | 181 | 73% |
| Loan rates* | 65 | 26% |
| Deposit rates | 107 | 43% |
| Customer service | 153 | 61% |
| Provide service outside local area | 35 | 14% |
| Full range of services | 37 | 15% |
| Personal relationship with banker* | 80 | 32% |
| Gave needed loan* | 56 | 22% |
| Other | 29 | 12% |

*Notes:* *Differences between women and men were significant.

customer service (61%) as being most important. They rated both loan and deposit rates and willingness to lend as being of lesser importance. For the men in the sub-sample, location and customer service were also selected as the most important characteristics. Men were significantly more likely to rate loan rates and willingness to lend as being important, however ($\chi^2 = 16.706$, $p < .01$ and $\chi^2 = 15.999$, $p < .01$). In addition, men were significantly more likely to rate having a personal relationship with someone at the bank as being important ($\chi^2 = 12.534$, $p < .01$).

Sixty-five percent of the women and 70 percent of the men small business owners included in this survey had stopped doing business with a bank at some

**Table 4**
**Reasons for Switching Banks (Women)**

| *Reason* | *n* | % |
|---|---|---|
| Poor customer service | 111 | 45% |
| Errors and mistakes | 60 | 29% |
| Arrogant or condescending attitude | 82 | 33% |
| High loan rates | 19 | 8% |
| Low rates on savings accounts | 34 | 17% |
| Did not have services I needed | 30 | 12% |
| Would not lend to me* | 41 | 16% |
| Needed larger bank* | 4 | 2% |
| Other | 42 | 17% |

*Notes:* *Differences between women and men were significant.

point in time. For both, poor customer service was given as the major reason for switching. For the women small business owners, poor customer service was followed by an "arrogant and condescending attitude" and errors and mistakes as major reasons for bank switching. A relatively low percentage switched because of dissatisfaction with loan or deposit rates.

Differences for bank switching between men and women were not significant with two exceptions. Men were significantly more likely to switch because the bank would not lend to them ($\chi^2 = 4.107$, $p < .05$). In addition, men were significantly more likely to switch because they needed a larger bank ($\chi^2 = 11.532$, $p < .0001$).

## IV. DISCUSSION

The banking literature abounds with articles on the role and importance of the small business customer. Cranfill (1990) notes that small businesses are too numerous to ignore. He further notes that although lending to small business customers is more labor intensive and riskier, those customers also provide demand deposit balances which increase the overall profitability of the relationship. Both Cranfill (1990) and Haines et al(1991) suggest that service aspects are important to small business customers; in some instances more important than loan or deposit rates.

The relationship between service quality and profitability has been documented in prior research. In a study of the airline industry, Dresner and Xu (1995) found significant relationships between service measures and satisfaction and between the number of complaints and profitability. Anderson and Sullivan

(1993) noted that it is more costly to attract new customers than to retain existing ones. In a study of 114 companies in Sweden, they found that poor quality had a greater impact on satisfaction and repurchase intentions than superior quality. Keiningham et al (1994) addressed the relationship between service and profitability in the banking industry. In a study of 400 bank customers, they found that dissatisfied customers had a 37.5% probability of remaining with the bank while satisfied customers had an 84.2% probability of remaining. Based on their findings, they concluded that service performance and customer satisfaction lead to improved customer retention. Stafford (1994) also conducted a study of banking customers and concluded that service quality is a critical determinant in bank selection. She observed that since many bank products and services can be easily duplicated, service can be a differentiating factor.

These research findings and conclusions can be applied to the results of this study. The research described in this article demonstrates that service quality is a critical aspect of the banking relationship for women small business owners as well of for the men small business owners represented in a comparative sample. The vast majority of women included in this study did use banks as a source of financial products and services. Further, they rated customer service as being more important to them than any other bank characteristic with the exception of location. A very high percentage of the women small business owners included in this study had switched banks. Major sources of dissatisfaction were service quality and errors and mistakes. Results of this study reveal that the women small business owners were much less sensitive to price than to the service aspects of their banking relationships. Given the current number of women small business owners combined with the rapid growth rate of women owned small businesses, these findings have implications for banks targeting the small business sector.

The findings also have implications for the quality and quantity of information flows between small businesses and banks and the problem of asymmetric information. Both men and women small business owners in this study had a high rate of switching. It stands to reason that switching disrupts the flow of information between a small business and its bank. In all likelihood, bank switching exacerbates the problem of asymmetric information making it even more difficult for small businesses to use banks as a source of business capital. Steps taken by banks to improve service and reduce switching could improve information flows between small business customers and the bank. This, in turn, could create a win-win situation in that better information may increase the likelihood that the small business will get a loan, and better service may increase the likelihood that the bank will retain a desired customer.

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