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Walden University

College of Management and Human Potential

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Kenneth M. Brown

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Walden University
2024

Abstract

Small Business Owners' Financing Strategies for Remaining Operational Beyond 5 Years

by

Kenneth M. Brown

MA, Webster University, 2018

BGS, University of South Florida, 2014

Research Project Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

July 2024

Abstract

Small business owners are concerned with financing their organizations to remain operational beyond 5 years, as 50% of small businesses fail before reaching 5 years of operations. Grounded in the pecking order theory, the purpose of this qualitative pragmatic inquiry was to identify and explore financing strategies that six small business restaurant owners in the central Florida area of the United States use to remain operational beyond 5 years. Data were collected using semistructured interviews, public financial and annual reports, archival mission and vision statements, and the local Chamber of Commerce website. Through thematic analysis, three themes were identified: (a) reliance on internal financing, (b) limited use of debt, and (c) the role of equity financing. A key recommendation is for small business restaurant owners to consider setting annual financial growth objectives based on their current financial position to ensure they limit external financial funding needs. The implications for positive social change include the potential for restaurant owners to uplift their socioeconomic status and offer enhanced services to their respective communities.

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Section 1: Foundation of the Project

In this chapter, I discuss foundational elements that prompted the study of financing challenges faced by small businesses. I provide a discussion on the background of the problem and the statement of purpose as an introduction to the context covered in this research.

Background of the Problem

The general business problem that prompted this qualitative inquiry is that small businesses face financing challenges that affect their ability to remain operational beyond 5 years after establishment. Data from the U.S. Small Business Administration indicate that, as of 2020, there were 33.7 million small businesses in the United States. However, while most small business owners start their businesses earnestly, few succeed beyond the 5-year mark (Cantamessa et al., 2018). As of 2020, 50% of small businesses that started in 2015 failed (Zhou, 2022). Studying the financial strategies some businesses owners use could provide existing small business owners and potential new small business owners with successful financial strategies for ensuring they remain operational beyond 5 years. The background of the financing challenges that small business owners encounter that affects their ability to remain operational beyond 5 years is emphasized.

Business Problem Focus and Project Purpose

The specific business problem was that small business owners in the restaurant industry may not have successful financing strategies to ensure they remain operational beyond 5 years. Therefore, the purpose of this qualitative pragmatic inquiry project was

to identify and explore the successful financing strategies small business owners in the restaurant industry have used to ensure they remain operational beyond 5 years.

A purposive sampling approach was used to identify project participants. Palinkas et al. (2015) suggested purposeful sampling because it helps a researcher to select rich information related to the research objectives. Additionally, according to Bekele and Ago (2022), when conducting research, sample size varies. The number of participants depends on several factors, including the focus of the research, the type of research question, the time and resources available for use, and institutional committee requirements among other things (Bekele & Ago, 2022). I used a sample size of six project participants based on Walden University guidance for qualitative pragmatic inquiries. Each eligible project participant met the following criteria: (a) over 18 years of age, (b) located in central Florida, (c) a small business restaurant owner, (d) had used their successful financing strategy, and (e) remained operational beyond 5 years. These participant criteria helped to answer the overarching research question.

The conceptual framework for this project was the pecking order theory. Gordon Donaldson founded pecking order theory in 1961 (Cohan & Donaldson, 1963), and the theory was later modified by Stewart Myers in 1984 (Martinez et al., 2019). The premise of this theory is that business owners' behaviors and preferences in financing decisions impact their ability to sustain their business in the long term (Martinez et al., 2019). The pecking order theory is appropriate for the project because small business owners seeking the best financing options for their businesses may find the strategies shared by participating small business owners helpful to remain operational beyond 5 years.

The pecking order theory has key constructs considered levels of financing when exploring financing options. Firms first consider a higher level known as internal funds (i.e., savings of the sole proprietor in the case of small businesses), the second level is to explore the debt financing options, and the third level is equity as a last resort. This conceptual framework was appropriate for this project because small businesses that succeed have best practices. The more a business owner goes lower on the pecking order, the higher the chances of failing within the first 5 years (Martinez et al., 2019). The pecking order theory grounded this project exploring the successful financing strategies some small business owners have used to remain operational beyond 5 years, and the theory helped answer the overarching research question.

Research Question

What successful financing strategies do small business owners in the restaurant industry use to remain operational beyond 5 years?

Assumptions and Limitations

Assumptions

Assumptions refer to the things that are outside a researcher's control but that have a significant bearing on a study's success to the extent that their absence would render the study irrelevant (Simon & Goes, 2010). According to Levitt et al. (2021), some researchers make some assumptions they believe are accurate although they may not be verifiable. Some of the assumptions for this research included the following: the findings would be generalizable, and the project participants would answer the interview questions

honestly. I corroborated the project participants' interview responses to their financial and annual reports and found no discrepancies.

Limitations

Limitations refer to the potential weaknesses in a study that are beyond a researcher's control (Ross & Bibler-Zaidi, 2019; Simon & Goes, 2010). One potential weakness of this pragmatic inquiry project was that the project participants were not representative of all small business restaurant owners in central Florida. The project participants were from two small restaurants, a food truck business, a dine-in restaurant, a pastry shop, and a drive-through restaurant.

Section 2: The Literature Review

A grounded approach to the present research is provided via a review of academic literature on small businesses' financial challenges. Scholarly journal articles, reports, and seminal scholarly books were searched from Google Scholar, EBSCO Host, Research Direct, CrossRef, SCOPUS, and JSTOR databases. Keywords used in this search included *pecking order theory, financing challenges, small businesses financing,* and *financing factors relating to the high failure rates of small businesses*. These terms resulted in a series of articles, some of which are documented below. The resulting articles were organized based on the conceptual framework planned for the research, financing strategies used by small businesses, and factors that lead to the high failure rates of small businesses.

The literature review contains theoretical and empirical perspectives. The review begins with a synopsis of all the literature reviewed, followed by the theoretical perspectives from two theories relevant to capital structure: pecking order theory and trade-off theory. While the former is the theory grounding this pragmatic inquiry, trade-off theory augments it by explaining why debt financing is the preferred external financing option. After the examination and analysis of these theories, I discuss an empirical review with three areas of focus: moderating factors, small business financing strategies, and the impact of COVID-19. Moderating factors include firm size, business cycle, profitability and business risk, availability or capacity, and regulation. According to Nguyen et al. (2021), these factors tend to moderate the relationship between financing gaps and access to financing for small businesses. Next, within the context of research

studies, I analyze and synthesize financing strategies available to small firms: traditional internal financing, debt, and equity funding proposed using the pecking order theory as the focus of the studies. Lastly, I discuss the impact of COVID-19 on small businesses, which forms the basis for looking at how small business financing has changed because of the pandemic.

Application to the Applied Business Problem

The purpose of the proposed qualitative pragmatic inquiry was to identify and explore the successful financing strategies small business owners in the restaurant industry use to ensure they remain operational beyond 5 years. This section is a synopsis of the key issues, theories, and perspectives prevalent in the literature review that focus on the small business financing strategies that allow these firms to remain operational beyond the first 5 years.

Key Issues

Small businesses are fundamental to socioeconomic development in the United States and worldwide. The 2020 Small Business Profile report noted that these businesses represent about 99% of all business ventures in the United States and employ at least 47.1% of the working population, which is about 60 million people (U.S. Small Business Administration, 2020). Moreover, small business exports accounted for more than 32% ($1.5 trillion) of the United States' total exports in 2018, further cementing their place in the economy (U.S. Small Business Administration, 2020). These firms were expected to play a pivotal role in economic recovery and employment in the post-pandemic era because the number of new businesses is set to rise steadily (Belitski et al., 2021;

Edwards, 2021; Gorjian-Khanzad & Gooyabadi, 2021; Katare et al., 2021). The anticipated growth in startups emanates from a finding that hardship experienced during the COVID-19 pandemic has been a major driver of entrepreneurship in the United States. These sentiments, coupled with the previous statistics, cement the importance of small businesses, particularly for their contribution to economic and social development in the United States. These businesses must survive and prosper because they support economic and social structures.

Despite their importance, National Business Capital (2021) reported that up to 50% of U.S. small businesses cease operations before their fifth anniversary, which according to World Bank, is mainly attributable to financing difficulties (Adian et al., 2020). Small businesses usually face challenges accessing traditional bank loans, prompting them to use internal funds or cash from friends and families (Adian et al., 2020). While this route follows the pecking order theory that calls for firms to tap into their internal funds first, followed by debt and equity, Frank et al. (2020) noted that small firms typically have insufficient internal resources, necessitating external finance, which may not always be available (Bollaert et al., 2021; Didier et al., 2021; Frank et al., 2020; Lerner & Nanda, 2020). Indeed, a 2017 report established that up to 25% of small businesses in the United States face a funding gap because of the inability to access the financing needed for operational or investment needs (National Small Business Association, 2017). Owing to the financing gap small businesses face and the high failure rate, a systematic review was conducted to examine previous research literature on

financing strategies that allow small businesses to remain afloat beyond 5 years to sustain the economic and social contributions these businesses make.

Small businesses are inordinately affected by funding gaps, despite existing in one of the most developed capital markets in the world, the United States (Brown et al., 2020). Brown et al. (2020) observed that a lack of access to financing inhibits a small business from sustaining the value offered to its target market. These companies need the finances to fund their working capital or investments to sustain their value offering beyond the first 5 years.

Internal financing is a low-cost financing strategy, also known as *bootstrapping*, that allows businesses to utilize funds from internal sources, including retained net earnings, working capital arrangements, and leases. Additionally, Brown et al. (2020) found that lenders have reduced lending capacity in periods of uncertainty, particularly during the 2008–2009 financial crisis and the COVID-19 pandemic (Flammer & Ioannou, 2021; Gompers et al., 2021a; Niculaescu et al., 2023). This reduced capacity exacerbates the funding gap faced by these businesses because lenders believe funding is too risky (Brown et al., 2020). However, following the pecking order theory, researchers have recommended that small businesses tap into internal financing sources (Donaldson, 1961; Frank et al., 2020; Kumar et al., 2020; Myers, 1984; Yıldırım & Çelik, 2021). While there are several internal financing sources, retained earnings remain a pivotal part of internal financing, which most new businesses struggle with, limiting efforts to fill the financing gap (Begenau & Salomao, 2019; Mehar, 2023; Naumoski, 2022; Serrasqueiro et al., 2023). Moreover, small businesses have lower bargaining power, which hampers them

from negotiating with critical stakeholders, such as customers and suppliers (de Goeij et al., 2021; Gan & Xia, 2022; Ha et al., 2021; Organisation for Economic Co-operation and Development [OECD], 2018). Instead, smaller firms may be unable to demand prompt speedy payments without damaging the much-needed customer relationships. Conversely, customers may not trust the brand enough to pay for products before production, limiting a firm's ability to receive advance payments to fuel further production.

Because of the inadequacy of internally generated funds for small businesses, the pecking order theory has a key construct: the option of using debt financing. However, debt financing remains out of reach for most small businesses in the United States, especially because of information asymmetry between market participants (Bakhtiari et al., 2020; Fadil & St-Pierre, 2021; Legesse & Guo, 2020; Liu et al., 2022; National Small Business Association, 2017; Rao et al., 2023). Lenders do not have enough information to assess small businesses objectively, mainly because these businesses have severe reporting gaps. This forces banks to incorporate uncertainty/risk in loan pricing, which is usually expensive for already cash-strapped small firms.

Despite this drawback, U.S. community banks have facilitated small business financing because they depend on relationship lending, relying on qualitative information (Arcuri, & Levratto, 2020; Federal Deposit Insurance Corporation, 2020; Meslier et al., 2020; Nguyen & Barth, 2020; Petach et al., 2021). Finally, the pecking order theory has the option for equity financing as a last resort for business financing because of the information mentioned above, asymmetry, which inevitably leads to an undervaluation of a business (Myers & Majluf, 1984; Reverte & Badillo, 2019). Because of this, the OECD

(2018) noted that business owners may find themselves receiving inadequate capital to fund their investment needs. Equity financing strategies include friends and family, venture capital, angel investors, and initial public offerings (OECD, 2018). However, initial public offerings (IPOs) are unfavorable for small businesses because of the high costs (Arora & Singh, 2020; Jiang et al., 2022; OECD, 2018; Yang et al., 2020).

Most U.S.-based small firms rely on family and friends, exposing access to capital to interpersonal relationships and not necessarily the underlying business model (Yezza & Chabaud, 2023). Angel investors and venture capitalists possess more than $100 billion in lendable funds (Brown et al., 2020). However, according to the Corporate Finance Institute (2021), venture capitalists are hard to reach, with only a 1% acceptance rate. Additionally, these arrangements may be marred by information asymmetry/distrust, which is why only 10% of startups that receive venture capital financing succeed (Corporate Finance Institute, 2021). Aside from the three traditional financing strategies, famous alternatives include factoring and crowdsourcing. Factoring allows small businesses to sell their receivables at a discount, which promotes liquidity, while crowdsourcing leverages digital technologies to receive funding from different investors (Colovic et al., 2022; Devece et al., 2019; Raineri & Sohmen, 2021). Lastly, literature on the COVID-19 pandemic and business financing highlights the importance of government support and an increasing need to preserve cash (Belitski et al., 2021; Berisha-Qehaja, 2021; Block et al., 2022; Cowling et al., 2020; Marconatto et al., 2022). Moreover, the literature on small business success amidst crisis highlights the importance of advance planning to promote business continuity and the ability to generate internal

funds (Caballero-Morales, 2021; Cohen, 2021; Corrales-Estrada et al., 2021; Zutshi et al., 2021). Admittedly, literature on the impact of the COVID-19-induced economic crisis on small business financing is still in its early stages and constantly evolving, making the current project relevant in contributing to this body of knowledge.

Key Theories

Pecking Order Theory

Donaldson's (1961) pecking order theory explains corporate structure decisions, primarily focusing on hierarchy with respect to a firm's funding sources. This theory was expanded in subsequent works to provide a rationale for such behavior (Jarallah et al., 2019; Myers, 1984). These authors argue that firms prefer internal financing options by adapting or adjusting dividend payout ratios to their investment needs. For example, Company W may reduce its dividend payouts to accommodate financing needs toward a new expansion project. However, adjustments to dividend policies may inevitably be inadequate in light of waning profitability or huge investment requirements (Frank et al., 2020). In such conditions, companies may require external financing, beginning with the safest security: debt (Myers & Majluf, 1984). After exploring debt options, firms may then move to hybrid financing options and finally to equity.

The undervaluation of the equity may outweigh a project's worth, diminishing the value created. Myers and Majluf (1984) demonstrated that information asymmetry between market participants, capital seekers, and providers may lead to an undervaluation of equity shares. Indeed, small businesses, which are the subject of this literature review, may not have the required information to avert the undervaluation, as discussed in

subsequent sections. Additionally, Martinez et al.'s (2019) study affirmed that small businesses that went further down in the pecking order were highly susceptible to business failure. Therefore, it was crucial to establish whether the pecking order theory holds as far as contributing to business success beyond 5 years is concerned.

Given their uncertainty, Adian et al. (2020) found that small businesses prefer grants or equity to loans to avert period payments. Similarly, several empirical studies found that smaller firms tend to have lower debt ratios—that is, debt as a function of assets and equity—affirming these firms' inclination toward equity (Crouzet & Mehrotra, 2020; D'Amato, 2020; Franquesa & Vera, 2021; Sharif, 2019; Yousef et al., 2020). This finding is explained in Kalantonis et al.'s (2021) study, and throughout this literature review, these firms face severe financial constraints due to the associated information asymmetries, making them less appealing to lenders, such as commercial banks. However, Sharif (2019) also established a negative statistically significant relationship between profits and leverage, implying that profitable firms are less likely to tap into debt but instead use internal financing, supporting the pecking order theory. Yet, the typical unprofitability and financial uncertainty associated with small firms, as asserted in Adian et al.'s (2020) study, potentially contradict the pecking order theory in practice, begging the question, could this deviation exacerbate their failure before their fifth operating year?

Trade-Off Theory

Undoubtedly, profitability plays a crucial role in sustaining small businesses beyond 5 years, suggesting that both costs and benefits are crucial considerations. The

trade-off theory holds that the financing decision balances the costs and benefits associated with either debt or equity financing (Dao & Ta, 2020; Khoa & Thai, 2021). This theory aligns with Modigliani and Miller's (1963) notions that the value of a leveraged firm is equal to that of an unleveled firm after (a) adding the present value of tax savings from debt financing and (b) subtracting the present value of the costs of expected financial difficulties. Therefore, because interest is tax deductible, firms are incentivized to take on more debt than equity. Therefore, it was essential to see whether this theory would apply to small businesses, especially considering that small business sole proprietorships pay the lowest effective tax rate in the United States (Satterly, 2020). Expressed differently, do small businesses consider tax savings when making financing decisions given that they pay the lowest taxes?

Themes and Perspectives

Before exploring the financing strategies posited by the pecking order theory, it is crucial to highlight some of the attributes that may influence the financing decisions for small businesses. These include firm size, business cycle, profitability and business risk, availability or capacity, and regulation.

Firm Size. Firm size tends to have an impact on a firm's profitability and may be a determining factor for the firm's profitability. Begenau and Salomao's (2019) quantitative research study established a relationship between firm size and profitability. The researchers noted that smaller firms are usually less profitable than their larger peers (Sedunov, 2020). Additionally, the researchers affirmed that profitability is linked to financing constraints, where firms that are less profitable (or have fewer internal

resources) are more likely to face the funding gap. This finding is particularly unfavorable for small businesses considering they are typically less profitable, suggesting they are less likely to receive debt financing because of various reasons, such as business risk, as discussed in the subsequent section (Frank et al., 2020). Here, the already apparent paradox can be cemented by the question: How can small businesses yet to build internal resources access external financing? From this, it can be deduced that debt financing, which is the preferable external financing according to Myers's extension of the pecking order theory (1984), may remain untenable for most small businesses simply because they are not big enough to be profitable. However, lenders may fail to recognize they need financing to grow big enough.

Business Cycle. A procyclical approach emanates from small businesses' requirements for high funding needs, which sufficient funds do not support, thus making business cycles critically important. As postulated in Begenau and Salomao's (2019) study, business cycles play a pivotal role in firm financing decisions, which were used for business financing during economic booms. Begenau and Salomao (2019) found that large corporations tend to substitute debt and pay-out equity over the business cycle, while small businesses adopt a procyclical approach to debt and equity. According to Begenau and Salomao (2019), these firms have higher financing friction, affirming the need for external financing. Indeed, Brown et al. (2020) note that these frictions brought about by a sub-optimal financial structure have a bearing on the longevity of small businesses that hope to sustain their growth prospects.

Severe financial constraints are inherent in small firms, mainly because they are more likely to have to follow the entire route proposed in the pecking order theory. Moreover, while economic booms are typically associated with fewer financial constraints, the trickle-down effect on small businesses is significant (Begenau & Salomao, 2019; Saah, 2022). This significance is founded on the fact that small businesses do not have sufficient internal finances because of different micro and macro environmental factors, such as market inexperience and stiff competition from more established firms (Brown et al., 2020). Unlike larger corporations that can easily issue equity pay-outs and debt simultaneously during booms, small companies have little choice but to tap the available internal funds, followed by debt and equity financing, simultaneously to fund their high productivity levels (Begenau & Salomao, 2019).

Profitability/Business Risk. Financing gaps are primarily driven by the high business risk facing small businesses. Various owners of capital associate the low profitability of small businesses as a significant risk when choosing to invest in them. Brown et al. (2020) discovered that a lack of hard assets and credit histories were the main catalyzing factors in their investigation of this gap among U.S.-based small businesses.

On the one hand, small businesses are yet to build a solid asset base, which can be used as collateral for external financing. Additionally, small businesses do not have extensive credit histories because they are relatively young. The age issue also augments the market inexperience that small businesses possess relative to large and more established businesses (Cole & Sokolyk, 2016). Coupling all these factors highlights the

business risks that small businesses pose to lenders. Indeed, these businesses compete for the same financing with larger firms with a proven track record, market understanding, and sufficient physical collateral. Therefore, poor business risk management hinders small businesses from capital access. Moreover, the structure of commercial banks has changed unfavorably for small businesses over time. Commercial bank size shrunk by more than three times between 1986 and 2018, creating large banks that are less inclined to disburse loans to small businesses, quoting low profitability vis-à-vis high business risk (Brown et al., 2020).

Business risk and lower internal resources (profitability) exacerbate the funding gap that defines many small businesses in the United States. Despite this supposed business risk associated with small firms, Bakhtiari et al. (2020) argue that supposed business risk is largely cemented on perceptions, because lenders are conditioned to view small businesses as inherently risky without looking deeply into their business model. The unwillingness to evaluate small business models emanates from the costly nature of assessing business risks (Bakhtiari et al., 2020; Calabrese et al., 2022; Harrison et al., 2022; Raimo et al., 2021). Therefore, lenders are left with two choices: deny financing outrightly or raise interest costs to match the cost of generating the needed information on business feasibility or viability. The latter option constrains the firm's resources, inhibiting its ability to invest in long-term growth (Bakhtiari et al., 2020). Lenders consider small businesses too risky, mainly because of low market experience, hard assets, and credit history (Brown et al., 2020). Indeed, Brown et al. (2020) found that small business leaders that end up receiving loan financing do so at a considerable cost,

catalyzing poor financial performance during a crucial time of a business's lifecycle. However, many business risks associated with small businesses are predominant because lenders consider it too costly to obtain the necessary information to make the appropriate lending decisions (Bakhtiari et al., 2020). Undoubtedly, this is one reason for the financing gap that causes small business failure, especially during the formative years.

Regulation. The decision to lend is largely informed by capital availability on the lenders' part. However, lenders do not exist in isolation since most commercial banks are under tight regulatory frameworks. These frameworks disproportionately affect smaller banks, also known as community banks, which disfavors U.S.-based small businesses, considering that most rely on community banks for external financing (Jagtiani and Maingi, 2019; Kress & Turk, 2020). A Government Accountability Office (GAO, 2018) study reported that since the financial crisis of 2008 and 2009, federal regulators have implemented new and stringent banking regulations that inhibit small business financing access. However, federal regulation is not entirely to blame for this effect. GAO (2018) also found that community banks often fail to report small business lending accurately. The data that most community banks provide does not include business size, making it difficult for federal agents to assess the impact of regulation on small business lending. However, despite this shortcoming on the lenders' part, Brown et al. (2020) note that post-financial crisis US banking regulations are intrinsically designed to limit small businesses access to capital, regardless of whether this was the intention. For instance, one objective of the regulatory reforms of the banking sector after the crisis was to 'improve the resilience of individual banks to reduce the risk of failure' (Sironi, 2018).

According to Sironi (2018), this objective pushed banks to strengthen a risk-premium-based lending philosophy, disproportionately affecting small businesses. However, as the economy continued to recover, banks' lending capacity rose, increasing small business lending by 5% between 2013 and 2017 (GAO, 2018). Nonetheless, the literature I reviewed in this section highlights the impact that regulation has on small businesses access to funding. Tight regulatory frameworks on banks tend to affect these firms inordinately, exacerbating the funding gap.

Small Business Financing Strategies

Traditional Debt Financing Strategies and Their Effectiveness

Within this section, I focused on strategies that small businesses may use to tap into traditional debt financing and the efficacy of these strategies. In their systematic review, Bakhtiari et al. (2020) established that information asymmetry was to blame for credit constraints in many countries, including the United States. The pecking order hypothesis argues that firms should tap into debt when pursuing external financing options (Myers & Majluf, 1984). Conversely, such a strategy fills in the financing gaps associated with internal financing.

In most cases, lenders do not have the necessary information to properly evaluate the business model, 'forcing' them to incorporate this uncertainty in their offer. For instance, a bank might incorporate a risk premium while lending to businesses that are not well-established. Ystrom (2019) found that because of these constraints, small businesses must bolster their reporting standards to ensure lenders have the necessary information to make financing decisions. Also, according to Yström (2019), preparing

financial records should follow the Financial Accounting Standards Board (FASB) guidelines followed by public companies in the United States.

Reinforcing financial reporting ensures that investors, including lenders, obtain the necessary information to make relevant decisions (Yström, 2019). From this, I deduce that proper bookkeeping allows lenders to understand the business and the associated risks, reducing the cost of obtaining this information, as mentioned in Bakhtiari et al.'s (2020) work. Doing this is likely to, at the very least, bolster chances of an objective consideration for debt financing, allowing small businesses to enjoy the benefits associated with this financing method, as posited in Modigliani and Miller's (1963) work and as supported by Donaldson's (1961) pecking order hypothesis. Indeed, to overcome being overlooked based on their small size, Eggers (2020) found that access to external (debt) financing largely depends on a firm's ability to understand how financial institutions make lending decisions. This includes reporting on creditworthiness, asset structure, gearing ratio, and liquidity—factors that give lenders an indication of the business's survival prospects (Eggers, 2020). Reporting on these factors allows small businesses to keep the underlying principles in check constantly. For instance, understanding and reporting on business liquidity ensures that owners retain healthy liquidity ratios, allowing them to withstand any disruptions that threaten business survival (Block et al., 2022).

In addition to bolstering financial reporting, small businesses can increase the chances of obtaining debt financing by going to small banks, otherwise referred to as community banks, which according to the Federal Deposit Insurance Corporation (2020),

are useful in small business lending. Further, according to the OECD (2018) referred to earlier, these banks mostly rely on relationship lending, allowing small business owners to engage directly with loan officers. Such engagement is almost non-existent in larger banks, where preliminary decision-making is based on lending algorithms, making them less likely to rely on soft qualitative information (OECD, 2018). These assertions on relationship lending are supported by Jagtiani and Maingi's (2019) U.S.-based empirical study that established the evidence that community banks play a more significant role in small business financing than their larger peers. These banks increased small business lending by more than 5% between 2013 and 2017 (GAO, 2018). Both Jagtiani and Maingi's (2019) and GAO's (2018) studies affirmed that it is more tenable for these banks to consider small businesses because they are more relationship-based, making them more likely to respond to small businesses specific needs.

As much as small community banks are more likely to lend to small businesses, it cannot be ignored that these smaller banks have far much less capital, limiting the extensivity of their reach. Evidently, according to the 2020 Federal Deposit Insurance Corporation (FDIC) report, small or community banks accounted for about 12% of all loans disbursed in 2019 despite having more physical presence than larger banks. Therefore, while community banks play a pivotal role in small business financing, their ability to exercise this mandate is limited by their smaller asset books (FDIC, 2020). Additionally, as mentioned in preceding sections, GAO (2018) also found that community banks lack strong reporting frameworks, which is necessary to understand the true size of small business lending from these banks. Therefore, policymakers may not

know when necessary to dedicate additional resources to these banks for onward lending to small businesses or to introduce supportive regulations based on the true state of small business lending (GAO, 2018). This lapse is beyond the control of small businesses, suggesting that a lack of access to finances may be due to another stakeholder's fault.

In summary, debt financing is still a crucial financing strategy for small businesses. Therefore, small businesses must package themselves in such a way that satisfies lenders' information needs. This includes bolstering their financial reporting standards to adopt acceptable accounting standards that promote an understanding of the business and its risks. Moreover, small businesses could target community banks that mostly rely on qualitative decision-making instead of larger commercial banks' fixed algorithms (Balyuk et al., 2020; Jagtiani & Maingi, 2019; OECD, 2018). Despite the apparent benefits of community banks in small business lending, the literature on community bank lending falls short as it ignores that these banks have far smaller asset sizes, limiting their ability to reach many small businesses. Additionally, these smaller banks have been faulted for failing to report the true size of small business lending (GAO, 2018). This limits policy because lawmakers may lack sufficient or true information to introduce appropriate regulatory frameworks for small firms.

Efficacy of Common Equity Financing Strategies

According to the pecking order theory, equity financing is seen as the last resort for business financing. As discussed severally, small businesses are characterized by information asymmetry, which exposes a firm's equity shares to undervaluation (Myers & Majluf, 1984). Despite this theoretical drawback, the OECD (2018) notes that small

businesses can access equity financing through various sources: friends and family, venture capital, angel investors, and IPOs. However, the last option (IPOs) is usually less appropriate for young businesses due to the process's high cost and lengthy nature (OECD, 2018). Ritter's (2021) U.S.-based study found that the median age for companies at IPOs between 1980 and 2020 was 8 years, cementing the previous assertion that young businesses (< 5 years) are less likely to access centralized capital markets. For these reasons, the literature review on public equity raising was excluded in this section.

Financing from friends and family is one of the most famous equity financing strategies U.S. startups use. Lähdesmäki et al. (2019) note that friends and family have low expectations of returns, allowing the founders to focus on business management and growth. However, success depends on person-to-person relationships, which affect the smooth running of the firm (Lähdesmäki et al. 2019). For instance, family and friends may want their funds back when the business critically needs them. Thus, founders must carefully ensure such transactions are made under contractual terms. In addition to friends and family, small business owners can sell an equity stake to angel investors to obtain the required financing. One key characteristic of angel investors is that they are typically former entrepreneurs (OECD, 2018). Assuredly, being former entrepreneurs enables them to help small businesses navigate common challenges that may come up, increasing the chances of success. However, like in venture capitalists, information asymmetry is also prevalent in business angel financing.

Business owners' and investors' relationships play a critical role in the achievement of organizational success. According to Esubalew and Raghurama (2020),

both owners and investors may fail to communicate expectations, denting the owner-investor relationship in crucial stages of the business's lifecycle. As such, the information asymmetry problem can be resolved through an open and honest relationship between small business owners and investors (Glücksman, 2020). Such a relationship ensures that the business attains its objectives unhindered. Moreover, these researchers (Abbasi et al., 2018; Myers & Majluf, 1984; OECD, 2018) suggested that open and honest relationships cemented trust between the parties involved, ensuring that they played their respective roles effectively. Moreover, the business owner can manage and control business operations. Venture capitalists often provide the necessary financing, business support, and guidance. Undoubtedly, when these elements work congruently, the business is more likely to attain its objectives, including survival and long-term success.

Despite the importance of venture capitalists as a source of funding, less than 1% of new businesses are likely to receive financing from this source (Corporate Finance Institution, 2021). Indeed, the U.S. private capital market could disperse up to $100 billion each year (Brown et al., 2020). However, the ability to provide private capital is different from actually providing it, which supports the funding gap discussed in Begenau and Salomao's (2019) work. Moreover, startups funded by venture capital firms have had a less than 10% success rate, prompting financiers to bolster their selection criteria (Corporate Finance Institute, 2021). Both these factors beg the question: how can small businesses package themselves to attract venture capital and, to some extent, business angels? In their *Harvard Business Review* article, Gompers et al. (2021b) identified three factors that make it easier for small businesses to access venture capital financing:

networking, cash flow or returns, and people. Networking lets business owners know the right people because most venture capital financing is done through recommendations. Likewise, venture capital firms must be convinced that the business turns positive cash flows (tied to product differentiation and market strategy). Lastly, venture capital companies want to be associated with startups with outstanding, formidable leaders who have great ideas (Gompers, 2021b).

In summary, equity financing has various manifestations, including family and friends, angel investors, and venture capitalists. All these options have distinct benefits and drawbacks. The suitability of one option over the other varies from case to case. Some businesses may find family and friends suitable, while others may be skewed toward venture capitalists. The more a company moves away from familiarity (friends and family), the more complexities begin to emerge (Azizi et al., 2021). However, some of these complexities, particularly those associated with venture capitalists, ensure the business is on solid footing, as Gompers et al.'s (2021b) work suggested. Gompers et al. (2021b) note that venture capital firms want to ensure that the business has a growth plan and good leaders to steer the ship toward achieving the said plan. Venture capitalists want to allocate their portfolios to businesses that have high profitability prospects.

Bootstrapping and Small Business Success

As mentioned before, the pecking order theory calls on firms to implore internal financing sources before tapping into external financing methods (Myers & Majluf, 1984). While this theory indicates that firms should tap into internal financing options first, the researcher placed it last (amongst its two other peers) since difficulties in

accessing external financing force firms to bootstrap. As discussed in previous sections, these difficulties emanate from information asymmetry, business risk, market conditions, and size, to name a few. However, Frank et al.'s (2020) suggestions limit the definition of internal financing to cash flows generated in the course of business operations. Put differently, these authors suggest that internal funds are the trickle-down effect of sales revenue. The OECD (2018), in their survey of OECD countries, agreed with this assertion, reporting that retained earnings are the most common source of internal funds. However, as shown in Block et al.'s (2022) quantitative study, internal financing, also known as bootstrapping, transcends the use of cash flows from sales or profits to fund business survival and growth. While liquidity is at the center of internal financing strategies, small business owners can pursue a faster receivables collection period, slower payables period, preselling, and asset leases (Block et al., 2022). These strategies were key for small businesses, especially when navigating the severe disruptions caused by the COVID-19 pandemic. Indeed, a faster collection period allows a firm to have the necessary resources to fund business operations, boosting business survival, albeit in the short term (OECD, 2018).

Similarly, delaying supplier payments, which emanates from good supplier relationships, allows businesses to preserve cash for different needs. Additionally, preselling enables small businesses to receive cash well in advance, which can be used to bolster production, compounding a small business's success (OECD, 2018). Finally, asset leasing avoids significant capital expenditures, shielding cash flows from depletion (Eaton et al., 2021). These cash flows can then be allocated to uses that yield the greatest

utility for the small firm. As suggested before, Begenau and Salomao (2019) note that small firms have higher funding needs, suggesting that significant capital expenditures may exacerbate this state, necessitating asset leases.

OECD's (2018) findings highlight the importance of bootstrapping in small business financing, including negotiating good supplier terms, purchasing used equipment instead of new ones, and advancing customer payments. These businesses' additional but less used bootstrapping methods included factoring, buying on consignment from suppliers, and deliberately delaying tax payments (OECD, 2018). The most significant advantage of bootstrapping is that it is usually low-cost or free in most instances (Myers & Majluf, 1984), allowing small businesses to put their limited financial resources into productive use. Despite the apparent usefulness of bootstrapping for small businesses, its application is limited in two ways: access to bootstrapping options and the sufficiency of these options.

On the contrary, while there are several bootstrapping techniques, proceeds from profitability play a central role. However, as Begenau and Salomao (2019) noted, profitable firms typically have more internal funds, reducing financing constraints. This requirement misaligns with certain small business attributes, such as little to no profitability, exacerbating the financing gap from internal financing. The OECD (2018) also found that small businesses have lower bargaining power, especially with external stakeholders, because of the associated risk. This view was supported by Eggers's (2020) work, where the researcher established that these businesses' smallness exacerbates access to financing. Therefore, it is plausible that suppliers may not want to extend

payment periods due to the risk associated with small firms. Similarly, small enterprises may opt out of pushing credit customers for early payments because of the low bargaining power (OECD, 2018) and the need to retain client accounts. Also, as these enterprises are not as established as larger firms, preselling may not work because customers may not trust the brand's ability to deliver. Thus, strong stakeholder relationships must exist for these strategies to work, something that takes time (Block et al., 2022).

Contrastingly, internal financing can only go so far because its primary focus is on business survival, not growth, and development (OECD, 2018). This means that bootstrapping techniques, such as reducing collection periods, delaying payables, and preselling, to name a few, should be used to fund growth and not just operations. As such, bootstrapping efforts should go hand in hand with innovation and customer-targeted strategies that grow the business, such as improving operating and business models (Block et al., 2022; Clauss et al., 2019). Thus, small businesses should endeavor to use internally generated funds to support growth and development, including investment in market research and new product development.

The literature reviewed in this section expands internal financing by offering new sources of bootstrapping, including tapping into working capital elements. While such strategies augment small businesses' liquidity, particularly in crises, they are not sufficient. The insufficiency is coupled with the fact that bootstrapping depends on an entrepreneur's skill set in business development and revenue generation. This is because, in most cases, bootstrapping relies on net profits to fund projects or other investment

needs (Begenau & Salomao, 2019). Doing this depends on the business owner's ability to lead the business into profitability, which is typically hard to come by for small businesses. With this said, however, OECD (2018) researchers hold the view that bootstrapping should be used for survival, a view that deviates from other researchers, such as Block et al. (2022), that argued that internal funds should be used for business growth and development. Block et al. (2022) noted that small businesses should use funds generated from bootstrapping to grow the business into sustainable levels through investments in initiatives that grow the business, such as innovation. Such efforts create the necessary conditions for business success beyond the formative years, including a firm foundation.

Alternative Small Business Financing Strategies

The literature review on bootstrapping contained some emerging alternative small business financing strategies, including leasing. There are, however, emerging strategies, including invoice factoring and crowdsourcing. Invoice factoring allows businesses to sell their accounts receivable to third parties at a discount (Blässe, 2021). However, OECD (2018) pointed out that factoring is primarily for trade-based businesses, considering that some small businesses might not deal in credit terms. Additionally, while invoices are discounted between 1.5% and 3%, according to OECD (2018), the final number depends on negotiations between the seller (small business) and the buyer (factor). One of the most significant advantages of factoring is that it buys the owner time to put things in order by obtaining cash in exchange for accounts receivables (OECD, 2018). However, due to the high cost, factoring is more applicable to businesses with

strong margins. Also, the factor must be convinced of the debtor's ability to pay, which goes back to the previous assertions on the importance of recording financial information to prevent information asymmetry between small businesses and investors/lenders (Yström, 2019).

Another popular alternative financing source is crowdsourcing, which allows small businesses to raise external funds from a large pool of investors (Nisar et al., 2020). Typically, investors provide a small proportion of the requested funds (OECD, 2018). Some players include lenders (such as banks), equity investors (such as angel investors), donations, and sponsorships (Mansor et al., 2021). Additionally, Mansor et al. (2021) also noted that peer-to-peer crowdfunding had gained prominence since it allows borrowers to access online credit from a large investor pool. Other crowdsourcing forms, such as reward-based crowdsourcing, allow prospective customers to purchase products before they become available (Maiolini et al., 2023; Mansor et al., 2021). This is a manifestation of preselling financing strategies discussed in previous sections (Block et al., 2022). Finally, small businesses can also participate in incubator programs, especially during the early stages, which give them access to networks, mentors, and positive criticism. Thus, small firms must become aware of the newer financing strategies to evaluate their applicability. Put differently, literature, including Mansor et al. (2021) work, shows that small businesses should not be limited to traditional financing forms but be open to tapping new and emerging ways of raising funds. As mentioned before, these less-known strategies bolster liquidity, allow access to a large capital pool, and provide networking opportunities; all these attributes are crucial in business survival. Additionally, easy

access to alternative financing methods allows the entrepreneur to focus on growing the business, finding more customers, and expanding revenue sources and product lines, among others, instead of worrying about working capital needs.

Impact of the COVID-19 Pandemic on Small Business Financing

Background to the COVID-19 Pandemic

In this final section of the literature review, I consider the impact that the COVID-19 pandemic had on small business financing from a financial/economic crisis perspective. As discussed previously, Begenau and Salomao (2019) established that economic booms yield higher internal funds and lower debt financing constraints, leading to a higher funding capacity. However, the current pandemic is the opposite of this situation, considering that it led to a severe economic recession in the United States. The COVID-19 pandemic disrupted almost all small businesses because of reduced customer demand, employee layoffs, and government-mandated protocols (Belitski et al., 2022). Indeed, Fairlie's (2020) study that surveyed U.S. small businesses in the first three months following social distancing restrictions found that these firms experienced severe drops in business activity. For instance, African American, Latinx, and Immigrant businesses experienced 41%, 32%, and 26% drops in business activity, respectively (Fairlie, 2020). This suggests that small firms that remained open had fewer sales, resulting in reduced sales revenue, which is a critical input in internally generated funds.

While numerous internal funds sources exist, including preselling, asset leases, and faster receivables collection, the OECD (2018) affirms that retained earnings are the most common source of internal funds for small businesses amongst OECD countries

(the U.S. is a member state). Because the pandemic led to reductions in sales (Fairlie, 2020), there appears to have been a trickle-down effect on retained earnings, making it harder for small firms to follow the pecking order theory. Begenau and Salomao's (2019) findings from the other side indicate that the economic recession brought about by the COVID-19 pandemic reduced internal funds and exacerbated debt financing constraints, leading to a lower funding capacity for small businesses. Because of this, 22% of young small businesses could not survive the pandemic (Fairlie, 2020).

Comparison Between the COVID-19 and the 2008-2009 Economic/Financial Crises

During economic crises, such as the COVID-19 and the 2008/9 financial crises, small businesses are affected disproportionately (Demirgüç-Kunt et al., 2020). Therefore, it is crucial to evaluate how both these events are related and possibly whether any lessons may be drawn from the earlier crisis. According to Demirgüç-Kunt et al.'s (2020) study, which sought to explain the impact of the global financial crisis (GFC) on firms' capital structures, the authors found that firms started deleveraging to avoid the associated high finance costs. However, a comparison between large and small firms showed that the higher financing constraints affected small businesses more adversely. These businesses had to tap into the more expensive short-term debt and, in some instances, the available internal financing (Demirgüç-Kunt et al., 2020). This discovery is consistent with GAO's (2018) earlier finding that small business lending took a hit between 2010 and 2013. Banks, including community banks, did not have the funding capacity to match the high demand for loans. Because small businesses did not have access to capital (when compared to larger firms), they felt these financing constraints

more, limiting their choice to high-interest loans, which threatened their survivability (Demirgüç-Kunt et al., 2020).

While the COVID-19-induced economic crisis is still evolving, there are already apparent similarities between the pandemic and the GFC, including reductions in consumer spending and business sales (Li et al., 2022). However, the state of unemployment is more concerning in the COVID-19 era, especially in enabling businesses to operate (Li et al., 2022). Evidently, the number of full-time and part-time employees fell by 32% and 57% between January and March 2020 (Bartik et al., 2020). Li et al. (2022) noted that, unlike the GFC, pandemic-induced unemployment is mostly a health issue as some employees do not want to be infected with the virus and are disincentivized to work. Because small businesses are inherently highly productive (Begenau & Salomao, 2019), unemployment is a serious concern in these businesses' ability to generate internal funds.

Moreover, inadequate lending (except grants) fell during the COVID-19-induced financial crisis, hurting small businesses' liquidity (Bartik et al., 2020). These authors noted that most US-based small and medium-sized businesses surveyed did not have enough cash to survive for two weeks without dramatically cutting expenses, taking on short-term debt, or declaring bankruptcy (Dörr et al., 2022). Thus, like the GFC, small businesses face external financing constraints, threatening their ability to operate and survive. The external financing constraints largely emanate from what Eggers (2020) calls the liability of smallness in a study that focused on the challenges and opportunities available for small and medium enterprises in times of crisis. Being inherently small is

associated with access to external financing difficulties, exacerbating the constraints above (Eggers, 2020). Previous researchers, like Begenau and Salomao (2019), Frank et al. (2020), and Brown et al., 2020, have linked these difficulties to business size and the availability of collateral, creditworthiness, business risk, profitability, and market experience. Thus, as discussed in the following paragraph, small businesses must deal with these concerns for survival and longevity (Eggers, 2020).

Linking the two financial crises, we can deduce that newly generated internal funds are often scarce during economic downtimes, and access to debt is also constrained. The former is typically driven by reduced consumer demand/business activity and high unemployment (Fairlie, 2020; Li et al., 2022). Conversely, banks have a lower lending capacity, as they avoid the inherent risk associated with such uncertain times (Begenau & Salomao, 2019). Therefore, as Cohen (2021) suggests, small businesses must initiate preparations well before pandemics or financial crises begin by exploring employee retention plans, creating adaptable business models, and building liquidity during booms. Undoubtedly, doing these things builds and sustains internal funds, making this option available first, as suggested in the pecking order theory (Myers & Majluf, 1984). Moreover, being proactive as far as planning for employee retention and adapting business models to changing times sustains revenue generation, making it easier to access external debt financing from banks during crises (Cohen, 2021). In sum, being proactive allows small businesses to follow the first two financing strategies sequentially, as the pecking order theory proposes.

Other Financing Sources During the COVID-19 Economic Crisis

The literature review on the impact of the COVID-19 pandemic on small business financing suggests that these firms have suffered from severe constraints, especially in internal and external (debt) financing (Demirgüç-Kunt et al., 2020; Li et al., 2022). However, other funding sources have been specifically meant to help small businesses remain operational amidst the pandemic. Indeed, knowledge of such sources' existence is useful to these firms. First, the US government was at the leading front in small business lending through programs such as the Paycheck Protection Program. This program gave small firms loans through banks, credit unions, and other financial institutions to the tune of $650 billion (Belitski et al., 2022). This program's goal was to help small businesses remain open and retain their employees, despite the disruptions caused by the pandemic. As the previous section shows, employee retention is crucial during crises as it promotes business continuity (Li et al., 2022). In doing so, small businesses are then able to keep their doors open and generate sufficient internal funds, which follow the pecking order theory, as postulated in Myers and Majluf's (1984) work. Similarly, the Small Business Administration (SBA) also administered loans of at least $150 billion through the Economic Injury Disaster program to help small businesses withstand the economic shocks associated with the pandemic, such as high supply chain and other input costs (Fairlie, 2020).

Fairlie's (2020) study also found that some private businesses and foundations also came out to support small businesses: Magic Johnson Enterprises ($100 million loans to minority group-led businesses), Google ($175 million in grants to Black-owned

small businesses), and PayPal ($10 million to Black-owned businesses). All these efforts are crucial in sustaining small businesses' liquidity, which, according to Block et al. (2022), catalyzes survival during crises. However, small business owners are typically pessimistic about such programs, quoting issues such as bureaucracy (Bartik et al., 2020). Despite the availability of extensive external financing options, Block et al. (2022) note that bootstrapping techniques should precede external financing (from the alternative sources mentioned above). In the COVID-19 era, small businesses must enhance liquidity through all means available, especially considering that sales revenue may be insufficient due to reduced business activity. Therefore, small businesses must preserve their liquidity to stay afloat to give them a fighting chance (Belitski et al., 2022). This assertion is similar to one made previously, where small businesses must plan well in advance before crises for their survival by building internal funds and working towards being attractive to external financiers (Cohen, 2021).

The literature reviewed in this section presents a holistic view of how small businesses can survive crises, such as the COVID-19 pandemic and the 2008/9 GFC. Researchers like Block et al. (2022) and Clauss et al. (2019) went a step further and recommended the importance of adapting business and operating models to changing times by enhancing digitization. However, the COVID-19 pandemic is still a current issue, which Li et al. (2022) term as 'evolving.' Similarly, the literature is still evolving with the evolution of events/occurrences associated with the pandemic. Therefore, the current project exists in the context of that evolution, aiming at adding to the body of knowledge on financing strategies adopted by US-based small businesses to remain afloat

amidst severe disruptions caused by the COVID-19-induced economic/financial crisis. The culmination of the past, present, and future literature formed a blueprint for small business success amidst pandemics, disruptions, and economic recessions, facilitating survival in these firms' formative yet crucial years.

Conclusion

Financing strategy forms one of the most crucial decisions for small businesses. Amongst the innumerable options, small business owners must decide the financing strategy that creates and sustains value, making room for business sustainability. Given different factors, such as age, size, collateral requirements, and market experience, small businesses face severe financing constraints, limiting their ability to remain afloat and operational beyond the first five years (Begenau & Salomao, 2019; Brown et al., 2020). Small business financing strategies are heavily founded on the pecking order theory, starting with internal financing and then debt and equity consecutively (Myers & Majluf, 1984). The literature reviewed affirms that these financing strategies have inherent benefits and shortcomings. For instance, bootstrapping, also known as internal financing, may be inadequate for small firms, given their high financing needs (Begenau & Salomao, 2019).

Consequently, choosing one financing strategy over another largely depends on internal and external factors affecting specific businesses, moderated by firm size, business cycles, business risk, and regulation. Because of the inherent advantages and limitations of the available financing strategies, it appears that an optimal financing strategy may be a culmination of different approaches. Expressed differently, successful

small businesses likely use multiple financing strategies to finance their survival, growth, and prosperity. However, previous researchers have not explored this potential, given that most of them looked at the different financing options exclusively. Therefore, future researchers should explore the fusion of varying financing strategies to form a formidable financing base that allows small businesses to go beyond their fifth anniversary, based on evidence from US firms. Additionally, the COVID-19 pandemic has dramatically influenced small business financing dynamics, with companies facing factors beyond their control. For instance, social distancing restrictions affected business activity severely, limiting the ability to generate internal funds and bolster liquidity (Fairlie, 2020). Therefore, small enterprises must be proactive in capital structure planning, ensuring they are not caught unawares after crisis-induced disruptions or economic recessions. With this said, however, the literature on the impact of the COVID-19 pandemic is in its early stages and constantly evolving, considering that the effects of this global pandemic became apparent less than 2 years ago. Thus, the current project was crucial to add to the body of knowledge on how small businesses should respond to crises from a financing strategy perspective.

Section 3: Research Methodology

Project Ethics

According to Levitt et al. (2021), research is characterized by philosophical worldviews guiding research actions. I used these worldviews to guide my research decision-making process regarding selecting research strategies, designs, and methods. It is important to understand the role of the researcher so that the specific limitations and challenges related to this type of role are mitigated to ensure the findings presented are valid, reliable, and credible.

The researcher plays a critical role in the data collection process, mapping out a strategy that would guide the key aspects of a study (Holmes, 2020). As Levitt et al. (2021) pointed out, the researcher collects and analyzes data. In this manner, the researcher allows themes and meanings to emerge from the data collected, enabling the interpretations and meanings to be understood from their viewpoint. Some researchers are guided by the social constructivist view that individuals understand things from their own perspective (Levitt et al., 2021). The participatory research process involves a dialogue between the researcher and project participants (Levitt et al., 2021). I was the primary data collector instrument.

It was critically important that the relationships with participants remain ethical. Therefore, I was ethical with each participant, and I did not have any previous relationships with any project participant. I did not have any experience with the research topic as I had only observed numerous failings of small business restaurants. The project participants were six small business restaurant owners in central Florida.

Sperling (2022) found that developing an interpersonal relationship with project participants happens during the research process because of the dialogic process. I developed an interpersonal relationship with each project participant by asking each one to share information about themselves before beginning the interview and answering questions they had prior to and during the interview process.

The Belmont Report contains guidelines for protecting human subjects and adheres to the ethical principles that govern research (U.S. Department of Health and Human Services [HHS], 2020). Researchers must protect the individuals they interact with from undue stress or the effects of their participation in the study process (HHS, 2020). The principles identified in the Belmont Report include respect for persons, beneficence, and justice. The results generated from the research study must also be devoid of bias (HHS, 2020). Levitt et al. (2021) outlined the steps to ethical research as follows: assessing the research problem, formulating the purpose and questions, conducting the data collection process, applying data analysis and interpretation, and writing and disseminating the research findings.

An informed consent form containing interview procedures, voluntary nature of the pragmatic inquiry, risks and benefits of being in the project, participants' privacy, and contact information for questions was provided to all participants as part of ethical compliance with the provisions of the Belmont Report. Consent forms ensure that participants are sufficiently aware of the terms and conditions of participating in a research study before they give their consent (Xu et al., 2020). The consent form used was approved by the Walden University Institutional Review Board (IRB).

Project participants were given the freedom of withdrawing from the pragmatic inquiry, and I informed that in case of their withdrawal, any data collected from them would be discarded. Project participants were given the options of withdrawing with notification via email or phone without consequences. The right to withdraw from research studies ensures that participants are not compromised or misrepresented when reporting a research's findings (Hetu et al., 2020). None of the participants withdrew from the pragmatic inquiry.

No incentives were provided for participating in this qualitative pragmatic inquiry project. The exclusion of incentives was meant to ensure that participants genuinely contribute to the research study and avoid biases that may be introduced by incentives (Afkinich & Blachman-Demner, 2020). Although I offered no incentives to participate in the project, I had no problem recruiting six project participants.

I assured each potential project participant that their identity would not be revealed and that their responses would be kept confidential. Each participant was given a unique identifier P1, P2, P3, etcetera for each participant in the interviews for reliability purposes and confidentiality. The use of pseudonyms and coded names helped to ensure participant privacy and confidentiality (Pietilä et al., 2020). The final doctoral manuscript included the Walden IRB approval number to help with documentation and project tracking.

Secure cloud storage is often undertaken to ensure no chances are taken with regards to confidentiality (Archibald et al., 2019). I secured online data using cloud

storage that was encrypted and kept confidential. The collected data were stored in a secure computer and in the cloud and will be deleted after 5 years.

Nature of the Project

Three research methodologies that generally apply in research contexts include qualitative, quantitative and mixed research methods. I chose the qualitative methodology because according to Saunders et al. (2009), qualitative researchers focus on collecting data that can be used to explore opinions, perceptions and attitudes of project participants towards a given research topic. This method was chosen because of the qualitative nature of responses that would be sought from the project participants.

I chose pragmatic inquiry because it requires researchers to focus on three essential principles. Ramanadhan et al. (2021) described pragmatism as an epistemology, researchers may find helpful as they use it to identify alternative interpretations of the same phenomenon. Researchers select pragmatic inquiry because they want to identify three essential principles, they include actionable knowledge, recognition of the interconnectedness between experiences, and the capturing of project participants' knowledge and actions, and if necessary, ability to view their inquiry as an experiential process (Kelly & Cordeiro, 2020). Pragmatic inquiry principles helped me explore the successful financing strategies that small business owners of restaurants used to remain operational beyond 5 years.

Population, Sampling, and Participants

I identified the potential participants to interview by ensuring they aligned with the criteria and sent out emails to them requesting interviews. Audio recording was

preferred for capturing the participant's responses to the interview questions to ensure confidentiality. I also captured data that project participants shared and reviewed other archival data. Afterwards, I transcribed each participant's responses to the semistructured interview questions and interpreted them. I emailed my transcriptions and interpretations to each participant for confirmation of accuracy. This process is called member checking and transcript review. There were no discrepancies in my interpretations, I did not have to make any corrections or send my transcripts or interpretations back to each project participant more than once. Thus, there was no need to continue the transcription review or member checking process. Because after the first review there was no new information found and the accuracy was confirmed. Taking these steps helped me to eliminate my own bias in the data findings. Additionally, I followed the interview protocol (Appendix B) to ensure consistency of interview steps. According to Turner & Hagstrom-Schmidt (2022), an interview protocol is helpful in ensuring your data is rich and valid.

The specific population consisted of six small business owners. Each eligible project participant met the following criteria: (a) over 18 years of age, (b) located in central Florida, (c) a small business restaurant owner, and (d) had used their successful financing strategy to remain operational beyond 5 years. The criteria provided rich contexts that were relied on to create comprehensive responses from each participant.

DeJonckheere and Vaughn (2019) recommended establishing a working relationship with project participants, and one method was to use the interview protocol (Appendix B). I adhered to the Walden University IRB requirements and also used my established interview protocol (Appendix B) and followed it for each participant to

establish a working relationship. Once they knew why the pragmatic inquiry was being conducted, they were more inclined to accept and engage in the process. Being that the research methodology applied a pragmatic inquiry approach, validity and reliability were key aspects in collecting and interpreting the findings from the various sources. Primary and secondary data from small business owners were used to answer the overarching research question. The primary data used was the project participants' responses to the semistructured interview questions and the secondary data that included public business documents (i.e., financial and annual reports) shared by the project participants, and public archival data (i.e., mission and vision statement) along with updated small business public contact information from the local chamber of commerce website. Additionally, a research log was maintained, containing records of the data collected and summaries.

A purposive sampling approach was used to identify project participants. The purposeful sampling method involved selecting project participants based on characteristics that align with a project's goals and objectives (Etikan, 2016). Palinkas et al. (2015) suggested purposeful sampling because it helped the researcher select rich information related to the research objectives. Purposive sampling also helps in the selection of project participants with the right background knowledge (Korstjens & Moser, 2017). Additionally, according to researchers Bekele and Ago (2022) when conducting research, the sample size varies. The researchers also found the number of participants depended on several factors among them included, the focus of the research, the type of research question, the time and resources available for use, and institutional

committee requirements among other things. Hennink and Kaiser (2022) found the sample size of a qualitative research study should be large enough to support the accumulation of in-depth data that can be used for a better analysis of results. The sample size of six project participants was used with guidance from Walden University for pragmatic inquiry design. These reasons validated the selection of project participants using the purposive sampling approach.

Data Collection Activities

Audio-recorded semistructured interviews were used to collect data from project participants. To prepare project participants for the interview, they were notified of the date, location and time for the interview at least one week prior. Each participant provided their verbal recorded consent during the interview. During the interview, I confirmed that they understood the terms and conditions of their participation in the research project and followed the steps in the interview protocol (Appendix B). I also stated the following prior to beginning the interview from the informed consent form: Please share any questions or concerns you might have at this time. If you agree to be interviewed as described above, please say "yes" for the audio recording when I ask, "Do you agree to be interviewed for this project?"

Horton et al. (2004) found that semistructured interviews were a flexible way of getting information from interviewees while allowing the researcher the room to refine and redesign the interview process. Additionally, they allow interviewees some freedom to not only expound on the questions asked but also highlight areas of interest and expertise that could have been missed on (Deterding & Waters, 2021). Each audio-

recorded interview was composed of open-ended questions using a semistructured interview process probing different issues highlighted in the research objectives. To ensure the reliability of the data collected, I used member checking to verify that the responses given by the project participants were what they actually said and meant and that no unclear information was considered in the summary of interview results. Member checking helped to ensure there was no biases from me. According to Udod et al. (2021) member checking is an excellent process to ensure that the researcher and that the final research report accurately depicts the positions taken by each participant.

Therefore, using semistructured interview questions helped me identify and explore the successful financing strategies small business owners in the restaurant industry used to remain operational beyond 5 years. Data were collected from participants' responses to the semistructured interview questions, public business documents (i.e., financial and annual reports) shared by the project participants, my research log, and public archival data (i.e., mission and vision statement) and updated small business public contact information from the local chamber of commerce website. The research log was maintained, containing records of the data collected and the participants' summaries. The log was used to annotate the events that happened in each interview. The interviews were recorded using audio recording software on an iPhone.

Interviews enable the clarification of data collected because of the in-depth conversations that arise from interactions between the interviewer and the interviewee (Opdenakker, 2006). Saunders et al. (2009) observed that semistructured interviews

provided greater freedoms for project participants to express their views, and that improved the reliability of their study.

Interview Questions

1. What strategy do you use to obtain financing for your business?
2. What strategies did you use to prioritize seeking capital for your business?
3. What financial capital did you obtain?
4. How do your financial strategies help you balance short and long-term financing decisions?
5. What strategies have you used for debt financing, if any?
6. How have you included unexpected financing needs into your strategy?
7. How does financing influence your strategic thinking?
8. Is there any additional information you would like to share?

Data Organization and Analysis Techniques

Qualitative data may be difficult to track, raising the potential for confusion, which could affect the reliability of the data collected. Canter (2019) emphasized data organization as an important step in qualitative studies because it helps to structure data adequately for analysis. Research logs help to trace the data collected and allow for better logistics during the research process (Saunders et al., 2009). I maintained a research log that contained records of the data collected and summaries. One data source of the secondary data was a research log used to record the events that happened in each interview. The interviews were recorded using an iPhone and corroborated using research logs that were used to record the happenings of the research. All raw data was stored

securely for 5 years to provide security for the research. In addition to ensuring transparency in data analyses, storing raw research data for the stated period will provide a common reference point for derivative analyses that may develop from this research (Hart et al., 2016). Storage was on hard drives, and cloud storage served as backups. Both storages were encrypted using encryption software to limit unauthorized access over the period of storage.

The qualitative pragmatic inquiry guided the project, with methodological triangulation used to combine primary and secondary data so that several perspectives were confirmed. The interview data was the primary data used alongside public archival secondary data and public business documents so that the reliability of the information presented by interviewees was affirmed. The public business documents (i.e., financial and annual reports) shared by the project participants and public archival data (i.e., mission and vision statement) and updated small business public contact information from the local chamber of commerce website were used. A research log was maintained, containing records of the data collected and summaries. By going beyond one approach, a surplus of knowledge at different levels was attained, resulting in high-quality research.

The thematic analysis model outlined by Lochmiller (2021) was used to analyze the data from this research. Data from interviews was transcribed and interpreted. I documented my interpretations in a Microsoft Word document and read through them as I made observations on the patterns and meanings of the responses. Langtree et al. (2019) suggested the use of diagrammatic techniques, such as concept mapping to help enrich the researcher's analysis process. NVivo software was used for transcription and to

support the development of codes and themes while employing the steps described by Lochmiller (2021). The next step was to code the data, with specific keywords being identified through NVivo. A word cloud was generated to identify the most common keywords from the interviews. The conceptual framework was used as a guide to generate themes, guiding my deductive approach in thematic analysis. Several codes were also clustered to form themes. The review stage of the themes entailed the inclusion of the methodological triangulation techniques. Using methodological triangulation, I compared the literature review findings to the findings from the secondary data collected in this research and then to the findings from the semistructured interviews, and public business documents and public archival documents shared by each participant. A comparative approach to the codes from each analysis helped to develop an effective interpretation of each participant's responses to the interview questions and sharing of documents. Finally, research findings were analyzed to identify how they helped answer the overarching research question. All raw data were stored securely for 5 years.

Reliability and Validity

Reliability

Reliability helps to ensure the dependability of research results. The dependability of the data was ascertained by asking for follow-up interviews in the event that clarifications were needed. Hayashi et al. (2019) defined reliability as being rooted in data adequacy making it possible to apply consistent analysis among the participants and increasing the dependability of the research outcomes. Respondent validations carried out in the same breath during the interview to ensure that participants' responses can be relied

on to draw strong inferences for the research are important (Motulsky, 2021). I followed the process suggested by Motulsky (2021). Carlson (2014) described the importance of member checking by ensuring the accuracy of the data collected. I applied member checking during data interpretation by analyzing the transcripts and my interpretations. I transcribed each participant's responses from the semistructured interview questions and interpreted them. I emailed my transcriptions and interpretations to each participant for confirmation of accuracy. This process is called transcript review and member checking. There were no discrepancies in my interpretations, I did not have to make any corrections or send my transcripts or interpretations back to each project participant more than once. Thus, there was no need to continue the transcription review or member checking process. Because after the first review there was no new information found and the accuracy was confirmed. I achieved data saturation because no new information was shared. These reliability strategies helped to ensure that the data collected were useful in making strong interpretations that answered the research question.

Validity

Some of the strategies that helped to deal with the threats to validity included obtaining the confirmation of the accuracy of the data collected through transcript review and member checking. Validity refers to the credibility and confirmability of the research findings (Nha, 2021). Fitz-Patrick (2019) advised researchers to conduct validity checks throughout their research project. Corroborating the data collected against the semistructured interview responses, using the financial and annual reports, and the research log helped to ensure credibility. Stahl and King (2020) emphasized that one

method for establishing credibility is through data triangulation meaning the use of more than one data source. Participants in the project were business owners who could be relied upon to give credible information relevant to the project.

For transferability of the research, I used rich descriptions of the research findings, which provided context and meaning that could be applied in practical contexts where financing for small and medium businesses raises concern. To ensure the confirmability of the research results, I ensured that I maintained objectivity and avoided any biases that may make it difficult for researchers to replicate the findings from this pragmatic inquiry. I compared my research findings to findings documented in the literature review to ensure that the data was saturated. These strategies ensured that research findings were valid for the chosen topic and could be transferred to practice contexts.

Transition and Summary

Chapter 3 comprised components of the research project methodology. These subcomponents were project ethics, nature of the project, population, sampling and project participants, data collection activities, interview questions, data organization and analysis techniques, reliability and validity, and transition and summary. Section 4 will include details of the qualitative pragmatic inquiry findings and conclusions. The findings and conclusions are categorized by presentation of the findings, business contributions and recommendation for professional practice. Also included are implications for social change, recommendations for further research, and the conclusions.

Section 4: Findings and Conclusions

Presentation of the Findings

The purpose of this qualitative pragmatic inquiry was to identify and explore the successful financing strategies six small business owners in the restaurant industry have used to ensure they remained operational beyond 5 years. The pecking order theory grounded this qualitative pragmatic inquiry project for answering the overarching research question: What successful financing strategies do small business owners in the restaurant industry use to remain operational beyond 5 years. Each project participant was asked to answer eight open-ended interview questions. The demographics of the project participants are listed in Table 1. Included is the participant's confidential identifier along with their restaurant type and title.

Table 1

Participants Demographic Summary

Project participant	Type of food service	Years in business	Title of owner
P1	Food truck	9	CEO
P2	Family owned	19	Operations manager
P3	Small dine-in	8	Owner
P4	Pastry shop	10	Chef
P5	Small restaurant	8	Owner
P6	Drive-through restaurant	9	Owner

P1 was the small business owner of a food truck in operation since 2014 and has three employees. As a small business owner, P1 formed their business and is noted as the CEO. P2 was the operations manager of a family-owned restaurant that has been in operation for 19 years and has six staff. P2 has significant experience running the day-to-day operation of the family-owned restaurant. P3 was the manager of a small dine-in

restaurant who has managed the operation for 8 years and has five permanent staff and two temporary staff who report directly to them. The business itself has been in operation for 19 years and comprises six staff who assist with the day-to-day operation. P4 was the chef in a pastry chef in a pastry shop. The chef is listed as the sole proprietor of the business. The business was established in 2015 and has two staff and has been operational for over 8 years. P5 was owner of a small restaurant. P5 is listed as the CEO. They were provided initial capital funding of 30% for the company's operational needs from a venture capitalist. P5 has employed 10 permanent staff. P6 was owner of a drive-through restaurant. P6 manages the business full time with the assistance of three staff on their payroll.

The purpose of the qualitative pragmatic inquiry project was to identify and explore the successful financing strategies small business owners in the restaurant industry have used to ensure they remained operational beyond 5 years. The overarching research question was: What successful financing strategies do small business owners in the restaurant industry use to remain operational beyond 5 years? The findings of the project suggest that most small business owners in the restaurant industry prioritize internal sources of finance before choosing debt as an option. In this section, the four emergent themes will be discussed and will be compared to the conceptual framework used in the project, the pecking order theory, and compared to the literature used in the writing of the project as well as findings after the literature review. I will describe the ways in which the findings confirm, disconfirm, or extend knowledge concerning small business financial strategies. The four themes that emerged were: (a) reliance on internal

financing, (b) financial support from family and friends, (c) limited use of debt, and (d) the role of equity financing and their relation to the pecking order theory.

Reliance on Internal Financing

One of the themes that emerged from the interviews was the intense prioritization of internal financing among the businesses. The project participants seemed to prioritize using internal means of financing to remain afloat and showed little affinity to seeking debt. Internal financing was mostly salient through the preference for using personal savings, business profits, and family contributions to support business survival. This finding contrasts with the assertions made by Frank et al. (2020). Frank et al. (2020) observed that small businesses typically have insufficient internal resources, which often leads them to rely on external financing. The project participants of this qualitative pragmatic inquiry expressed a greater determination to use internal sources for financing.

P1 obtained funding for their food truck business from his personal savings and a few contributions from family and friends. P2 relies on personal contributions made to the business by family members for the business' survival. P4 relied on a small loan from a friend to improve their business. However, it is also important to highlight that some of the participants recognized the need for more financing to promote stability in running daily operations and maintaining their payroll. P4 found additional finances would help to expand the business by increasing physical space and expanding the menu, while P5 discovered the need for additional finances to cover the business' expenses depending on how the expenses were to the restaurant's survival.

While it is true that the business owners elicited the need for additional finances, their preference to exhaust internal financing options aligns with the pecking order theory. The pecking order's first key construct is internal financing, where internal financing is an initial form of financing appropriate when business owners face financial hardships. Therefore, the findings from this research challenge Frank et al.'s (2020) findings by affirming internal financing as one of the main strategies that small businesses in the restaurant industry should use to remain operational beyond 5 years.

These findings are supported by insights from Begenau and Salomao (2019), Mehar (2023), and Serrasqueiro et al. (2023) that indicate small business owners' preferences for retained earnings and personal finances as the major sources of financing during hard times. From this perspective, managing the internal finances of a small business is one of the main strategic decision-making areas that could support continuity in small business cycles. The strong propositions made by the participants regarding the role played by internal finances highlights the essence of maintaining a strong internal locus of control as part of a small business survival strategy. Additionally, the participants shared how family and friends provide financial support.

Financial Support From Family and Friends

The participants shared their experiences gaining financial support from family and friends as one of the reasons for their survival beyond the 5-year mark. P1 funded their food truck business from their personal savings and a few contributions from family and friends. P1 also held a small fundraiser involving family and friends to raise more

money for the food truck and other expenses needed to start the business. P3 relied on the support of friends and family to get the starting capital for their business.

The frequency of financial support from family and friends was much higher than debt financing, which further supports the pecking order theory as the most preferred strategy for financing small businesses. These findings confirm the observations made by Yezza and Chabaud (2023) that most U.S.-based small firms rely on family and friends as part of their survival tactics. These findings show a strategic move by small business owners to shift from personal finances to financial support from family and friends as the logical financial steps in an attempt to ensure their businesses' survival. This aligns with the pecking order theory and further affirms the pivotal role of internal financing in small businesses' survival beyond 5 years.

According to Lähdesmäki et al. (2019), friends and families have lower expectations of returns, which allow small business owners to focus on business management and growth. P4 relied on a small loan from a friend to a friend to help them keep things going. P6 relied on their friend who owned a gas station to identify the location for their business. P3 also relied on family and friends who wanted to support their idea and a small part of their capital came from a loan P3 took on informal terms. Lähdesmäki et al.'s (2019) finding may explain why most of the participants expressed strong connections with family and friends to provide temporary financing to support their struggling businesses. Social relationships and connections play a pivotal role in the survival of small businesses in the United States, which highlights the significance of considering social capital alongside financial capital in the formulation of theories

regarding small business survival. Meliza and Prijadi (2024) found that internal social capital has a positive association with small and medium enterprise survivability, which is affirmed by the researchers previously cited in this research. Meliza and Prijadi's findings illustrate the need to consider internal social capital as one of the financing strategies for small business survival, especially in the restaurant industry where business management may be mediated through the collective efforts of family and friends. Conversely, use of debt is not always appropriate when a business owner is seeking operational longevity. Thus, limited use of debt may be the appropriate financial strategy to adopt.

Limited Use of Debt

The emergence of strong support for internal financing was negated by the limited preference for debt in the participants' responses. A majority of the participants opted to solely use internal financing whenever applicable and only resorted to small debts if it was inevitable. P1, P2, P3, P4, and P6 all showed a higher affinity to internal financing with only the small restaurant owner preferring debt financing.

A potential explanation for this phenomenon can be linked to Bakhtiari et al.'s (2020) study that isolates debt financing as an option that is out of reach for most small businesses in the United States because of the information asymmetries between small business owners and lenders. Small businesses find it hard to obtain debt financing because of the high demands from lenders that may not be met by the limited financial scope of small businesses (Fadil & St-Pierre, 2021; Legesse & Guo, 2020; Liu et al., 2022; National Small Business Association, 2017; Rao et al., 2023). The limited use of

debt illustrates the need to acknowledge the funding gaps affecting small business owners in the restaurant industry in the United States, which could effectively limit their growth and survival beyond 5 years.

While the limited use of debt financing could be driven by the internal decisions made by small business owners in the U.S. restaurant industry, difficulties in obtaining debt could also be a mediating factor. P1 did not want to burden the business with a huge loan that would require greater collateral while P3 expressed the pressure felt having to pay back a loan, especially when profits were not as high as they used to be before the pandemic. P4 would only use debt financing if the event was significant or if a contract was worth taking out a loan for financing.

A report published after the data for this research were collected indicated that more small firms are seeing partial denial of funding requests from banks across the United States (Sasso, 2024). In a February 2024 U.S. Small Business Administration (SBA) report on various loans facilities made available to small businesses, Theodos et al. (2024) observed that long processing times and higher transaction costs were among the reasons for the underutilization of loan facilities provided by SBA. While these studies and observations suggest limited use of debt financing could be because of bureaucratic reasons, it is difficult to downplay the fact that small business owners may have developed a negative perception of debt financing because of the long processing times and higher transaction costs associated with this form of financing. Although debt financing is not high on the pecking order theory hierarchy, equity financing is lower in the hierarchy.

Role of Equity Financing

Equity financing emerged as another theme from this qualitative pragmatic inquiry. Of the six business owners interviewed, only P5 used a venture capitalist while the other participants engaged financing options from friends, family, and their personal finances. Even in the venture capitalist case, there was a strong relationship between the business owner and venture capitalist that appeared to be mediated by the long-term relationship between the two, rather than the business needs of either party. Equity financing was undertaken at the beginning of the business rather than as an ongoing financial strategy, recognizing the significance of raising capital through this method. According to Brown et al. (2020), angel investors and venture capitalists possess more than $100 billion in lendable funds to small businesses in the United States. However, statistics from the Corporate Finance Institute (2021) indicate that venture capitalists are hard to reach, with only a 1% acceptance rate in small business funding. Only one out of the six participants considered equity financing through the support of a venture capitalist, affirming the peripheral role that venture capitalists play in small businesses' survival in the United States.

The limited role of equity financing in small business survival, illustrated in this qualitative pragmatic inquiry project, indicates why equity financing is lower in the pecking order hierarchy for business financing. A potential explanation for the law preference for equity financing could be explained by trade-off theory, which suggests that small business owners may not be willing to give up profitability as part of their equity financing concessions (Dao & Ta, 2020; Khoa & Thai, 2021). Undertaking equity

financing means committing to sharing profits and also places pressure on small business owners to grow their entities to generate more profits that could be shared between themselves and venture capitalists or angel investors. These demands may cause small business owners to shun equity financing, thereby placing this financial strategy lower in the pecking order of small business financing. Additionally, Martinez et al.'s (2019) study affirmed that small businesses that went further down in the pecking order were highly susceptible to business failure. Therefore, the findings from the qualitative pragmatic inquiry research project suggest that using financial strategies higher up in the pecking order contributed to the business success of the six participants resulting in their business's survival beyond 5 years.

Overall, the approaches by the businesses considered in this qualitative pragmatic inquiry research project are reflective of capital structuring followed by organizations applying the pecking order theory. Small businesses show a preference for internal financing over external financing, and when they have to use external financing, they show preference to debt over equity. The preference for debt over equity could be seen as a way of maintaining control given the demands that come with equity financing.

In comparing debt and equity preferences, this qualitative pragmatic inquiry research project disconfirms the observations made by Adian et al. (2020) that small businesses prefer equity to loans. However, when considering debt as a function of assets and equity, the decision to choose debt over equity may not stand, as a small business may prefer equity (Crouzet & Mehrotra, 2020; D'Amato, 2020; Franquesa & Vera, 2021; Sharif, 2019; Yousef et al., 2020). These findings suggest that the positions of debt and

equity in the pecking order theory may be interchangeable depending on the internal dispositions of small businesses and the decision-making strategies applied by their owners.

Despite the dynamic issues that may influence the positioning of debt or equity as potential survival strategies for small businesses, business cycles, and prevailing economic conditions could mediate the application of the pecking order theory. A good example of this is the COVID-19-induced economic crisis that saw most small businesses prefers loans as a way of maintaining their liquidity (Bartik et al., 2020). Most U.S. best small and medium businesses looked for cash to remain liquidity for 2 weeks without dramatically cutting their expenses (Dörr et al., 2022). From this perspective, economic crises may lead to different priorities for small businesses with that being the most reasonable financing strategy to use against the financial constraints produced by an economic crisis. Micro and macro environmental influences may shape business financing decisions, highlighting the need to consider the pecking order theory within a wider range of possibilities, rather than just normal business cycles.

Business Contributions and Recommendations for Professional Practice

The findings from this research show that small businesses prefer to maintain a strong internal locus of control by prioritizing internal finances over debt, equity, and other types of financing strategies in their bid to remain operational beyond 5 years. I recommend small business owners use their strong internal financing as a reserve emergency fund that will allow them to respond to crises. However, the pursuit of internal financing should not undermine the significance of external financing, especially when

setting growth objectives. Small business owners should not only seek to remain operational but should also seek to grow their portfolio and become more competitive with time. External financing provides options for expanding product and service offerings and also restoring the structural facility within the business premise. These rationales provide strong incentives for lenders to provide debt financing to small businesses, and for small business owners to become objective as they consider debt financing.

Small business owners should not restrict their financing sources to the higher levels of the pecking order. Instead, going further down the pecking order should be seen as a way of pursuing growth while striving to maintain survival beyond 5 years. Operating with optimism requires the recognition that newer sources of financing could provide avenues for business growth that could lead to better profitability. Instead of setting survival objectives, small business owners should consider setting growth objectives using annual measures based on their current financial positions.

Implications for Social Change

This research provides directions for small business owners across the restaurant industry in the United States on how they can remain viable amid these tough economic times. The aggregation of insights from the business research community and business scholars implies a potential wider social impact based on evidence. These insights can assist small business owners to grow their enterprises into medium enterprises, which would help to uplift their socioeconomic statuses and allow them to participate in their functional roles in their respective communities. This research could also help lending

organizations reform their policies and make it easier for small businesses to grow through reduced bureaucracies for accessing loans. The discussion of the financing challenges that small business owners have encountered provides an opportunity to develop healthy businesses, whose objectives are aligned with the local, state, and federal economic policy objectives.

Recommendations for Further Research

The main limitation of this research is that the participant sample used is not representative of all restaurant businesses in Florida. The six project participants were from four small restaurants, a food truck business, a dine-in restaurant, a pastry shop, and a drive-through restaurant. Further research based on this work can include a larger sample of restaurants by including the number of restaurants in each category. This adjustment could provide deeper insights into how small business owners use the pecking order theory for small business financing and could provide more generalizable results than this qualitative pragmatic inquiry research project.

Conclusion

The goal of this research was to explore the financing strategies that small businesses use to remain operational beyond 5 years. Six small business owners sampled from the restaurant industry in Florida were interviewed using a semistructured interview questionnaire about different aspects of their financial strategies. The results were analyzed using thematic analysis, leading to the identification of four key themes: reliance on internal financing, financial support from family and friends, the role of equity financing, and limited use of debt.

The project participants in the restaurant industry confirmed that they prioritize internal sources of financing, with internal finances and financing from family and friends being preferred over debt and equity in a bid to remain operational beyond 5 years. The results align with the pecking order theory, which states that small businesses prefer internal sources to external sources of financing. The preference for internal sources of financing highlights the need for small businesses to focus on building a strong internal locus of control within their first 5 years of operations before considering debt or equity as part of their survival mechanisms.

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Appendix A: Invitation

There is a new project about small business owners using their successful financing strategies to remaining operational beyond 5 Years that could help existing or new business owners in the restaurant industry better understand financing strategies to remain operational. For this project, you are invited to share the financing strategies you used to remain operational beyond 5 years.

About the project:

- One 30-60 minute phone interview that will be audio recorded (no videorecording)
- To protect your privacy, the published project will not share any names or details that identify you.

Volunteers must meet these requirements:

(1) over 18 years of age,

(2) must be located in Central Florida,

(3) a small business restaurant owner, and

(4) have used their financing strategy to remain operational beyond 5 years

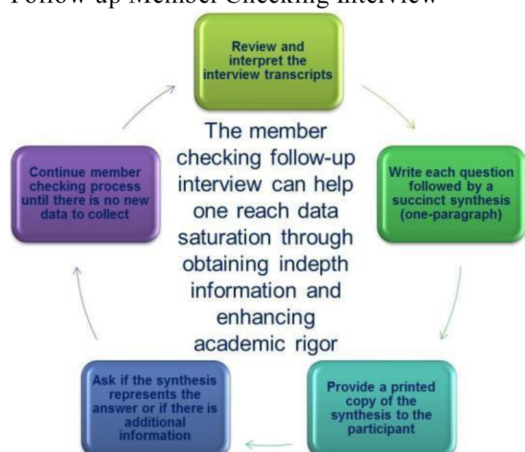
This interview is part of the doctoral project for Kenneth M. Brown, a DBA student at Walden University. Interviews will take place during April 2024

Please reach out to let the researcher know of your interest. You are welcome to forward it to others who might be interested.

Appendix B: Interview Protocol

Interview Protocol	
Introduce the interview and set the stage. Introduce myself and the purpose of the interview thereby setting the stage.	Hello, my name is Kenneth Brown. I am a Doctoral Candidate with Walden University. The purpose of this interview is to identify and explore the successful financing strategies small business owners in the restaurant industry use to ensure they remain operational beyond 5 years. I am going to ask you eight questions to which I would like your responses to. Then, I will conclude the interview. Do you have any questions?
Watch for nonverbal cues. Paraphrase the participant response. Ask follow-up probing questions to get more in depth	Interview Questions: What strategy do you use to obtain financing for your business? What strategy did you use prioritized seeking capital for your business? What financial capital did you obtain? How does your financial strategies help you balance short and long-term financing decisions? What strategies have you used for debt financing, if any? How have you included unexpected financing needs into your strategy? How does financing influence your strategic thinking? Is there any additional information you would like to share?
Wrap up the interview thanking participant.	Thank you for participating in the interview, an integral part of my research project.
Schedule a follow-up interview to perform member checking with the participant.	I will contact you in a week to schedule a time for us to review the accuracy of my interpretations of your interview responses.

Follow-up Member Checking Interview



Graphic adopted from DBA Qualitative Pragmatic Inquiry Research handbook (2023). Not needed in proposal or research project. A visual reminder during proposal stage when creating interview protocol

Introduce myself and purpose of the follow-up interview to set the stage.	Hello Interviewee, Thank you for taking this time to meet with me again to review the accuracy of my interpretations of your interview responses.
Share a copy of the succinct synthesis for each individual questions. Bring in probing questions related to other information that I found – note the information must be related so that I am probing and adhering to the IRB approval. Walk through each question, read the interpretation, and ask: Is my interpretation correct? Did I miss anything? Or would you like to add anything?	I will read the questions one at a time and my interpretations of your responses to them and ask you if my interpretation is correct.
	1. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed
	2. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed
	3. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed
	4. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed
	5. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed
	6. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed
	7. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed 8. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed

Appendix C: Interview Transcripts

Interview 1: Food Truck Business

1. **What strategy do you use to obtain financing for your business?**

I funded my food truck business from my personal savings and a few contributions from family and friends. To keep the business moving, I have taken out small loans against my truck and one against my house. This was especially true during the pandemic when there was no other way to survive.

2. **What strategy did you use to prioritize seeking capital for your business?**

While seeking capital for my business, my priority was obtaining as much money as possible from my personal finances. My goal was to retain control of my business which made it difficult for me to look for angel investors and other sources of capital. I also wanted a business that I would fully be responsible for instead of being pressured to perform even when the market conditions do not allow such performance.

3. **What financial capital did you obtain?**

A large share of my capital came from my savings, which I had accumulated before I retired. I also held a small fundraiser involving family and friends to raise more money for the food truck and other expenses needed to start the business.

4. **How do your financial strategies help you balance short and long-term financing decisions?**

For short and long-term financing decisions, I first consider the sales turnover and the profit thereafter to determine the extent to which I need to reinvest my profit in the business. These decisions are not always certain given that the food business is not a

stable one. There are days that I make losses because the food did not sell, and I cannot repackage the same food. On such days, I have to be disciplined and not remove profit from the business for at least two or more days depending on how much loss I incurred.

5. **What strategies have you used for debt financing, if any?**

For debt financing, I took out a small loan against my home during the pandemic period. I did not want to burden the business with a huge loan that would require greater collateral even though it gave me a better chance of managing the business in a short time while waiting for the economy to rebound. I must say that it has been a difficult experience repaying the loan because I have had to renegotiate with the bankers several times to determine the best conditions to repay the loan.

6. **How have you included unexpected financing needs into your strategy?**

I determine my finances based on daily business costs rather than planning ahead. While I would like to have a contingency account where I could keep money for emergencies, the size of the business does not allow for such an account. Therefore, I have included any not have any unexpected financial needs in my strategy.

7. **How does financing influence your strategic thinking?**

Thinking about financing helps me to plan for short-term goals related to paying my staff, who are not many by the way, and also to plan for stock, which is important for quality control. While I would like to expand in the long term, I am currently limited by the narrow opportunities for financing, partly because the business is not doing as well as it should. I think that more opportunities for financing would allow me to grow my food truck business and acquire at least two or more trucks in the next 5 years.

8. Is there any additional information you would like to share?

No, not really.

Interview 2: Family-Owned Restaurant

1. What strategy do you use to obtain financing for your business?

Our family business obtains finances mostly from personal contributions made to the business by family members. These contributions are treated as soft loans and are mostly sought when the business is underperforming. When the business is doing well, we try to save as much profit as we can as a contingency measure while taking only a small share to solve personal needs. We also obtain financing from banks only if necessary and if we want a long-term solution to a pressing financial problem.

2. What strategy did you use to prioritize seeking capital for your business?

Our goal when seeking capital in any kind is always to ensure the business is still owned by the family. We have a proud legacy, built by our grandfather, and we always want to keep it that way. We have a good record system that we often use to show the business' performance when seeking out a loan from a bank. We mainly prioritize short-term survival when seeking capital for our business.

3. What financial capital did you obtain?

As I mentioned earlier, we currently have a business loan obtained from the US Small Business Administration. We took this loan in January 2021 to keep us moving because our profit savings had been depleted by the time the shutdown guidelines were lifted.

4. How do your financial strategies help you balance short and long-term financing decisions?

Our main financing strategy to keep the business operating in the short term is to have a revolving facility that caters to everyday expenses. This account addresses all short-term payments including payments for suppliers, part-time workers, and utilities. For long-term financial decisions, we tend to rely on the profit produced by the business to determine the next steps.

5. **What strategies have you used for debt financing, if any?**

In the past, we used debt financing for restructuring the restaurant. We decided to change the outlook and improve the menu, which also required the retraining of restaurant staff to ensure that they were up to date with the new operational model. The debt was taken around 2015 against the space occupied by the restaurant and the restaurant itself, and we are in the process of repaying it.

6. **How have you included unexpected financing needs into your strategy?**

We have not included expected financial needs into our strategy, but we do recognize the significance of having an emergency fund to address unforeseen needs.

7. **How does financing influence your strategic thinking?**

Financing is the most important part of any business strategy. Without finance, it is difficult to get things rolling. I mean that short-term thinking based on business needs requires strong financial leverage that needs to come from within the business. The same financial leverage is needed in much greater volumes if we are thinking long-term. We have recognized the gaps that exist in financing and are in the process of planning our next steps, which I know will require us to make a huge step in the future of the restaurant.

8. **Is there any additional information you would like to share?**

I would like to appreciate the work you are doing studying small businesses like this one because most small business owners out there do not have enough information on what it takes to succeed.

Interview 3: Small Dine-In

1. **What strategy do you use to obtain financing for your business?**

I determine the long-term needs of my business, assess these needs against the money I have in my bank account, determine the deficit, and then draw out a strategy on how to fill it. I must say that business is always operating at a negative, especially since the pandemic, because I had to take out a huge loan against the restaurant to keep it going. I thought that taking the loan from my bank was the best decision given that the staff had gone and paid for 2 months and were on the verge of quitting. I recognize the need to keep them satisfied and therefore made the decision to take the loan.

2. **What strategy did you use to prioritize seeking capital for your business?**

When I was first seeking capital for my business, I considered three options, use my home as collateral for a business loan, partner with a friend to develop the business idea or do it myself. The loan option seemed easy, but I was not guaranteed that the business would be a success. I could also not convince my bank to loan me a huge sum against my statement. I considered partnering with a friend, but we had small differences that would have turned out badly for my idea. I went with the last option of financing the restaurant myself, which was not an easy step, but through the support of friends and family, I managed to get the starting capital for my business.

3. **What financial capital did you obtain?**

I raised half the capital on my own using my savings and my partners'. The rest of the capital came from family and friends who wanted to support my idea and a small part came from a loan I took on informal terms.

4. **How do your financial strategies help you balance short and long-term financing decisions?**

My financial strategy is very simple. I only spend what I earn. What this means is that everything that I get from the business in terms of profit goes back into the business. I use the profit to address my personal expenses, which looks comfortable unless the business is underperforming. I do not have any long-term goals at the moment given how difficult things are. I only want to keep the restaurant stable in such a difficult economic time.

5. **What strategies have you used for debt financing, if any?**

As I said earlier, I took out a small loan against the business to help cover the salaries of staff a year after the pandemic. The recovery from the losses during Covid-19 had not been as fast as I had hoped. I do feel a bit of pressure having to pay the loan, especially when the profits are not as high as they used to be before the pandemic.

6. **How have you included unexpected financing needs into your strategy?**

I have an emergency fund that is tied to my personal savings. I use this fund to address uncertainties that arise within the business.

7. **How does financing influence your strategic thinking?**

I do not think much about the strategy I will use to grow my business. At the moment, I want to keep the business stable. But I must say the next big financial decision I will make on the business will depend on whether the business generates enough profit.

8. **Is there any additional information you would like to share?**

No.

Interview 4: Pastry Shop

1. **What strategy do you use to obtain financing for your business?**

I inherited the shop from my parents, and I have been running it for the past 8 years. I cannot say that I used much financing given that the pastry shop sustains itself and its menu is currently the best-selling in the area. However, if I were to get more finances for the pastry shop, I would probably consider the potential for growing the shop by expanding its size or increasing its menu as the main criteria for obtaining financing.

2. **What strategy did you use to prioritize seeking capital for your business?**

Having inherited the shop from my parents, I would say that the first money I injected into the shop came from a small loan I took from a friend. It was just a small loan meant to balance the books and provide additional leverage for operating costs.

3. **What financial capital did you obtain?**

As I said, it was just a small loan from a friend to a friend designed to help me keep things going after my parents decided to retire from the shop.

4. **How do your financial strategies help you balance short and long-term financing decisions?**

For short-term decisions, it is really I just have to look at the stock levels, the employees' salaries, tax remittances, and utilities. As long as these cost areas are covered, the business is fine. For long-term financing decisions, I mostly consider the potential for the pastry shop's growth. I only make big decisions on looking for more money when it involves filling in the human resource gaps, adding more stock, or serving in special events such as weddings and birthdays.

5. **What strategies have you used for debt financing, if any?**

I have not really used any strategy for debt financing. My business model allows me to use the customers' money upfront to provide some of the services they are seeking, especially when the service is out of the pastry shop. I often do not find a reason to look for more money for operations in the pastry shop, which makes it comfortable to run things. I would only use that financing if the event were too big, and the contract is worth taking out a loan on.

6. **How have you included unexpected financing needs into your strategy?**

The pastry shop is self-sustaining, eliminating the need for unexpected financing. I tried to keep things as tight as possible to ensure that I did not use profit on emergencies that were not related to the shop. I also have a good insurance policy that covers a variety of liabilities within the shop, which is contingency enough.

7. **How does financing influence your strategic thinking?**

My strategic thinking is mostly influenced by the kind of relationships I build with customers. If I am looking to remain operational in five or more years as your research suggests, then I need to maintain a strong customer base above anything else. If I need to

expand, it needs to be with a strong and loyal customer base, with the financing part serving as a catalyst.

8. **Is there any additional information you would like to share?**

No.

Interview 5: Small Restaurant

1. **What strategy do you use to obtain financing for your business?**

Financing for my business depends on the expenses I need to cover and how sensitive they are to the restaurant's survival. If some expenses require more urgent attention than others, then the priority in financing has to be on those expenses that are more likely to disrupt the flow of service in the restaurant. The financing can come from the business account, a bank overdraft facility, or a business credit card.

2. **What strategy did you use to prioritize seeking capital for your business?**

While seeking the starting capital for my business, I was mostly interested in a person who had the same vision as myself in terms of the food list I was looking to provide. I partnered with a renowned and qualified chef, who provided me with the legitimacy and goodwill needed to get finances from investors.

3. **What financial capital did you obtain?**

I obtained funding from a venture capitalist who bought a 30% stake in the restaurant. The money was important in designing the interior of the restaurant and helped to set off expenses in the first few months.

4. **How do your financial strategies help you balance short and long-term financing decisions?**

I do not really have a specific financial strategy for managing the restaurant, but I tend to look at the performance of the restaurant from the accountant's report to determine short and long-term decisions. I have a small background in accounting, which makes it easy for me to read the daily, weekly, and monthly finances of the restaurant to determine where improvements are needed. I just prioritize the employee salary and the supplier payments along with the utilities to ensure that the restaurant keeps its light on.

5. **What strategies have you used for debt financing, if any?**

The restaurant took a loan in its name during the pandemic, which is to be repaid within the next 6 years. I considered the fact that the loan was available at a low-interest rate and helped to boost the restaurant's performance after the lockdown was lifted.

6. **How have you included unexpected financing needs into your strategy?**

We have a collective fund for the restaurant contributed to monthly by me, the chef, and the venture capitalist to help during emergencies.

7. **How does financing influence your strategic thinking?**

My strategic thinking is based on the concept that the more finances available, the better chances the restaurant has at expanding and producing better results. However, I also think that it is important to address real issues in the business including the quality of meals offered and the kind of service that the staff provide to customers before considering how financing could influence the business' growth. At the moment, the financing situation is quite tight, and having additional funds either from a loan facility or another investor could help to boost the restaurant's performance.

8. **Is there any additional information you would like to share?**

I would like to say that maintaining business finances is one of the most tedious jobs, but it is crucial to succeeding beyond the 5-year limit for any restaurant.

Interview Six: Drive-Through Restaurant

1. **What strategy do you use to obtain financing for your business?**

The main strategy I use to finance my business is determining the recurrent needs of the business and identifying gaps that need to be filled. This strategy is a simple way of assessing what it takes for the business to remain operational even in the toughest of times. I only obtain additional finance when it is necessary, which probably means that the profit levels of the business are not as good as they should be.

2. **What strategy did you use to prioritize seeking capital for your business?**

When seeking the initial capital for my business, I just wanted a part-time hustle that could generate more income for myself and my family. For this reason, I did not really mind if the financing would come from someone wanting a stake in the business. I had a friend who owned a gas station and was willing to partner with me to open a drive-through restaurant, with some of the funding coming from his side. I just had to get the menu for the restaurant right, which unlocked everything that followed.

3. **What financial capital did you obtain?**

The financial capital I obtained was in the form of a joint investment. We agreed to share costs with my friend and had a formal contract on how to handle different aspects of the business’s operation.

4. **How do your financial strategies help you balance short and long-term financing decisions?**

My financial strategy allows me to prioritize customer satisfaction above anything else. I only use money when there is additional value to the customer, which is my basis for short and long-term financial decisions. I like to maintain a strict business discipline, which means that I do not remove money from the business unless there is some value being added to the customer's experience. I have not really thought of any long-term goal I would like to achieve with the restaurant but thinking of it now, I would like to pursue an expansion.

5. **What strategies have you used for debt financing, if any?**

I have not really needed debt financing so far. Whenever the business is facing a downturn, I speak to my friend and we find an amicable solution, which often involves both of us raising money from our pockets to offset the existing gaps. I must say that my collaboration is my friend, and our understanding of each other's businesses is what we use to drive our businesses forward.

6. **How have you included unexpected financing needs into your strategy?**

I have not included any unexpected financial needs in my business strategy because I have never really thought of going outside the business to look for additional funds to manage emergencies. I do not have an emergency fund, which I think is risky, but considering the small nature of the business, I am not exactly sure how much of an emergency fund the business should have.

7. **How does financing influence your strategic thinking?**

My strategic thinking is influenced by financing in the sense that balancing the daily, weekly, and monthly finances of my restaurant is one of the success criteria for any small

business. I think that putting the needs of the business above one's own personal needs is a pathway to small business growth.

8. Is there any additional information you would like to share?

No.