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SME Sustaining Strategies

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Abstract
More than 20% of small businesses that started in March 2018 failed within a year. Small business owners would benefit from strategies to identify and mitigate constraints from inception for business survival because business failure rates are higher among small businesses less than five years old. Grounded in the theory of constraints, this qualitative multiple case study aimed to explore strategies small business owners use to sustain beyond one year of operation. The participants included six small business owners in Georgia who successfully sustained their business for five years. Data were collected using semistructured interviews and analyzed using Yin's five-step data analysis approach. Three themes emerged: improving operational effectiveness, addressing marketing derivatives, and enhancing leadership competency. Key recommendations for new small business owners are utilizing bootstrapping techniques, offering customer-driven products and services, improving business networking, and strengthening leadership training. Positive social change implies the potential for local people's employment opportunities through business growth, leading to decreased poverty and improved living standards.

Keywords: *small business financial sustainability*, *business longevity*, *working capital management*, *business innovation*, *marketing strategy*, *cash conversion cycle*, *sources of financing*, *credit constraints,* and *leadership*.

Background of the Problem
Researchers have found that the average small business fails within the first 5 years of operation (U.S. Small Business Administration, 2018). However, the risk of failure is high for small businesses within the first year of operation (U.S. Bureau of Labor Statistics, 2019). According to Akaeze and Akaeze (2017), business leaders' inability to identify and mitigate early constraints that hinder business performance could result in business failure. The failure rate diminishes as the business ages (U.S. Bureau of Labor Statistics, 2019). Therefore, small business owners must pay attention to long-term sustainability from inception. This qualitative multiple case study aimed to explore innovative strategies that small business owners use to overcome constraints that may prevent them from sustaining beyond the first year. The target population included six business owners from six small businesses in the eastern United States.

Small Business
Small businesses contribute to the nation's economy. Small businesses constitute over 90% of all companies in the United States and employ over 50% of the country's labor workforce (U.S. Small Business Administration, 2018). Small business longevity and growth result in the nation's economic prosperity (Dilger, 2017). Considering the contributions of small businesses to the economy, the long-term sustainability of small businesses is essential.

Small businesses' sustainability drives people's everyday life by providing goods and services. A small business offers various products and services, is less dependent on foreign markets, and contributes to its gross domestic product (Baidoun et al., 2017). Though the risk of failure is high for small businesses within the first 5 years, the failure rate diminishes as businesses age (U.S. Bureau of Labor Statistics, 2019).

Business Constraints

Each business operates in a specific environment, and the type of constraints varies among companies. Business leaders need to identify the constraints in their business and address them accordingly to maintain business longevity. In a given time, a business could encounter multiple constraints. A business leader must address constraints according to the severity and manage constraints accordingly. Goldratt (1990) suggested identifying the constraints that trigger a chain reaction in the process and rectifying the problem before it triggers additional constraints (Goldratt, 1990).

Various authors identified many constraints or bottlenecks that could hinder business performance in the literature. Constraints could relate to time, cost, and scope of business (Sirshar et al., 2019). The other business constraints are market constraints, knowledge constraints, financial constraints, policy constraints, process constraints, supplier constraints, and recourse constraints (Oglethorpe & Heron, 2013). Constraints can be physical and policy related. Physical constraints relate to equipment, infrastructure, workforce, and raw materials, whereas policy-related constraints refer to regulations, laws, and business procedures (Cheng & Humphreys, 2016). Naor and Coman (2017) noted that business leaders need to address other constraints after addressing one constraint.

Addressing business constraints in an ongoing process is imperative for business continuity. The five stages in addressing constraints, as supported by the theory of constraints (TOC), are problem structuring, problem identification, finding solutions, finding barriers, and implementing solutions (Panizzolo, 2016). Akaeze and Akaeze (2017) stated that TOC's five stages could help business leaders improve the business survival rate. Business leaders who address business constraints understand their business well; therefore, they can identify possible constraints before they arise and act proactively to mitigate them (Hrisak, 1995).

Innovative Business Model

Multiple factors contribute to business sustainability. Therefore, small business owners need a business model that is effective in maintaining business survival and growth. Before addressing the issue of sustainability, business owners need to develop a business model that will work in their line of business. Leaders need to adopt a business model that suits business objectives. Sometimes, business leaders could modify their existing business models as they see fit to meet business goals (Verhoeven & Johnson, 2017). Such an approach requires an innovative mindset of business owners (Verhoeven & Johnson, 2017). Bashir and Verma (2017) stated that business model formulation is more complex than new product development. Ritter and Lettl (2018) suggested targeting customers while creating value during business model formulation. The business model must align with the company vision to drive results and maintain sustainability.

An innovative and effective business model has many benefits for the company. A small business leader could use an innovative business model to explore and grasp opportunities in changing the business environment (Li et al., 2018). Business model innovation results in competitive advantage (Zott & Amit, 2017). The competitive advantage leads to businesses capturing market share, revenue, and value creation (Purkayastha & Sharma, 2016). Ojo (2017) posited that competitive advantage enables firms to challenge larger firms. According to Zott and Amit (2017), business model innovation could help business leaders gain customer loyalty and brand recognition, improving business profitability and leading to long-term sustainability.

Formulating an innovative business model requires thorough planning. Planning contributes to the business strategy's effectiveness (Dibrell et al., 2017). Planning requires business leaders to understand the business vision, business landscape, operating climate, and competition. Business leaders need to do science-based research on the reorientation of the management structure in the industry (Lin & Nabergoj, 2017). Business leaders' understanding of customers' demands could change the dynamic of the business plan (Turner & Endres, 2017). Therefore, a business leader must consider the business environment while formulating a business plan.

Financial Education

Lack of financial education could be a business constraint affecting business continuity. Financial education helps business leaders understand the proper handling of finances (Farinella et al., 2017). The development of good" versus bad" spending habits may set more successful business owners apart from those who squander their finances. Researchers found that financial literacy resulted in higher per capita income and social equality (Farinella et al., 2017). Business leaders may need a course in financial literacy to improve financial management strategies. Financial literacy could improve cash flow and avoid large debt. Financial managers could develop positive banking habits through financial literacy (Kaptan & Devi, 2016). Business leaders' understanding of banking habits is an excellent financial strategy to elongate business sustainability.

Leadership Style

The leadership style could affect the business owner's ability to develop innovative strategies to manage business constraints. The type of leadership suited for one business may not be suitable for other companies. Scholars need to understand the effect of the kind of leadership style on Small and medium-sized businesses (Koshal, 2017). Businesses operate in different organizational and cultural settings (Dias et al., 2017; Srivastava, 2016). The right leadership style enables business leaders to effectively manage a business (van der Voet, 2016). According to Sayadi (2016), a lack of proper leadership could result in employee job dissatisfaction and lower organizational commitment. The literature review revealed that transformational and transactional leadership captured the attention of many scholars.

The difference in leadership is the approach to doing things. However, transformational and transactional leaders possess goal clarity and improve followers' self-efficacy (Caillier, 2016). Transformational leaders are charismatic, readily adopt change, and commit employees to organizational goals through motivation (van der Voet, 2016). The criticism of the transformational leadership style lacks clarity on the followers' role in influencing leaders' behaviors (Paulsen et al., 2013). The transactional leadership style includes monitoring employees' behaviors, providing rewards based on responses, and mandating following directions to avoid punishment (Jensen et al., 2016). The criticism is that transactional leadership is detrimental to creativity (Kark et al., 2018). Therefore, small business leaders must adapt to a leadership style that fits their business goals and objectives.

Methodology

The study involved a qualitative method through open-ended interviews to discover what was occurring or has occurred due to those human characteristics and perceptions. The study objective was to learn more about a little-known or poorly understood phenomenon, and the case study design enabled the exploration of real-world business research and the investigation of new concepts.

The purposeful sampling resulted in identifying six participants. The eligibility criteria in this study included that participant be (a) business owners, (b) who sustained their small businesses beyond 5 years, (c) remained profitable, and (d) sustained growth. The study followed The Belmont Report guidelines. The Belmont Report guidelines mandate respect for participants, beneficence, and respect (National Institute of Health, 2014).

The semistructured interview questions enabled researchers to find in-depth answers to research questions. The data analysis process included Yin's (2017) 5 step process: data compiling, data disassembling, data resembling, data interpretation, and data conclusion. A thematic analysis to validate the study findings with new studies published in the literature and conceptual framework.

Presentation of Findings

The central research question was what innovative strategies do small business owners use to sustain beyond the first year of operation? The data collection techniques included semistructured interviews and a review of company documents provided by six participants. The theory of constraints provided a lens for analyzing data to develop strategies to address constraints to sustain business beyond 5 years. Yin's (2017) five-step data analysis approach resulted in three themes: (a) improving operational effectiveness, (b) addressing marketing derivatives, and (c) enhancing leadership competency.

Theme1: Improving Operational Effectiveness

All participants suggested addressing financial constraints by applying for loans guaranteed by the U.S. Small Business Administration to address financial constraints. Participants posited that bootstrapping is a financial alternative for business owners who lack access to traditional lending. Bootstrapping strategies include delaying payment to vendors, expediting accounts receivable, controlling costs, and bringing partnerships. Business owners must analyze the operating environment to decide on a bootstrapping type and time while developing strategies. The business leaders need to pay attention to the cost of goods sold and operating expenses as part of the bootstrapping strategy. The participants noted the high cost of goods sold and higher operating expenses affect pricing strategy. A business could not operate below cost, and adding a profit margin on top could result in a higher price, which could result in the business losing sales. Participants stated they vet various vendors while sourcing inventory to reduce the cost of goods sold.

A challenge to business leaders is how to remain sustainable in the presence of operating constraints. Effective company policies on operating strategy could address operating constraints. Participants stated invoicing errors as operating constraints. Participants noted that error-free invoicing would prompt quick payment from customers, switching from faxing to emailing can speed up payment, and switching to QuickBooks invoicing helped avoid accounts receivable problems. The other operating constraints result while managing inventory. A strategy to manage inventory includes managers conducting product price markdowns in promotional events, carefully accounting for returns and damaged merchandise, and counting inventory regularly to ensure physical inventory matches the book value.

Participants stated that improving customer satisfaction can increase sales. Both participants suggested building a customer relationship by understanding and meeting their needs. The company leaders need to review past purchase history, recommend products, and seek ongoing feedback through a survey to enhance customer experience.

The participants said that their business model's 1st year of business is a testing period. After a year of operation, they learned the bells and whistles of our business landscape. And subsequent years, the leader adapted the disruptive business model as a strategy to meet our unique business operating style. The disruptive business model included shifting their strategy from products driven to market-driven, from broad market to niche market, large product lines to select product lines, and pricing modification.

Theme 2: Addressing Marketing Derivatives

Marketing is an essential business activity, and constraints could hinder marketing efforts. Participants suggested addressing marketing constraints during product development, market development, and market penetration. Participants ensured that the products they planned to sell had demand in the market.

Product development could have pricing constraints because leaders understand the importance of sourcing products at cost to maintain a healthy margin for retail pricing. The participant's company leaders utilize grassroots producers to manufacture products to minimize costs and set their retail pricing to just above the cost with minimal profit.

Business leaders need to establish the brand name as part of a market development strategy while their competitors sell similar products. In the 1st year of operation, participants said that they had limited product lines, and the business leaders adopted guerrilla marketing strategies to develop the market for their products. The strategy included running advertisement campaigns for the product through Google and Facebook ads. The ad has a hyperlink to the landing page for the products. The company leaders ran advertisements for a few months to see some statistics for product demand. Company leaders cycle their business model to fair trade and commit some of their sales to proceed to the social cause. The strategy's focus was to send a message in a marketing campaign that their procurement process has a limited impact on the environment.

As a part of the strategic plan, the company leaders put lots of financial resources into market penetration. Marketing strategies included company leaders advertising on social media three months before their business lunch. In the 1st years of operation, the business sustained limited growth, meaning its net was just above its overall cost.

In subsequent years, company leaders shifted their marketing strategy to diversification. The company leaders added new product lines that appealed to their existing customer base as a part of the market penetration strategy. The new product lines are complementary to existing products based on the demographic.

Theme 3: Enhancing Leadership Competency

To address business constraints, business leaders need to enhance decision-making capabilities, which could result in challenging the status quo when time and business scope demand innovation. Training on how to adjust to change, accustom to new tools, and performance improvement requires training. Participants stated some job functions require training in risk management. A strategic plan may not always work in uncertainty, so leaders develop a contingency plan as an alternative strategy. Some contingency plans could be risky; however, risk tolerance is an essential management strategy for reaching its target. According to the participants, the company provides training on risk tolerance for investments, product development, and policy change to achieve organizational goals.

As a business grows, the company leaders need to look into strategies to sustain a business, which include enhancing employees' skills, minimizing bureaucracy and red tape, revamping the policy, expanding the network, and hiring skilled employees. Participants noted that leadership competency might require policy modification to address the issue. According to the participants, the leadership constraints are managers not carrying out the company policies' managerial duties. Therefore, participants noted their strategy includes having procedural steps to follow for each task and providing tools to complete these tasks.

The participants stated building a professional network with other business leaders in a similar field as a business strategy to improve managers' capabilities. According to the participant, such a coalition helped them understand avenues to address business constraints and identify opportunities because of business similarities. Participants stated that they train their leaders to know the business landscape and the skills necessary to achieve business goals.

Summary

The study findings revealed several constraints and strategies to overcome them. Marketing constraints could undermine marketing efforts. Lack of product choice and introduction of innovative products can hinder business profitability. Participants noted that marketing cost was their consideration during the first year of business operation, and therefore, they used guerrilla marketing to reach their customers. The participating company business leader used corporate social responsibilities (CSR) by involving in social causes to improve the company's image to overcome marketing constraints. Social media helped business leaders build relationships and get insights on issues before becoming problematic to the company. Participants noted that the business leader's lack of financial knowledge is a constraint. Improving a company's creditworthiness is a strategy to overcome financial constraints. Findings revealed managing the cash conversion cycle could address constraints relating to cash flow. According to participants, time, cost, and scope of project bounds operational constraints. Leaders could address operational constraints through an innovative business model. Participants noted pricing strategy could be part of a disruptive business model. Participants added that some degree of risk could benefit businesses, and risk tolerance may need to identify and exploit new business opportunities.

Authors Contribution

The first author (JaQuane Mawyne Jones) collected and analyzed data. The second author (Aditya Upadhyay) provided intellectual contribution in journal manuscript formatting, analysis, and editing for publication.

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