

US Small Business Success via CSR

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ABSTRACT

This research examined critical success factors of United States small businesses with a thorough consideration of socially responsible small business practices. Nine existing and relevant critical success factor articles were explored that assisted in the development of critical success factor themes, including characteristics of the business leader, characteristics of the business, innovation/technology capabilities, support, and social responsibility. These perspectives provide scholars and practitioners with an easy-to-understand structure for success considerations when researching any type of business organization. The findings in this dissertation support the improvement of the alarming survival rate of small businesses in the United States, which is less than 50% over the first five years of operations. Interestingly, each theme in this study was supported while characteristics of the leader and characteristics of the business were the two most highly recognized success factor themes. Additionally, socially responsible business practices had the strongest correlation of the entire study, showing that leaders who participated in socially responsible business practices perceived those practices as a determinant of the business's success. Most importantly, each business leader has a different formula for successful operations of their organization depending on several variables that often begin with the vision and mission the leader attempts to execute.

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CHAPTER 1: INTRODUCTION

The need for small businesses to survive is a critical component for every country's economy. Small businesses have been known as economic engines providing benefits to families, neighborhoods, communities, and countries around the world. Despite this fact, over half the small businesses in the United States fail within the first five years (U.S. Small Business Administration, 2021). For these reasons, this study explored the critical success factors for small businesses in the United States. Corporate social responsibility was applied to the field of small business via the emerging trend of socially responsible small business practices, which have clear relationships with social responsibility. Additionally, the researcher sought to fill a gap in the literature examining socially responsible business practices as a factor critical to the success of small businesses. This dissertation begins with a discussion of the historical challenges of creating a business in the United States and then describes the purpose for the research. Following this, the researcher explains the research questions, theoretical framework, and significance of the study.

Background of the Problem

Since the late 1970s in the United States, it has become increasingly difficult to break the cycle of living paycheck to paycheck through traditional means as income inequalities and the distribution of wealth makes it more complicated for lower- and middle-class citizens to earn above the cost of living (Hoffman, 2020). The U.S. middle class has been shrinking since 1971, while the upper and lower classes are growing (Kuchar, 2018). In the period between 1971 and 2016, the middle class decreased by 9%, while the lower class and upper class grew by 4% and 5%, respectively (Kuchar, 2018). Additionally, the world faced a global pandemic beginning in 2019, which is now widely known as COVID-19, or COVID. Little information is available

regarding how the pandemic started; however, it developed in China the year before the 2020 U.S. election. In an article published by the Pew Research Institute, the authors state the economic difficulties “caused by the COVID-19 recession in the U.S. were endured mostly by lower- and middle-income families. From 2019 to 2020, the median income of lower-income households decreased by 3.0% and the median income of middle-income households fell by 2.1%” (Kochhar & Sechopoulos, 2022, p. 1). Comparably, the upper-class median income was not affected during the same time (Kochhar & Sechopoulos, 2022). Immediately following these hardships from a global pandemic, the U.S. was swept with inflationary levels that have not been seen since the 1980s and an economic recessionary period (U.S. Bureau of Labor Statistics, 2022). Given the difficulties faced by the lower and middle classes, this researcher is focused on small businesses, which provide citizens with the ability to create income in an economy through the ever-changing and ever-present needs of the market.

In addition to the troubles faced by the lower and middle classes, the survival rate of businesses in the United States has been troubling (U.S. Small Business Administration, 2021). Over half of the small businesses established in the United States fail within the first five years. This problem identifies the difficulties faced by small business operators. Even if an ambitious small business leader can overcome the paycheck-to-paycheck lifestyle enough to fund the start of a business, they are then faced with the challenge of business attrition. Due to the hardships faced by the lower- and middle-classes and the survival rate of small businesses in the U.S., this research focused on the factors of small businesses that lead to success. Small businesses are a beacon of hope for anyone with the skills necessary to succeed in competitive markets and are drivers of economies around the world (Alozairi, 2018; Arifin et al., 2022). The research addressed these problems through the identification of core factors that lead to the extended

success of small businesses. As researchers, scholars, and small business leaders in any style of economy, there will always be a worthwhile need to be filled for customers by an organization if there is freedom, creativity, and vision. Small businesses provide hope and freedom to families and communities around the world.

Statement of the Problem

The problem this study addressed is the five-year survival rate of U.S. small businesses. To be precise, 51.1% of small businesses fail within the first five years, and within the first ten years, 66.4% of small businesses fail to sustain operations (U.S. Small Business Administration, 2021). Related to this, there has been a gap in the academic field regarding the United States' perspective of critical success factors for small businesses. There has been an existing niche of academic research surrounding small business critical success factors from countries around the world: Saudi Arabia, Palestine, and Russia; however, there have not been recent studies from the U.S. perspective (Al-Tit et al., 2019; Alfoqahaa, 2018; Zhokhova, 2020). Additionally, the factor of socially responsible business practices as a factor critical to success of businesses has not been studied to date. This study addressed these gaps.

Globally, it has generally been accepted that small businesses play an important role in the modern economy (Al-Tit et al., 2019; Alfoqahaa, 2018; Kim et al., 2018). In the United States, the impact of small businesses on the total economy is no exception. According to the U.S. Small Business Administration (2021), small businesses make up 99.9% of firms in the United States, accounting for 99.7% of firms with paid employees. In the time between 2000 and 2019, small businesses accounted for the creation of 10.5 million new jobs. The social and economic impacts small business leaders have had on communities in the United States and around the world has been invaluable. In addition, U.S. small businesses have supplied the global

economy as they account for “31.6% of known export value,” or \$460 billion dollars (U.S. Small Business Administration, 2021, p. 1). Clearly, these enterprises have had a tremendous impact on the economy. Regardless of the impact these small businesses have, over half of U.S. small businesses fail within the first five years. The survival rate of these economic instruments impacts individuals in the United States on the macro and micro levels. Business closures impact the overall Gross Domestic Product (GDP) of the United States on the macro level. On the micro level, business closures affect neighborhoods and families around the world. Clearly, the survival of these businesses affects stakeholders in families, neighborhoods, and communities throughout the United States. The survival of small businesses in the U.S. and globally must be addressed.

Additionally, there have been many studies from countries outside the United States and emerging economies (Al-Tit et al., 2019; Mehmood 2018; Sebor et al., 2009; Zhokhova et al., 2019). There has been a significant lack of literature for established countries such as the United States and European countries. Moreover, an emerging trend in the small business critical success factor literature has been the study of socially responsible small business practices (Benz 2022; Lunenburg et al., 2020; Musinguzi et al., 2023). Although this trend has provided a basis into the study of socially responsible small business practices, little research has considered socially responsible business practices as a factor that may contribute to the success of a small business.

Purpose of the Study

The purpose of this phenomenological study was to explore critical success factors of small businesses with a focus on investigating socially responsible business practices. This was accomplished by examining the lived experiences of small business leaders in the United States. In addition, the researcher applied the theoretical framework of corporate social responsibility to

clarify the need for socially responsible business practices to become a common business practice in the United States and around the world. This dissertation examines the historical evolution of Corporate Social Responsibility (CSR), identifies the application of socially responsible business practices as a business strategy, relates the overarching idea of CSR, or social responsibility, to small businesses, and, finally, examines the critical success factors studied in the literature. Additionally, the research provides a basic organization structure to the critical success factor literature by categorizing over 100 success factors into five core themes: characteristics of the business leader, characteristics of the business, innovation/technology capabilities, support, and social responsibility. The researcher expected to provide an additional theme to the critical success factor literature and find the use of socially responsible business practices as a factor that contributes to the success of small businesses. Overall, the entirety of this research serves as a resource for any scholars or practitioners looking to expand their knowledge of business.

Research Questions

To describe the experiences of small businesses from the perspective of small business leaders in the United States, this phenomenological study was addressed through four research questions:

1. What factors lead to the successful creation and survival of businesses in the U.S.?
 - a. Of the factors studied, which are most important to the success of small businesses?
2. How do socially responsible business practices affect the success of small businesses?
 - a. To what extent does CSR impact the success and/or survival of a business?

Theoretical Framework

The theoretical framework for this study was built on many decades of research and application and served as the lens for this study. Corporate Social Responsibility (CSR) was originally a plea for businesses to consider more than only corporate profits when conducting operations. The idea was that businesses had a social contract with more than shareholders in mind (Carroll, 2015). Since its origins, research has branched in many directions from the original roots. Each branch has produced fruit for the field in some way. Regardless, the field has become expansive considering CSR from every perspective and even producing strategic management concepts based on the original theoretical framework. To remain succinct, the researcher applied CSR to the small business perspective and added socially responsible business practices as a critical success factor to the literature. The mission of each small business may differ slightly and may include socially responsible practices, such as sustainable practices considering the planet, charitable donations to a third-party organization, or a philanthropic endeavor. This research was much less concerned with how the CSR societal value has been added than it was with the act of supporting a social cause. The theoretical framework research is further explained in Chapter 2.

Significance of the Study

This study is of significance for many reasons; most importantly, the survival rate of U.S. small businesses must be addressed along with the depleting middle class. The combination of critical success factors used in this study, which were derived using nine existing studies in the field, are more clearly presented. This research examined five critical success factor themes that provide high-level considerations for practitioners and a more developed structure for scholarly work, including characteristics of the business leader, characteristics of the business, innovation

and technology capabilities, support resources, and social responsibility (Al-Tit et al., 2019; Alfoqahaa, 2018; Alozairi, 2018; Arifin et al., 2022; Benz, 2022; Kim et al., 2018; Mehood, 2018; Musinguzi et al., 2023; Sevilla Bernardo et al., 2022; Takwi et al., 2020).

Another reason this study is significant is because the aforementioned five core critical success themes provide a wholistic approach to small business critical success factors that has not been considered (Al-Tit et al., 2019; Alfoqahaa, 2018; Alozairi, 2018; Arifin et al., 2022; Benz, 2022; Kim et al., 2018; Mehood, 2018; Musinguzi et al., 2023; Sevilla Bernardo et al., 2022; Takwi et al., 2020). These core themes provide a structure to categorize the critical success factors studied in the existent literature in the field. Additionally, the five core themes address the major decision points a small business leader may consider when developing a business plan (Saura et al., 2019). Moreover, most investment decisions from external investors have considered these core factors (Lunenburg et al., 2020; Mehood, 2018). This emphasizes the need to organize the literature to develop a better understanding of the factors that are most important to the success of businesses in the United States and around the world.

Equally important, the addition of socially responsible business practices as a success factor adds an element that has not been considered. Many authors in the field have considered small businesses from the social perspective; however, few have considered social responsibility as a critical success factor. Additionally, this fifth major theme addresses a critical portion of operating a business in today's market (Benz, 2022). Many investors heavily consider the social mission when making investment decisions. These academic contributions show the importance of the advancement of socially responsible small business practices.

Finally, this study addresses two major and detrimental statistics in the United States. As small business leaders create jobs and higher incomes, this study addresses the shrinking middle-

class in the U.S. The (Ahmad & Bajwa, 2021; Lee & Rodriguez-Pose, 2021). The middle class diminished by 9% between 1971 and 2016, while the lower and upper class increased by 4% and 5% (Kuchar, 2018). This shows growing income inequalities in the United States. Moreover, this study addresses the success of small businesses, which directly challenges the attrition rate of small businesses. Over 50% of U.S. small businesses fail within the first five years, which is an alarming statistic.

In summary, this study is significant for scholarly and practical reasons. The specific combination of success factors has not yet been studied, and the five core success factor themes provide a structure to which most of the existent and future literature in the field can be categorized. Third, the addition of social responsibility as a success factor is of significance to include in business models as the new norm. These five major themes provide a wholistic approach to which all future and existent critical success factor studies can be categorized. Furthermore, this study addresses the depleting middle class and survival rate of small businesses.

Definition of Terms

Capital: A store or supply of useful assets (e.g., financial resources; human capital) (Mehood, 2018; Saura et al., 2019; Sevilla-Bernardo et al., 2022).

Critical success factors: The variables that determine a business organization's profitability and sustainment of operations (Alozairi, 2018; Sevilla-Bernardo et al., 2022).

Characteristics of the leader: Category of critical success factors that include variables surrounding the leader of the business including, but not limited to, leadership abilities, risk propensity, education, experience, goals, decision making, and desire to achieve (Al-Tit et al., 2019; Alozairi, 2018; Kim et al., 2018; Sevilla-Bernardo et al., 2022).

Characteristics of the business: Category of critical success factors that include descriptors of the business itself. These may include, but are not limited to, the idea, business model, supply chain, customer service, product or service delivery, culture, marketing, and reputation (Al-Tit et al., 2019; Alozairi, 2018; Benz, 2022; Musinguzi et al., 2023; Sevilla-Bernardo et al., 2022).

Enterprise: See small business.

Gross Domestic Product (GDP): A total of the goods and services produced in a country over a specific period, typically presented annually (Alozairi, 2018; Kim et al., 2018; Sebor et al., 2008).

Innovation and Technology Capabilities: Category of critical success factors defined by using technology and implementing innovation. These may include, but are not limited to, use of software systems, marketing/sales strategies, innovative business models, innovative internal systems, and general innovations (Arifin et al., 2022; Benz, 2022; Kim et al., 2018; Musinguzi et al., 2023).

Organization: See small business.

Profit margin: The amount of dollars that is left from revenue after all costs are subtracted.

Revenue: The total amount of income an organization produces.

Small business: “The Office of Advocacy generally defines a small business as an independent business having fewer than 500 employees. For industry-level small business size standards used in government programs and contracting, see <https://www.sba.gov/document/support--table-size-standards>” (U.S. Small Business Administration, 2021, p. 1)

Socially responsible business practices: Category of critical success factors that is interested in the social aspect of operating a business. These practices may include, but are not limited to, philanthropy, social enterprises, community service, and donations (Al-Tit et al., 2019; Alozairi, 2018; Benz, 2022; Musinguzi et al., 2023; Sevilla-Bernardo et al., 2022).

Support resources: Category of critical success factors that includes but is not limited to, the ability to secure capital investments, access to advisors, use of networks, and friends and family assistance (Al-Tit et al., 2019; Sevilla-Bernardo et al., 2022)

Social leadership: A for-profit business developed to create social value and whose excess profit is invested to support the social value. (Lunenburg et al., 2020; Zhokhova et al., 2020).

Start-up: A business model supplying a product or service built around the utilization of a new or improved technology (Kim et al., 2018; Sevilla-Bernardo et al., 2022).

Summary

This chapter presented an overview of the dissertation. This chapter provided the basis for the study detailing the problems the study addresses and the purpose of the research. Additionally, the theoretical framework was introduced. The chapter began with the background of the problem, problem statement, purpose of the research, significance of the study, research questions, definition of terms, and limitations of the study. The chapter concluded with an overview of the dissertation.

CHAPTER 2: REVIEW OF LITERATURE

This chapter begins with a thorough investigation into the theoretical framework, Corporate Social Responsibility (CSR), and examines the historical perspective of CSR. The historical approach shows the evolution of CSR and proves the valuable uses of CSR that corporations exhibit today. The researcher then examines the strategic uses of CSR uncovered in the historical perspective, how they are used, and why. Next is the discussion of socially responsible small business practices. It is a slight evolution of the theoretical framework of CSR and is a small-scale, strategic application of CSR used by small businesses throughout the U.S. and the world. These topics build the foundation for the socially responsible aspect of the literature review and the study overall.

The researcher concludes Chapter 2 by examining critical success factors for small businesses. The researcher compiled nine studies of success factors and identified the major themes. These themes are each explained and individually investigated. The final critical success factor theme is socially responsible business practices, which ties the first part of the chapter into the critical success factors section. A summary is provided at the conclusion of the literature.

Theoretical Framework: Corporate Social Responsibility

“Corporate Social Responsibility (CSR) is defined broadly to encompass the economic, legal, ethical and philanthropic expectations placed on businesses by society” (Carroll, 2015, p. 1). CSR has changed with society, and although it has been of academic and societal importance in recent decades, the roots date back to the ancient Romans in entities like asylums and elderly homes (Latapí Agudelo et al., 2019). Given the importance of CSR throughout history and in recent years, the researcher used CSR as the theoretical framework for this dissertation.

A Brief History (1950s to Present)

The modern era of CSR began in the early 1950s with the notion of defining the responsibilities of businessmen. During this post World War II era, there were “changing attitudes towards the discussion of corporate social responsibility”; however, there was little action taken outside of basic philanthropic activities (Latapí Agudelo et al., 2019, p. 3). One of the great examples of the changing attitudes of the time was Bowen (1953), who many experts site as the seminal author of CSR. Bowen (1953) articulated the consolidation of influence and power that large corporations held and stated that businessmen occupy “a strategic role in American life” (p. 3). Due to the strategic role and impact large corporations had on American society, Bowen appealed to the need for change in corporate decision making to include stakeholders, employees, and customers, among other things. Many of Bowen’s recommendations from 1953 are common practices in business today, which placed Bowen’s views of corporate social responsibility well ahead of its time (Carroll, 2008). With similar foresight, Bowen (1953) stated, “One of the advantages of informal moral rules over formal laws is they are more flexible and adaptable to changing circumstances” (p. 139). This lack of flexibility can be seen today: governmental committees, commissions, administrations, and regulations are the traditional upholders of socially responsible business practices, rather than the informal morals of businessmen to which Bowen appealed (Bowen, 1953). In summary, the origins of CSR were to define a basic moral compass for practitioners to follow and answer ever-changing societal needs more effectively.

After the introduction of CSR in the 1950s, the discussion continued and evolved in the following decades. The advancements of the 1960s came in the form of literature. The literature followed the typical research cycle while researchers attempted to describe and define CSR

(Carroll, 2008; Ludeke-Freund et al., 2019). One of the more prominent authors of the decade, Davis (1960), attempted to define the basic ground rules businessmen should follow when making business decisions. Davis argued that CSR was an unclearly defined idea and that it ought to be viewed from a managerial standpoint. Additionally, Davis “asserted that some socially responsible business decisions can be justified by a long, complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible viewpoint” (Davis, 1960, p. 70). This sentiment of Davis opened the door to the still largely debated idea that social performance leads to increased profitability. Overall, the literature of the 1960s called for what most would consider reasonable measures and introduced a wider scope to discussions of topics like philanthropy, employee wellbeing, and stockholder relationships (Carroll, 2008).

In addition, it is important to note that not all shared the views of the socially responsible businessman. Milton Friedman (1962), a renowned economist and Nobel Laureate, published the book *Capitalism and Freedom*, asserting the perspective that corporations operating in a free market should limit the scope of operations to that of pecuniary benefit. Although the values of Friedman differed from the CSR movement of the time, towards the end of the decade, strong social pressures for corporations to behave in a manner more acceptable to society showed plainly in the form of protests, environmental movements, and antiwar campaigns. Leading into the 1970s, the general societal perspective was that of a “low level of confidence in business to fulfill the needs and wants of the public” (Ludeke-Freund et al., 2019, p. 5).

The businessman was a central figure in 1970s American culture. Due to this influence, managerial decision making shifted from the immediate corporation out to the broader community (Bowen, 1953; Davis, 1960). Although the academic and societal CSR pleas of the

1960s were not warranted by public corporations to take such action, they led to advancements in the 1970s. As a result of a combination of the call to action by academia, the social pressures of the protest culture, a volatile economy, and a growing societal awareness of corporate pollution, many socially beneficial government programs were created. One example that was a direct result of the Earth Day protest was the Environmental Protection Agency (EPA) being created and “translated into a new regulatory framework that would later influence corporate behavior and create additional responsibilities for corporations” (Ludeke-Freund et al., 2019, p. 5). The U.S. made other significant advances in the creation of the Equal Employment Opportunity Commission (EEOC), Equal Employment Opportunity Act of 1972, and the EPA. These clear, unambiguous advancements of socially responsible business practices became immortal in the ever-growing bureaucracy in the U.S.

A pivotal contribution to the notion of CSR was published in 1971 by the Committee for Economic Development (CED). The publication, *Social Responsibilities of Business Corporations*, dealt “with the social responsibilities of business enterprises in contemporary American society” (Committee for Economic Development, 1971, p. 7). Carroll (2008) emphasized one of the key takeaways of the publication: the substantially changing social contract held between business and society, meaning that businesses were to shoulder more expansive responsibilities to society. The CEDs described this idea as “three concentric circles,” which are shown in Figure 2.1 (Committee for Economic Development, 1971, p. 15). The inner circle represents clear cut responsibilities of an organization towards society. The intermediate circle represents the socially accepted responsibilities of a business, including environmental awareness and conservation, employee-employer relations, and consumer protections. The outer circle represents new and emerging trends that had not fully developed or were not yet clearly