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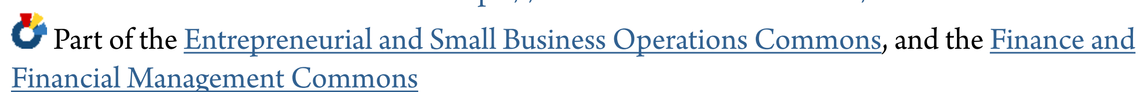
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Walden University

College of Management and Technology

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Ivan Salaberrios

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Walden University
2016

Abstract

The Effects of Using Invoice Factoring to Fund a Small Business

by

Ivan Justin Salaberrios

MBA, Keller Graduate School of Management, 2011

BS, DeVry University, 2009

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

January 2016

Abstract

Small business owners often do not possess the financial literacy to implement invoice factoring to fund their business. Despite that lack of knowledge, an increasing number of small business owners are using invoice factoring as their primary source of funding. Guided by a systems thinking approach, the purpose of this exploratory multiple case study was to understand the effect of invoice factoring of 5 small business owners, 5 small business finance managers, and 5 factoring program managers, all of whom managed factoring programs and technical services companies with less than $3 million in annual revenues. Participants were located in 6 states with data collected through semi-structured Skype and telephone interviews. Data were analyzed according to the Krippendorff method. Member checking and transcript review established trustworthiness and credibility of interpretations. Three themes emerged from interviews: owner eligibility for traditional capital sources, profit margins, and third-party relationships. The small business owners were not eligible for traditional funding options. Factoring administrators and small business owners cited that companies with better profit margins implemented invoice factoring successfully. Finance managers mentioned that factoring companies acted as a third-party to the invoicing and collection processes. Social implications include a contribution to the advancement of small business success rates and to an entrepreneur’s preparation to launch a business venture properly.

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Dedication

This doctoral study is dedicated to my mother Aurea Nilda Garcia and my father Miguel Angel Salaberrios. Thank you for never giving up on us.

Acknowledgments

I would like to thank my wife and children for their continued support. My cousin Sharon Sáez for showing me the value of an education. My mentor Dr. Stokes for providing great support and helping me to approach my study one section at a time. I would also like to thank Dr. Lentz for the enthusiasm, energy and charm. Dr. Freda Turner for the patience and passion towards the success of all Walden students. I also acknowledge my committee members for helping to make this doctoral study a quality product.

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Section 1: Foundation of the Study

Small businesses fail for many reasons. The most prominent reason for failure is small business owners' lack of education and knowledge about business finance, particularly in the area of funding (Osei-Assibey, 2010). Funding sources are a common thread for all small business entrepreneurs; choosing the right funding source for a small business is vital (Chow & Dunkelberg, 2013). Although many options exist to fund a business, some funding options are better choices than others (Atherton, 2012). Without the necessary education and preparation, small business owners often make poor decisions when choosing a source of funding for their businesses (Williams, 2014).

Considering the market growth of accounts receivables funding, more small business owners are employing factoring as a primary funding source for their businesses (U.S. Small Business Administration [SBA], n.d.). Factoring is the process of selling an invoice to a third-party finance company, known as a *factor* in the financial industry (Callender, 2012). Factors advance up to 80% of the invoice value and use the remaining value as collateral (Benea & Duma, 2013). Factoring provides small businesses with quick cash from a third-party factoring company, which can be very lucrative for small business owners (Benea & Duma, 2013). Companies submit their invoices to the factor for sale, and the finance company advances live funds to the company bank account within days of the sale of the invoice. The payment terms secure the cash between the small business and the customer (Ramesh, 2013). The small business owner can collect on the receivables inside of the agreed payment terms with the factoring company (Levin, 2013). Refusal to pay invoices affects small business negatively. The factoring company

will charge back the amount of the invoice to the small business. The chargeback includes additional fees to the small business (Levin, 2013; Mbatha, 2012). Despite the appeal of factoring to small business owners, many risks exist. The long-term effects on small businesses are not clear.

Background of the Problem

Small business leaders need to use caution when engaging in an invoice factoring relationship with factoring companies (Bode, Hübner, & Wagner, 2013). Small business owners turn to invoice factoring because of the fast cash appeal and access to needed funding to run their business. Most small business owners do not possess the education needed to run a business successfully (van Praag & van Stel, 2013). Throughout the life of the business, the small business owner learns how to manage his or her business finance. The small business owner does not learn how to access the right kind of capital (Keasey, Pindado, & Rodrigues, 2014).

Small business owners find invoice funding appealing for reasons such as financial distress (Pearce, 2012). Invoice funding also complicates owners' funding issues because of the assessment of high interest and fees, incidentally deteriorating profit margins. In the existing literature, there have only been a few studies about the influences of invoice funding on small businesses (Soufani, 2001). Additional research would help researchers to assess the effects of using factoring as a primary source of funding a small business.

Problem Statement

Small business owners do not possess the financial literacy to implement invoice factoring to fund their businesses (Collins, 2013). Since 1997, financial institutions that provide invoice factoring to small businesses doubled their gross revenues while only adding 4% additional establishments nationwide (U.S. Census Bureau, 2012). The general business problem is the increasing number of small businesses using invoice factoring as their primary source of funding (Berger & Black, 2011). The specific business problem is that small business owners lack the information needed to understand the effect of invoice factoring on their businesses.

Purpose Statement

The purpose of this qualitative exploratory multiple case study was to explore the information that small business owners need to understand the effect of invoice factoring on the business. The targeted population included U.S.-based technical services small business owners with no more than $3 million in annual revenue and used invoice financing to fund their receivables at one time or another. The small businesses were located in Ohio, Georgia, California, New York, Texas, and Florida. U.S. economic conditions have made traditional business finance difficult to obtain, particularly in the specified states (SBA, n.d.). Small business owners commonly turn to invoice factoring as a primary source of funding their businesses in the United States (Kerle, 2009). This doctoral study expands the knowledge of small business entrepreneurs about the effect on their ability to grow their businesses when implementing factoring as a primary source of

business funding. The result of this study may contribute to social change by adding to the existing literature about the effects of using factoring to fund a small business.

Nature of the Study

For this study, I used a qualitative method with an exploratory case study design (Yin, 1982). A qualitative method design may add to the existing literature and help researchers better understand small business owners' perceptions of the challenges to funding their businesses. As of 2015, only a few studies existed on the topic of factoring. According to Mitchell and Pearce (2011), researchers need to conduct more studies on small business owners and the long-term influences of their funding options. There are insufficient data to assemble a comprehensive quantitative study.

I selected the case study design compared to other designs because the case study design best allows a researcher to observe a subject objectively, while examining the meaning of the case under observation (Stake, 1995). When using the case study research design, one can identify trends in particular topics of study. The challenge of funding small businesses is not a new concept or an unknown phenomenon. The phenomenological approach was not sufficient.

Research Question

Small business owners across the country commonly choose invoice factoring to fund their companies' receivables (DeYoung, Frame, Glennon, & Nigro, 2011). Small business owners may not be aware of the risks of using factoring, and many do not experience success with this particular financing method (Ropega, 2011). The central

research question was as follows: What information do small business owners need to understand the effect of invoice factoring on the business?

The study included the following questions to establish boundaries of the business problem based on responses of the target population and sample:

1. What conditions made you decide to use a factoring company?
2. What is your background and experience with invoice funding?
3. Other than invoice factoring, what financing options are available to companies who do not have collateral?
4. What is the immediate risk of using invoice factoring?
5. How do you like working with an invoice factoring company?
6. What type of fees do you pay for this service?
7. How did your company move away from factoring?
8. Looking back, what do you think about your decision to factor your receivable?
9. Did your factoring interrupt or improve cash flow?
10. What benefits do you think you gained from using invoice factoring?
11. Describe some the issues that emerged after you engaged in a factoring agreement.

Conceptual Framework

The conceptual framework related to a systems thinking approach. I used a qualitative method and empirical inquiry based on data collections and candidate

observations. The purpose was to identify themes with research data collected for analysis (Drack & Schwarz, 2010).

To help explain the business problem, I had taken an example from the systems theory as the body of knowledge. Von Bertalanffy (1972) emphasized that systems acquire new properties interacting in their environment. This observation later became the basic tenant for systems theory (Drack & Schwarz, 2010). According to Lending and May (2013), researchers defined systems theory as social problems with various interrelated issues. Business researchers cannot solve problems without understanding the other subparts to the issue that create the overarching problem (Knudsen, 2010).

This doctoral study related to systems theory because the entrepreneur’s choice to use factoring adds a new element to the system of the business, altering its properties and outcome (Thygesen, 2012). A financier provides factoring services. Factoring can cause radical changes in the business’s relationship with the customer. The relationship changes subtly after the business owner decides to implement factoring services. The third-party financier interacts directly with the business’s customer to collect the debt owed to the business by the customer. Some factors try to make the collection process transparent to the customer by using a chargeback process that forces the company to manage their collection process (Zinner, 1947). The choice to use factoring can also affect the business’s eventual success or failure (Mathis & Lewis, 2011).

Definition of Terms

Accounts receivable financing. Accounts receivable financing is a loan that uses a company’s accounts receivables as collateral (Katz, 2011). Financing receivables is a

short-term financing program that allows small businesses to produce working capital (Benea & Duma, 2013). The amount of the loan depends on the percentage of assets determined to be eligible by the bank or financial institution.

Asset-based lending. Asset-based lending is a loan program that lends money to companies and uses their assets as collateral (Scolaro, 2013). Companies that do not have inventory, such as services firms, take advantage of their accounts receivable as collateral (Scolaro, 2013). This type of program allows small businesses to finance their accounts receivable (Martini & Morse, 2012).

Factoring. Factoring is the process of selling invoices to a financial institution, which advances the company up to 90% of the value of the invoice. The financier pays the remaining difference of the invoice when the financier collects payment from the end client. The financier deducts fees prior to dispersing the remaining value of the invoice to the company (Chen & Chen, 2012).

Financial literacy. Financial literacy is an entrepreneur's aptitude to understand how money works (Collins, 2013). The financial literacy of small business owners refers to the set of skills that enables them to make an informed business decision concerning their financial resources (Halabi, Barrett, & Dyt, 2010). An entrepreneur's financial literacy can be improved and sustained through higher education and like-minded social groups (Nkundabanyanga, Kasozi, Nalukenge, & Tauringana, 2014).

Mezzanine financing. Mezzanine financing is a mixture of debt and equity financing (Amon & Dorfleitner, 2013). Business owners use mezzanine financing to expand and grow an existing company (Scott, Chua, & Zekulich, 2008). In the case of

default, lenders have the right to convert the debt to ownership in the company (Hartmann-Wendels, Keienburg, & Sievers, 2011).

Assumptions, Limitations, and Delimitations

Assumptions

In business research, assumptions are beliefs of facts before knowing the actual existence of supporting facts (Irwin, 2013). In this study, I made two assumptions. The first assumption was that the responses of participants in the study reflected the views of small business leaders, small business financial managers, and factoring company finance managers within the specified geographic area. The second assumption was that the participants responded to the survey questions honestly.

Limitations

According to Irwin (2013), scholars defined limitations as constraining characteristics that influence the method to validate the results of the study. The chosen method for the study came with two important limitations. The research time includes limitations when compared to funded case study durations (Burns, 2014). When comparing the time limit to funded case studies about financial and business management, the research has a short time limit (Nørreklit, 2014).

While the use of the case study design works, one challenge to conducting case studies was to define the limitations of the study. If a researcher did not properly identify the limits of the study, the resulting case study could be too broad (Baxter & Jack, 2008). I addressed the issue by identifying the specific context in which to examine factoring

services to fund small businesses. According to Robinson (2014), scholars criticized the use of a convenience strategy.

Although a convenience strategy makes sense, a convenience strategy did not guarantee a sample that represents the population. A convenience strategy could result in unwanted generalizations (Robinson, 2014; Trochim & Donnelly, 2007). The findings of this study only apply to small business owners, small business financial managers, and factoring company finance managers who conduct their operations within the specified geographical location.

Delimitations

According to Albert (2014), scholars defined delimitations as the boundaries the researcher has set for the study. This study did not include statistical data to prove or disprove the effectiveness of factoring invoices as a primary source of business funding. Calculations or schemes for factoring services did not appear in the research. According to Camacho, Hevia, Kiwi, and Opazo (2012), financiers implement mathematical schemes to determine the profitability of providing factoring services to small business. Instead, my intention was to expand on the knowledge available and further the knowledge of small business leaders (Ramesh, 2013).

Framing the small business owner’s experience was essential. The selection of case studies was important. I did not review literature including adverse case studies about the small business experience. The purpose of the study was to identify the business problem and to highlight other areas of study, not to bring forth social issues related small businesses’ choices of funding.

There were insufficient specific statistical data to inspire a quantitative approach (Abrams, 2010). The lack of data led to a wider gap in confidence in the study results. Instead, this study could serve as a starting point to identify a phenomenon. Examination of individual observations provides a qualitative approach to study. I hoped to inquire within a subset of small business owners and financial managers using an interviewing tool (de Meijer & Menon, 2012).

Significance of the Study

Contribution to Business Practice

This study provides a view of the mindset of small business leaders and financial managers. To understand the perception of a small business owner, one can determine the logic entrepreneurs employ to choose alternative financing. According to Zahra and Wright (2011), researchers can better understand the benefits or disadvantages of using factoring to fund a small business, as told from the perspective of the business owner and financial managers. This study may expand the existing knowledge base and establish areas for future research (Zahra & Wright, 2011).

Implications for Social Change

The study can identify an emerging business problem related to small business owners who have used alternative financing to fund their business. Small business owners create jobs, but do not have adequate access to capital (Luckett, 2011). Future studies can identify the need for change by understanding why small business owners choose factoring to fund their businesses. More so, entrepreneurs can learn how such a decision affects the course of their businesses. Future researchers can identify whether

factoring may be a solution for the exponential growth of the small business demographic (Lee, Shin, & Park, 2012).

A Review of the Professional and Academic Literature

The following review of the literature includes an analysis of scholarly journal articles and case studies on the topics of small business enterprises, different types of financing available to small businesses, and small business outcomes. Some of the literature focused on the connection between the entrepreneur's level of financial education and business planning efforts. The literature review included different studies, some of which have conflicting results. All literature was peer-reviewed, where 93% of the cited sources were published less than 5 years from the date of this study. The following literature review includes more than 60 of the peer-reviewed sources cited (see Table 1).

Table 1

Reference Count

Titles	Recent	More than 5 years	Total	Percentage
Peer-Reviewed Articles	140	9	149	94%
Books	12	2	14	86%
Web	6	1	7	80%
Total	158	12	170	93%
		PEER REVIEWED		93%

The review of literature begins with the organization of past studies. To understand the most profound theory in this study, the review of literature begins with financial literacy. The literature review then transitions into the topic of small business failures. In this topic, I present an abundance of both quantitative and qualitative studies. The analysis transitions into alternative financing. The analysis includes studies from various researchers.

Next, I provide a comparison between formal and informal financing, with a concentration on the effects on small businesses. This information will help readers understand why small business owners tend to choose informal financing, as opposed to formal financing. Small business owners gravitate toward informal financing because funding is easily accessible. The convenience of informal financing comes with inherent risks.

I reviewed various types of business financing to show the main differences between the types of financing available to small businesses. The goal was to narrow down the financing choices for small businesses and help readers understand why leaders choose factoring as a primary source of funding their small businesses. Selecting funding sources depends on accessibility to credit. The research summarizes the overarching problem that small business encounter with funding options.

The strategy for searching the literature was a simplistic one. I first entered keywords about small business owners and their level of education into the Walden University Library database. Searching a mixture of terms returned pertinent results. The scope of the research became broad, and additional ideas for the study emerged.

The study includes attributes to success for the small business entrepreneur, after establishing a sufficient collection of literature. An understanding of prior research methods and designs helped questions emerge from the review of past literature. The strategy maintained throughout the research process for the review of the literature included researching the influence of financial decisions on the high failure rate of small businesses.

Systems Theory

The literature review includes components essential to successful business. A business is a system (Thygesen, 2012). Systems theory was the conceptual framework of the current research. Systems theory needs to have multiple conditions working in a cycle to be successful (Drack & Schwarz, 2010). Systems theory provides a good conceptual framework because the theory relates to multiple conditions working together for entrepreneurs to be profitable (Kaine & Cowan, 2011).

The reviewed literature addressed the significant components of the small business system through an entrepreneurial lens. The selection of finance methods has a direct influence on the success of a small business (Knudsen, 2010). Changes in the finance method can alter a small business owner's approach to its business. The strategy can change for the better and can change for the worse (Lending & May, 2013).

Financial Literacy

To most small business owners, accounting and financial management are monumental challenges (Halabi et al., 2010). Most small business owners avoid direct involvement in the financial management and accounting operations of their respective

companies (Collins, 2013). Halabi et al. (2010) investigated a group of small companies and their perspectives on financial management and accounting realities.

Halabi et al.'s (2010) phenomenological qualitative study explored what kind of financial information small business owners collect and use, if any. Halabi et al. conducted the study in an organizational setting and studied participants' real-time understanding of accounting to assess their financial literacy. The analysis revealed that small business owners had a basic comprehension of accounting information. Halabi et al. found problems with small business owners' financial literacy. For example, participants typically did not produce or review financial reports.

The results of the study showed participants would perform only informal assessments to narrow down their lack of understanding of business performance (Halabi et al., 2010). Participants used third-party accountants and tax expert services for general business advice (Halabi et al., 2010). Halabi et al. (2010) identified a gap between textbook and other financial literature, and the actual reality of accounting practices that exists within small companies.

Small business owners appear to have a widespread deficiency in financial literacy (Doi, McKenzie, & Zia, 2014). Monticone (2010) believed that a lack of financial literacy had a direct effect on a small business owner's ability to make financial decisions. Considering many small business owners have no more than a high school education, researchers have become interested in what kind of business education students receive in high school (Monticone, 2010). Hite, Slocombe, Railsback, and Miller (2011) studied the financial literacy of high school students in Kansas. Hite et al. found

that only 20% of the state-run schools mandated a personal finance course as a requirement to graduate high school. Twenty percent of the schools in Kansas did not comply with the state requirement to teach financial literacy (Hite et al., 2011). The conclusion made by Hite et al. was that local jurisdictions have more of an influence on financial literacy than actual financial institutions.

Even when students do attend a financial literacy course, they may not always know how to apply their education (Doi et al., 2014). Educators expected that financial literacy would positively affect financial knowledge and behavior, but researchers have not tested this assumption (Collins, 2013). Collins (2013) studied a small sample of low-income families. According to Collins, researchers randomly assigned families to a mandatory financial education program for 12 months. The results showed improvements in financial literacy, but only improvements in areas of savings and credit when the participant's education consisted of savings and credit (Collins, 2013). The study's weaknesses included a small sample experiment, bias, and noncompliance of participants (Collins, 2013).

Other studies supported the success of financial education, contingent on the actual individual. Doi et al. (2014) studied financial literacy programs and concluded that remittance-receiving households benefit the most from financial literacy programs. The study reviewed financial literacy programs that financial institutions have implemented to address the lack of savings of remittances (Doi et al., 2014). In contrast to Collins (2013), the study found that training migrant and remittance receivers did have a significant effect on participants' financial knowledge, with little to no bias in the results. The results

showed that financial education had a direct effect when conducted at a teachable moment, but that particular consequence varied largely, depending on who received the training (Collins, 2013).

If a business owner does not receive sufficient education in finance (in high school or elsewhere), this may affect the ability to access formal credit (Collins, 2013; (Nkundabanyanga et al., 2014). According to (Nkundabanyanga et al. (2014), researchers trace a business owner's lack of success back to the lack of knowledge of, and subsequent access to, financial products, such as credit protection. Nkundabanyanga et al. cited a strong link between business owners' levels of financial knowledge and their subsequent financial behavior. The financial behavior includes the business owner's ability to use banking products and available financial tools (Nkundabanyanga et al., 2014). Younger small business owners tend to seek out more financial education before they start their business, which gives them an advantage over older small business owners (Monticone, 2010). The young business owner's financial literacy has a positive contribution and elevation in their entrepreneurial skills (Oseifuah, 2010). Oseifuah (2010) stated that higher-level education specific to finance and business will have a significant positive effect on small business development for young entrepreneurs.

Ogola (2012) suggested that financial institutions have a social responsibility to help improve small business owners' financial literacy. Financial institutions demonstrate social responsibility by offering small business owners access to low-interest small business loans, as well as microfinancing. Small business owners in impoverished geographical areas can use low-interest loans to help finance their struggling businesses

(Paulet, 2011). Low-interest loan programs were a result of financial institutions' efforts to demonstrate unbiased financial education to small business owners (Ogola, 2012). Consumers could assume that banks should have a stake in improving financial literacy in their local societies (Paulet, 2011). Banks use social responsibility programs as a way to appear to add value to the community and incidentally increase shareholder value at the same time (Ogola, 2012).

To compare, some financial institutions focus on their risk adverse policies, rather than policies that benefit the public (Paulet, 2011). Conjectural and other financial structural problems led to historic crises, such as predatory loan practices (Paulet, 2011). In the last 30 years, systemic risk trended upwards (Paulet, 2011). As a result, communities pressured banks to practice better ethical behavior (Paulet, 2011).

Perrault and Clark (2010) agreed that communities should pressure financial institutions into more reporting activity and higher disclosure quality. Perrault and Clark provided a quantitative comparison reviewing financial institutions' disclosure quality. Based on the study's findings, Perrault and Clark pointed to a relationship between normative cultural pressures and the financial institutions' reporting quality. Perrault and Clark concluded that the relationship existed because of stronger regulation of financial institutions. The rigid regulation provides priority treatment of control agreements, which did not exist previously (Tokar, 2015).

Small Business Failure

In the United States, small businesses constitute a significant portion of the general businesses. As of 2011, small businesses accounted for 39% of the U.S. gross

national product and created 2 out of 3 jobs in the U.S. economy (Yallapragada & Bhuiyan, 2011). Small business owners require adequate financing and a set of skills to operate their small businesses efficiently (Bates, Lofstrom, & Servon, 2011). To operate a business successfully, small business owners need access to sufficient capital (Ambrose, 2012). According to a study by Yallapragada and Bhuiyan (2011), the biggest contributors to small business failures in the United States are the owners' poor business skills, lack of access to adequate capital, and the SBA's questionable loan programs. Researchers have attributed small business failures to the size, location, or the age of the business (SBA, n.d.). Williams (2014) conducted postmortem examinations of the fundamental attributes of the business. Williams analyzed more than 13,000 failed firms in the United Kingdom over a span of 10 years. The results showed that small business failures linked to the lack of resources (Williams, 2014). Williams stated that scholars need further research to study small business owners' competencies and goals.

According to M. Hunter (2011), other researchers suggested that a small business owner's outlook and attitude play a part in a small business's failure. Comparative optimism is a form of optimistic bias that business owners demonstrate when they view other business owners as more vulnerable to failure than they are themselves (P. Harris, Griffin, & Murray, 2008). Milhabet and Verlhiac (2011) suggested that comparative optimism is healthy and helps most people to function in society. Comparative optimism can be a function of sustainable emotional fortitude. Small business owners who demonstrate comparative optimism could be more prone to failure. Small business owners do not believe they can be a victim of a failed business (Ucbasaran, Westhead,

Wright, & Flores, 2010). Studies have not been able to indicate that comparative optimism was a cause of small business failure (Geers, Wellman, & Fowler, 2013).

According to M. Hunter (2011), some researchers cited U.S. government regulation and business owners' compliance as a potential cause of small business failure. Ejrnaes and Hochguertel (2013) stated if business owners comply with government regulations, that this may hurt the business. According to Ejrnaes and Hochguertel, employees will intentionally become unemployed to take advantage of the policy. The results of M. Hunter's study showed small business owners who carried unemployment insurance for their employees were 2% more likely to fail and become unemployed when compared to the businesses that were uninsured. In a relative study, Jost (2102) found that the Affordable Care Act placed new pressures on small businesses to remain compliant. The success or failure of small businesses may be contingent on how states choose to handle the challenges faced by small businesses (Jost, 2012).

After failure, some entrepreneurs choose to reenter their industry by starting a new business (Yallapragada & Bhuiyan, 2011). Reentry happens less often because of negative social sanctions (Simmons, Wiklund, & Levie, 2014). According to Fujiwara (2013), researchers are curious to discover what distinguishes small business owners who decide to restart from those who do not choose to do so.

Olaison and Bent Meier (2014) conducted an empirical investigation analyzing the thought processes of business owners who had failed in their businesses but considered their failures positive. Despite the failure of their companies, small business owners provided justification for their misdeeds and actions (Olaison & Bent Meier,

2014). Olaison and Bent Meier identified a need for further research into the questionable areas of business ownership to extend the understanding of why businesses fail.

In contrast to the findings of Olaison and Bent Meier (2014), Cope (2011) found that many entrepreneurs reemerged from failure as part of their distinctive learning processes. The reemergence leads to the pursuit of higher learning. Cope provided qualitative research on entrepreneurs who learned from their failed ventures and returned with a surge of urgency attributed to their increase in knowledge and experience. The increase in the small business owner’s financial literacy was also a factor that contributed to their ambitions (Cope, 2011).

Studies of small businesses have indicated a pattern of symptoms leading up to company failure (Franco & Haase, 2010). The primary attribute to small business failure was executive managements’ lack of focus (Beams, Hua-Wei, & Yun-Chia, 2013). Executive management holds accountability for business failures because they often do not focus on critical business situations (Beams et al., 2013). Another reason for a small business failure was executive management incompetency (Gandy, 2015). Sometimes, executive management fails to carry out repair actions, leading to the company’s collapse (Atamian & Van Zante, 2010). New problems can emerge during the process of business growth. Managers may not identify new problems promptly (Simmons et al., 2014). A manager’s inabilities to identify symptoms of failure increase the number of crises and can induce unintentional financial distress (Ropega, 2011).

A business owner may not realize that he or she was the primary cause of the business failure (Yanamandram & White, 2012). Cardon, Stevens, and Potter (2011)

conducted a study and examined cultural views of capital venture failure. Cardon et al. explored small business owners' accounts of failures and series of misfortunes that the business owners perceived as out of their control. Cardon et al. collected reports of business failures for 2 years from various national newspapers. The analysis showed that entrepreneurs attributed their failures to their local environment, as well as their personal performance and understanding of themselves about their business.

In 2006, researchers attempted to build prediction models to understand business failure better (Ropega, 2011). Some of the researchers set out to prove the existence of significant nonfinancial factors using logistic regression (Cardon et al., 2011). Maria-Jesús and García-Gallego (2012) used financial and nonfinancial data to predict venture failure. The results showed that the study's inclusion of non-financial data helped to predict business failure (Maria-Jesús & García-Gallego, 2012).

From small business owners' perspectives, no predictive model can take the place of their intuition and instinct (Yildirim, Akci, & Eksi, 2013). Using the five-factor model of personality, Farrington (2012) conducted a qualitative study and examined the personality traits of a sample of small business owners in South Africa. Farrington found that small business owners who scored high marks in the five personality traits were more likely to be self-employed (Farrington, 2012). Hogarth and Karelaia (2012) supported Farrington's findings. Hogarth and Karelaia found that a business owner who had high confidence would enter the market successfully. Business owners who were too confident were more likely to fail (Hogarth & Karelaia, 2012). By contrast, entrepreneurs who were under-confident experienced judgmental fallibility (Hogarth & Karelaia, 2012). Based on

Hogarth and Karelaia's study, one could conclude that certain personality traits and the right level of confidence can help a business owner succeed. The absence of the traits can lead to business failure.

Other studies identify factors that result in business owners' poor performances and eventual business failure (Yallapragada & Bhuiyan, 2011). Yallapragada and Bhuiyan showed that cooperation and networking are necessary factors in sustaining a healthy business. Franco and Haase (2010) performed a qualitative analysis and concluded that besides external factors, internal factors also lead to failure. According to their study, Franco and Haase interviewed small business owners and managers, who conceded that their internal weaknesses resulted in the demise of their businesses.

To understand better the common causes of small business failures, one could ask bankruptcy professionals (Beams et al., 2013). The perspective of a bankruptcy professional was necessary because they have direct access to failed business models (Beams et al., 2013). Bankruptcy experts interview, as well as interact with, small business owners who have failed ventures. M. Hunter (2011) used the qualitative approach narrative inquiry to document the comments of three bankruptcy professionals and their experiences with 12 different small businesses. M. Hunter suggested that the small business owner should be primarily responsible for being proactive dealing with controllable issues, equally responding to the issues out of their control. M. Hunter further suggested that a small business owner must remain engaged in the business and maintain his professional passion.

From a bank loaner's perspective, the ideal business profile includes a high growth business free of survivorship bias (Berger & Black, 2011). Banks loan to companies who can demonstrate, beyond a doubt, a capability of servicing their debt capacity (Mitchell & Pearce, 2011). Empirical evidence showed that profitable firm owners prefer to finance their businesses with retained earnings (Vanacker & Manigart, 2010). Unprofitable small businesses rely on financial services such as credit (Piatti, 2014) and asset-based lending (Krantz, 2012). Banks are paradoxically less likely to loan to small business owners because of constraints brought on by small businesses' debt capacity (Enyang & Leinberger, 2012).

Bankers consider the size, sales volume, stability, and the legal formation of a small business to determine the type of services they will finance (Bates et al., 2011). Yildirium, Akci, and Eksi (2013) supported the hypothesis that larger firms have a higher probability of accessing credit when compared to smaller firms with lesser attributes. Larger firms can also strengthen their bargaining power because they can influence the likelihood of the liquidity by choosing a preferable capital structure (Franck & Huyghebaert, 2010).

Certain banking methods, such as risk assessments, indicate questionable profiling practices and accusations of discrimination (Mijid & Bernasek, 2013). Marcellina Mvula (2011) claimed that bankers could reduce their amount of nonperforming loans if they employ an analysis called multiple discriminant analysis (MDA). Marcellina Mvula stated that the MDA works better as a credit scoring method than the traditional risk assessment process. This improvement is because of higher levels

of predictability, and the MDA can correctly classify small businesses with credit worthiness (Marcellina Mvula, 2011).

When examining the data about small business failure, one must question the biases and validity of such data. For example, Cader and Leatherman (2011) believed that past researchers of small firms' failures sometimes reached erroneous conclusions. According to Cader and Leatherman, previous researchers only used information about surviving firms for their research and excluded firms that had failed. The peer-reviewed study conducted by Cader and Leatherman provided evidence that past researchers may have omitted information about companies that dropped from databases over a period. This loss of data may have led to the erroneous belief that half of all businesses in the United States survive after 4 years (Cader & Leatherman, 2011). This evidence is one example of how data can be misleading; researchers need to examine past studies about business failure. Lack of data increases the gap in the confidence of a study, which may eventually discredit a researcher (Abrams, 2010).

Pros and Cons: Comparative Analysis

According to Ambrose (2012), researchers wonder if factoring invariably helps or hurts small businesses. I explored this question throughout the doctoral study. A myriad of researchers compared and contrasted the answers to such a question. Small sized businesses most often rely on outside funding for survival (Ambrose, 2012). Before the practice of factoring became widespread, the traditional route for a small business owner to retrieve funding was to obtain conventional loans via banks and other similarly established institutions (Hopson & Hopson, 2014). The practice of factoring was

lucrative to small business owners. Factoring was more accessible than traditional bank financing (Keasey et al., 2014).

Some studies indicated that factoring may hurt small businesses and is not the end-all answer to financial woes, as pro-factoring factions have suggested (Brunnermeier & Oehmke, 2013). Some researchers even suggested that accounts receivables are not as creditworthy as many financial experts would dictate (Benea & Duma, 2013). Benea and Duma noted that other forms of securitization would be more beneficial to a business in securing funding, rather than that of accounts receivable methods like factoring.

Other essential components of invoice factoring are the average collection period and aging schedule of accounts receivables' collection performance (Katz, 2011). While the aging and collection components are relevant, the components are also inefficient in providing the full scope of performance measurement (Katz, 2011). Metrics requires refinements to achieve a full and robust analysis of measurement (García-Teruel & Martínez-Solano, 2010). With respect to the aging schedule, accounts receivable values should relate to their original credit sales (Guenther, 2011). When calculating the average collection period, the financier should divide the balance of accounts into age categories. The financier should match the categories with the respective credit scales (Leitch & Lamminmaki, 2011).

The culmination of increased competition on the global market led to business owners' decisions to use international factoring (Callender, 2012). Small and large business owners decided to use factoring as an alternative financing method (Callender, 2012). The shortage of financial resources determined by the 2008 financial crisis also

influenced business owners' decisions (Callender, 2012). International factoring eases much of the credit and collection burden. International sales created such a burden (Callender, 2012). Lenders provided financing using advances against outstanding accounts receivables (Sawicki, 2013). International factoring has significant potential as a means of financing cross-border transactions. Businesses located around the globe can benefit from cross-border transactions (Giurcă Vasilescu, 2010).

To take advantage of international factoring, proponents must make efforts on a global scale. The collective efforts include integration of factoring transactions internationally. Zerbini (2014) suggested the removal of overwhelming legal obstacles to such financing practices and creating the international assignment of accounts receivables. Such a creation makes factoring a more accessible form of financing worldwide (Zerbini, 2014). The future challenge for company owners will be to maintain their flexibility. The company owner will need to react quickly to ever-changing market circumstances (Giurcă Vasilescu, 2010).

When firms enter financial distress, their ability to raise financing is limited. The investors' fears of default on behalf of the firm keep investors from extending funding to such firms (Bode et al., 2013). Trade Credit, which refers to financing provided by suppliers in commercial transactions, becomes a business owners' alternative source of short term funding. Many corporations and small businesses take advantage of Trade Credit (Molina & Preve, 2012). Small business owners typically substitute Trade Credit for traditional sources of financing when they cannot obtain the latter (Wu, Firth, & Rui,

2014). Giannetti, Burkart, and Ellingsen (2011) suggested that small business owners are more likely to use Trade Credit when they are under significant financial restraints.

Wu et al. (2014) noted that small businesses typically have weaker banking relationships than that of other firms. During the 2008 global economic crisis, traditional sources of funding were unavailable or unattainable to a wider pool of firms, so Trade Credit re-emerged as a means of financing for many firms (C. Harris, 2013). Financially distressed firm owners experience problems with their suppliers when using trade credit. Suppliers observe the use of trade credit as a risk and require cash payment in advance (Molina & Preve, 2012).

Two factors contributed to business owners' growing implementation of international factoring. The increase in competition for funding and the lack of financial resources post the global economic crisis of 2008 (Ramesh, 2013). International factoring eases much of the credit and collection burden created by international sales and financing (Nistor & Popescu, 2013). International factoring also provides business owners with a means of advances against outstanding accounts receivables (Seifert & Seifert, 2011). A business owners' use of international factoring offers many advantages to both importers and exporters, but, at the same time, presents some limits (Giurcă Vasilescu, 2010).

Alternative Financing

During the process of new venture creation, business owners consider many financing options (Atherton, 2012). Their actual selection depends on the business owner's level of financial literacy and access to capital (Collins, 2013). Formal types of

small business finance seem accessible. Researchers demonstrate that formal financing is not always accessible (Wahid, 2013). Informal forms of small business finance are accessible. Financiers do not widely publicize or market informal forms of financing through public channels or common advertisement methods (Xiao, 2011).

Many new business owners start their ventures with low levels of capitalization (Atherton, 2012). Atherton suggested that a low level of startup money was a strong determinant of the low probability of the businesses’ survival. Atherton identified this phenomenon as a financing deficit. Frishberg (2013) cited various ways that a small business owner could raise capital to avoid a deficit. A business owners’ consideration of alternative financing could reduce the cost of startup and attract better capital investments from a wide spread of investors for a fast-growing business sector (Atherton, 2012).

According to Hopson and Hopson (2014), some researchers cited business owners’ use of alternative financing as using rollover funds. Using financial planners as a gateway into owning their business, some entrepreneurs access their retirement accounts as a significant source of funds to start the purchase of a new business (Hopson & Hopson, 2014). Alternatively, risk sharing includes characteristics, which are desirable methods of financing (Shaukat, 2013). Risk sharing is in direct contrast to the economic uncertainty that comes with using interest-based debt financing, especially during a financial crisis (Shaukat, 2013). Studies show that small business owners are more likely to apply for alternative external financing (Shaukat, 2013). Alternative financing options include Trade Credit and other forms of informal lending (Casey & O'Toole, 2014). State and federal governments regulate small businesses (Kirschenmann & Norden, 2012).

Unlike government entities and nonprofit organizations that rely on government grants, small business owners must access their funding (Yallapragada & Bhuiyan, 2011). Entrepreneurs have to think in a strategic manner regarding funding their dreams with little or no access to capital (Okojie, 2010).

Business owners' use of factoring as a means of raising capital for their businesses is not a new concept. Factoring, also known as asset-based lending or short-term financing, is an alternative funding method that dates back as far as the 14th century (Krantz, 2012). The notion of implementing factoring to fund projects regained popularity in the latter part of the 20th century. The United States, Europe, Latin America, and many other developing economies throughout the world implement factoring (Krantz, 2012). Global businesses primarily use factoring services for solving cash flow issues within a small business (Krantz, 20102). As the small business community moves toward economic globalization, factoring has become more of the rule rather than the exception (Giurcă Vasilescu, 2010).

Because of the immediacy of cash flow that factoring can generate, this method of financing resurged in popularity during the 2008 global economic crisis (Molina & Preve, 2012). Many small businesses struggled to make ends meet to maintain economic stability and liquidity. During the global economic crisis, many small businesses worldwide were limited in their access to financing opportunities (Leitner & Stehrer, 2013). For many small business owners, factoring sounded like a godsend for struggling companies. Factoring services seemed to help companies remain solvent in rough economic waters, especially in developing nations that already had a bevy of economic

hurdles to overcome (Mbatha, 2012). Business owners may view factoring as the short-term financing answer to fix long-term cost and expense issues (Perman, 1984).

As supply chain financing services grow in popularity, the need for modernization and automation of processing payables and receivables increases as well (Kocan, McKiou, Pandya, Hernandez-Herrero, & Theodore Freuler, 2013). The need for processing receivables financing must be as effortless as that of processing a letter of credit from a traditional financing institution (Wuttke, Blome, Foerstl, & Henke, 2013). Such processes must become more mellifluous in the manner in which they assess, share, and disseminate data. Alternative methods of financing become more accessible to the business owners (Casterman, 2012).

Real-time financing is an easier process for small businesses to receive financing on their accounts receivables. Lenders can more easily automate their process of financing (Leitner & Stehrer, 2013). The foundation of real-time financing is a collaborative effort for standardizing invoice payment statuses. Real-time financing places the participants in a legal, binding, and trustworthy business relationship with one another (Nienhuis, Cortet, & Lycklama, 2013).

The contribution of logistics to corporate performance has increased since 2001 (Kocan et al., 2013). This phenomenon is primarily because of supply chain financing innovations (Wuttke et al., 2013). Supply chain financing (SCF) targets the financial flow and allows buying firms and their suppliers the opportunity to increase working capital while reducing costs (Leitner & Stehrer, 2013). The process of financiers adopting SCF is

complex and unexplored in academia (Cavenaghi, 2013). Financiers must address several propositions when exploring the innovations of SCF.

When compared to SCF, factoring has little risks (Martini & Morse, 2012). Factoring funds the invoicing terms and not the hard assets (Martini & Morse, 2012). Repayment of debt is close to certain therefore significantly reducing risks for the financier (Cavenaghi, 2013). When a financier recognizes that they will receive payment, this recognition constitutes a two-fold effect (Martini & Morse, 2012). Compared to SCF, factoring allows small business owners the access to flexible forms of financing (Cavenaghi, 2013). The flexible financing supports business owners' efficient management of working capital (Martini & Morse, 2012). Financiers release substantial amounts of cash that could not be as readily available to the supply chain (Cavenaghi, 2013).

Traditional lending institutions, such as banks, tried to address the needs of small business owners. Banks contributed to the needs of small business by issuing conditional payment guarantees or standby letters of credit (L / C). A process called business payment obligation (BPO) stands in as an electronic interbank conditional promise to pay (de Meijer & Menon, 2012). BPO also offers comprehensive and cost-effective risk mitigation and financing tool for all trading counterparts (Kocan et al., 2013). Bankers who needed to prepare for such innovation began offering services like invoice processing and reverse services. Payment assurance, risk mitigation, and risk finance are examples of reverse services (Leitner & Stehrer, 2013). Bankers responded better to important issues for entrepreneurs such as delayed payments and dealing with (L / C) or

open accounts (Kocan et al., 2013). Bankers increased credit processing and enabled buyers to optimize credit lines, reducing costs of handling and inventories (de Meijer & Menon, 2012). Buyers avoided supplier defaults by facilitating pre-shipment finance without using their capital (Casterman, 2012).

According to the principles of Supply Chain Finance, the information logged in the buyer's trade payable records is very precious. Financiers can use the payable records to unlock new financial resources for the entire business chain (de Meijer & Menon, 2012). If financial institutions have access to information about approved payables, supply chain financing becomes the basis of a flexible and convenient form of funding for suppliers (Cavenaghi, 2013). The buyers confirm the invoices, eliminating any residual risk concerning the commercial validity of a debt by the banks (Stone et al., 2013). The seller views this as 'clean trade receivables,' i.e. trade credit that the debtor pays in full without any deduction or objection related to the performance of the vendor (C. Harris, 2013).

Bankers can purchase receivables from suppliers and immediately advance funds to the suppliers. The banks, deduct a fee that represents the cost of financing the invoice amount for the period between the bank's payment and the actual invoice due date (Lewis & Ross, 2014). When the invoice reaches maturity, the banker usually debits the buyer's account and collects the full invoice amount. This process moves the risk entirely from the seller to the buyer, meaning that the bankers can effectively fund the suppliers without booking any credit limit on them (Cavenaghi, 2013).

Formal Financing

At a glance, formal financing consists of traditional bank loans by entrepreneurs (Wahid, 2013). Studies showed that small businesses owners who use formal financing, such as bank loans, grow their businesses faster (Jimenez, Salas-Fumas, & Saurina, 2011). Most small business owners have limited access to formal financing (Wahid, 2013). When one compares informal financing services to formal financing, one would recognize the limited advantages of formal financing (Ayyagari et al., 2010). Those limited advantages do make formal financing worth the risks for small business owners to pursue (Yiu, Su, & Xu, 2013).

Business experts consider cost factors in the formal credit market to have advantages when compared to the informal credit market (Estrin & Prevezer, 2011). In the formal credit market, transaction costs are high, and the repayment rates are low (Jimenez et al., 2011). This finding is in direct contrast to the informal markets, which have low transaction rates, but higher repayment rates (Reynolds, 2011). Wahid (2013) cited advantages to formal institution subsidization by government groups.

Informal Financing

Ayyagari et al. (2010) research cited informal financing might help a small business grow better than formal financing, such as bank loans. In underdeveloped areas, informal financing institutions serve as a replacement to formal financing institutions (Ayyagari et al., 2010). This evidence creates a demand for informal financing products (Donoso, Altunbas, & Kara, 2011).

Estrin and Prevezer (2011) found that certain groups of people found it more difficult to access funding from formal institutions. Specifically, bankers exclude the less educated and indigenous groups of people from being financed (Donoso et al., 2011). Informal institutions are not like formal institutions; informal institutions are non-subsidiary and do not receive support from donor agencies (Wahid, 2013). Informal institutions are flexible in their loan practices. Informal funding institutions can loan to demographic populations who cannot access funding from financial institutions (Donoso et al., 2011). The informal institutions can set liberal repayment terms. Informal institutions tend to be predatory (Donoso et al., 2011; Reynolds, 2011).

Business owners need to create options for themselves to avoid lenders' predatory practices (Mitchell & Pearce, 2011). A small business entrepreneur may be susceptible to fall into a predatory lending arrangement because he or she does not have strong enough credit to obtain financing through formal institutions (Mueller & Reize, 2013). Jimenez et al. (2011) argued that a business owner's collateral had a direct correlation with his or her credit strength. A small business owner's credit quality can determine if the business owner eventually falls into a formal or informal lending arrangement (Wahid, 2013).

A plethora of evidence exists in support of regulatory changes (Kontus, 2012). The same evidence indicates the challenges keeping up with the demands of the changing market of Short-Term and Supply Chain Financing (Cavenaghi, 2013). The challenges include the financing method of invoice factoring (Kontus, 2012). During the financial crisis of 2008, the debate about the role of the accounting profession focused on market-to-market accounting rules (Kroszner & Strahan, 2011). Other weaknesses in the

accounting rules as applied to securitizations predated the 2008 crisis (Kroszner & Strahan, 2011). The accrual system that underlies all accounting allows revenues to be in advance of cash flows but requires reserves on receivables (Kontus, 2012). Similarly, the fair value system books unrealized gains but fails to recognize reserves explicitly. In illiquid markets, business experts have to base fair value estimates of internal models. Compensation arrangements related to fair value estimates create a perfect setting for managers to increase their compensation by inflating asset values (Glendon, 2013). According to Ozaki, Lo, Kinoshita, and Tzeng (2012), researchers proposed a method of recognizing fair value reserves that build on existing practice. Such reserve accounting, an application of conservatism, will mitigate pro-cyclical swings in fair value estimates and reduce incentives for overly optimistic asset valuations (Bryan, Lilien, & Sarath, 2010).

Sophisticated institutions dominate the post -2008 financial landscapes (Kroszner & Strahan, 2011). The complexity of the institutions relates to a gradual financial deepening. The financiers have paid dividends by improving risk management, creating competitiveness of financial markets, lowering the cost of capital, and increasing economic growth (Brunnermeier & Oehmke, 2013). With significant rewards come great risks. Those financiers in favor of regulatory reform should not strive to preserve the business environment. The financiers should improve the stability of this interconnected financial system by minimizing regulatory arbitrage and increasing the transparency of the entire financial system (Kroszner & Strahan, 2011).

As one example, in Poland, factoring agreements are for external financing that the government does not regulate (Sawicki, 2013). Polish law does not allow a so-called global transfer of receivables (Sawicki, 2013). Considering the data of the debtor(s) transmits to the factor, data protection issues could arise if natural persons were among the debtors (Ropega, 2011). The parties to a factoring arrangement may either exclude receivables from natural persons. Parties may exclude the natural person from the transfer. In businesses where most debtors are natural persons, the parties may seek alternative solutions such as data encryption (Sawicki, 2013). Many entrepreneurs remain very concerned about the notification of their clients. Certain industries perceive a business that factors its debts as being in financial distress (Ropega, 2011). In contrast, financiers refuse to accept any compromise in this regard and insist on notifying the debtors to ensure they can validly claim payment from them (Sawicki, 2013).

Types of Financing

The most popular forms of financing are small business bank loans and venture capital (SBA, n.d.). Venture capitalists do not operate through the regulated banking system. Small business owner's access to venture capital is important (Ambrose, 2012). Ambrose's (2012) study showed that small business entrepreneurs are not aware of venture capital opportunities, and they do not possess the education to understand the pursuit of venture capital. One should note that small business owners usually associate with other small business owners and only have the awareness that goes the extent of their immediate network (Yallapragada & Bhuiyan, 2011). Most small business owners pursue the traditional small business loan because that type of loan is the only formal

financing of which they are aware, besides bootstrapping (Jonsson & Lindbergh, 2013). Bootstrapping is a form of self-financing a business (Geppert & Dudney, 2013). Entrepreneurs use bootstrapping to help grow their businesses by using their personal financial resources (Chin-Sheng, Zheng-Wei, & Cheng-Wei, 2012). After achieving success with their business, entrepreneurs usually pursue formal financing, most likely small business loans (Orobia, Byabashaija, Munene, Sejjaaka, & Musinguzi, 2013).

Small business owners seeking business loans find the lending process complicated (Orobia et al., 2013). Business owners have to develop strong business plans. The business plan must lay out all scenarios that need attention and must assess how much the business will cost (Orobia et al., 2013). Business plans become the blueprint for the business (Perry, 2001). Business professionals believed that business planning is the determinant to a successful small business (Ucbasaran et al., 2010). In a quantitative study by Perry (2001), business owners who did not close their doors possess stronger business planning experience. Considering the business plan provides a roadmap for the financial proposal, small business owners who create an effective business plan are likely to have better access to formal lending institutions (Haag, 2013). Haag (2013) stated that small business plans should address the concerns of the financial institution by highlighting the major areas of concern and stating how funding will contribute to the success of the business.

The small business loan is the most common type of formal financing for the entrepreneur (Berger & Black, 2011). In this doctoral study, I explored why small business owners do not use this method of financing, considering that small business

loans cost less than informal financing, such as factoring. Some studies indicated racial discrimination by financial institutions (Mijid & Bernasek, 2013). Mijid and Bernasek (2013) provided a quantitative study, using a non-linear model and Binder-Oaxaca method to observe minority-owned and white-owned firms. Though the Mijid and Bernasek found evidence of discrimination, they suggested a further study on the findings of the 24% loan denial rate across the entire sample of their study.

For small businesses, mezzanine financing can be a formal or informal type of financing (Wahid, 2013). When a small business owner uses formal financial programs in conjunction with mezzanine financing, his or her small enterprise performs better (Mueller & Reize, 2013). Mueller and Reize (2013) stated that small business owners have better success when executing on the terms of an equity loan such as mezzanine financing when comparing the performance of traditional small business loans. Mezzanine financing entitles the lender to shares of a company as collateral for the loan (Amon & Dorfleitner, 2013). Business owners mainly use mezzanine programs concurrently with bank loans in venture capital agreements. Compared to using mezzanine financing, venture capital or a bank loan is the senior debt (Amon & Dorfleitner, 2013). Mezzanine financing is the subordinate debt (Amon & Dorfleitner, 2013). Typically, mezzanine finance is the lesser priority compared to business debt (Hartmann-Wendels et al., 2011). A financial crisis historically has an influence on terms issued by mezzanine financing companies. Lenders issue contract terms in such a way that the borrower must make repayment of the mezzanine the highest priority (Amon & Dorfleitner, 2013).

Microfinancing is a concept practiced from the independence of the United States (Aigbokhan & Asemota, 2011). The practice of microfinancing is a long-standing institution. Consumers criticize the ethics of microfinancing because and say microfinancing lacks regulation (Bayar, 2013). Microfinancing loan amounts correlate with the borrower's creditworthiness and ability to provide collateral (Aigbokhan & Asemota, 2011). Despite the ethical implications of microfinancing, Mutai and Osborn (2014) argued that micro-financing programs are a social credit, especially for women-owned businesses. Financial experts considered microfinancing an informal form of business finance because consumers of microfinancing loans are typically of a low-income demographic (Hudon & Sandberg, 2013). In the practice of microfinancing, lenders award small amounts of money to low-income business owners and startups located in underdeveloped areas (Hudon & Sandberg, 2013). Repayment terms of microfinancing loans relate to traditional small business loans. Ninety percent of microfinance loans are in the United States (Aigbokhan & Asemota, 2011).

Unlike microfinancing, crowdfunding is a popular method of financing startup businesses. Crowdfunding is a method of finance that allows entrepreneurs to see various small loans and grants to start up their businesses (Brown, 2014). The loan amounts range anywhere from $2000-$100,000. For many micro-businesses or owner-operated businesses, crowdfunding provides plenty of capital to start up (Lindquist, 2012). The problem with crowdfunding compares to obtaining grant money. Typically, the business model has to suit a particular purpose or provide some grassroots (Lawton, 2013).

Asset-based lending (ABL) programs involve lenders loaning money to small businesses and secured loans based on their assets (Modansky & Massimino, 2011). An asset-based loan is set up as a revolving line of credit (Featherstone, 2010). Companies that sell products and will carry inventory would benefit the most from this type of loan program (Vig, 2013). One could consider asset-based lending programs long-term loans (Krantz, 2012). A small business owner can use ABLs as the business's primary source of funding (Scolaro, 2013). A major advantage of using an asset-based loan is the growth solution for small business leaders (Featherstone, 2010). Martini and Morse (2012) argued that ABLs are useful products in the capital market. Study results indicated that new entrants do not use the ABL program (Martini & Morse, 2012). The company owners who engage in an ABL have little or no exit strategy (Martini & Morse, 2012).

A major disadvantage of an ABL is that the credit amounts approved for the entrepreneur's loan are proportionate to the entrepreneur's available collateral (Martini & Morse, 2012). In the case of small businesses, the lender bases the amount of collateral on the tangible assets (Ronson, 2010). If a small business does not have enough tangible assets, an asset-based loan will not work as a sustainable financing solution (Krantz, 2012).

ABL have several hallmark characteristics, including ensuring that the borrowers own collateral and can liquidate assets if required (Scolaro, 2013). Lenders must conduct several processes to verify collateral and liquidity. First, they need to accrue primary security interest in a defined pool of assets. Second, the must limit the amount that a company can borrow to a percentage of its value (less than 100%) of a portion of the

collateral. The lenders must also possess the right to restrict borrowing availability through the imposition of reserves in certain circumstances. Last, they must use stringent monitoring processes (Krantz, 2012). In many cases, the lenders have the right to make extraordinary termed and protective capital advances (Modansky & Massimino, 2011). Such capital advances allow lenders to inject rescue capital into the company to protect the existing capital advances. The value of the collateral receives the same protection. The capital advances allow the borrower to continue operating (Cummings, Thompson, & Paparo, 2010).

Another finance option for small business owners is accounts receivables financing. This financial program loans money to small business owners. The accounts receivable secure the loaned money (Pushkina, 2014). Accounts receivables financing helps small businesses that do not sell products or carry inventory (Katz, 2011). This type of financing is ideal for companies who sell services (Ahn, Amiti, & Weinstein, 2011). Accounts receivables financing is a short-term endeavor, and lenders usually implement it to help companies in financial distress. The amount of accounts receivables acts like borrowing base (Benea & Duma, 2013). If a company has a small amount of billing, accounts receivables are low and so is their borrowing base (Shannon, 2012). When a business owner uses this program as a primary source of funding, and it indicates that the business is in a variation of financial distress. The irony implementing this program is that the program helps cash flow problems, but signals to formal banking institutions that a company is experiencing cash flow problems (Katz, 2011). Using accounts receivables

financing can limit small business owners' options to borrow much-needed capital by imposing a paradox of financial implications (Pushkina, 2014).

In contrast to asset-based lending and accounts receivables programs, invoice factoring is an informal form of finance. Invoice factoring is the faster path to cash than accounts receivables program though the two programs are very similar (Callender, 2012). Just like accounts receivables financing, factoring can be used to solve cash flow issues (Perman, 1984). Factoring is the actual selling of an invoice to a third-party financier. Essentially, factoring is a financial transaction that allows the small business to sell their accounts receivables for cash for a fee (Chen & Chen, 2012). Factoring can be advantageous in times of financial distress (Atherton, 2012).

Transition and Summary

Section 1 was an introduction to the business problem and purpose of the research. The purpose of the literature review was to concentrate previous research and provide commentary about small business leaders and their available options for small business financing. The goal was to narrow down the complexity of the financing options to show why entrepreneurs tend to select the more risky and available financing options. The literature reviewed showed challenges encountered by small businesses.

According to Moustakas (1994), understanding finance was a problem for the average small business owner. A small business owner's capability of successfully running a business may depend on the respective level of financial literacy. Moustakas showed that a correlation existed between a business owner's level of financial education and the success of the small business. When confronted with financial decisions, small

business owners tend to show an aversion to solving financial problems. This aversion can lead to financial distress and failure down the road (Moustakas, 1994).

Location and size are contributors to small business failure. Researchers showed that a small business leader’s lack of competency contributed to a business failure. An owner’s lack of planning skills and failure to incorporate organizational leadership resulted in the breakdown of several small businesses. Last, the lack of access to proper capitalization proved to be a contributing factor to the financial distress and eventual demise of a company.

Business experts do not consider the practice of factoring accounts receivables to be the same as a loan (McNulty, Murdock, & Richie, 2013). McNulty et al. believed that factoring is a growing phenomenon that most small business owners use as a primary source of funding a small business. Similar to ABL, factoring comes with a higher than the usual interest rate and sometimes the maximum interest rate that the law allows. As of 2015, no regulation on factoring exists. This lack of regulation and liberal application of high-interest rates on factoring restricts a business’s growth.

Most financial institutions that sell factoring services advertise factoring as a method to improve cash flow to small businesses. This kind of advertising was deceptive because the advertising promotes the positive aspect of factoring, which makes factoring difficult for small businesses owners to resist. Factoring becomes a treadmill, and entrepreneurs risk relying on factoring for a long period. The small business owner did not fully understand the limitations factoring can impose on business growth.

Small business owners who desperately need funding to start or sustain their businesses, often pursue the easiest path to solving this complex issue. Their lack of understanding about their financial options plays a significant role in driving the factoring industry to higher revenues. Business owners can benefit from a broader education, as well as an advocate who will explain the reality of implementing informal expensive financial options such as factoring.

The second section of this study includes detail of the research method and design used to collect and review the participant information. I also reviewed the population and sample of participants. Section 2 includes steps required to ensure reliability and validity.

Section 2: The Project

The purpose of this qualitative case study was to explore the information small business need to understand the effect of invoice factoring on the business. The upcoming section provided a framework for the qualitative research. I explained my role as the researcher, described the chosen research design, explained the population and sampling strategy, and discussed the data collection and analysis procedures.

Role of the Researcher

In a qualitative study, the role of the researcher is that of an explorer (Bishop, 2012). I related to this study as a student of business science, and as an entrepreneur who has been a business leader for most of his professional career. My goal was to seek answers to scholarly questions and to uncover areas for further research, as discussed by Sheppard (2015).

Through years of experience as a small business owner, I found that while alternative business financing strategies were attractive to entrepreneurs, some business owners did not fully understand the concept. The small business owner lacks the theoretical knowledge necessary to make informed decisions. The lack of financial knowledge attracts the small business owner toward the simple access to alternative financing (Tokar, 2015).

The goal of this study was for the results to help researchers to understand the experiences of small business owners in factoring relationships. Management teams can use this information to learn about alternative forms of financing, in particular, the use of factoring services to serve as funding for small businesses. A researcher always brings

personal biases, opinions, and knowledge based on prior experiences, which presents the risk of researcher bias (Sheppard, 2015). I avoided reference to my personal experiences and biases during the interview process and managed the issue of researcher bias by projecting an attitude of neutrality during the interviews (Lietz & Zayas, 2012). This process involved taking caution to avoid giving verbal or nonverbal cues signaling agreement or disagreement, or approval or disapproval of the opinions and experiences shared by the participants during the interview. The interview protocol is located in Appendix B.

The role of the researcher also includes conducting ethical research. The Belmont Report (1979) provides a summary of ethical principles to follow when conducting research on human subjects. The Belmont Report clarifies the differences between research and the practice of ethical principles. The role of the researcher follows all principles set forth by the Belmont Report specifically the principles of respect of persons (U.S. Department of Health & Human Services, 1979).

Participants

Participants were in three groups of individuals. The first group was a small group of business leaders who elected to use factoring as a form of alternative financing. The second group were finance managers of small businesses funded by invoice factoring. The third group were managers who administered factoring programs to small businesses. As the researcher, I used a purposive sampling approach (Harrison, 2013; Palinkas et al., 2013).

As part of recruitment procedures, I recruited potential participants through social sites such as LinkedIn, Facebook, and Twitter. Online subscriptions for membership access to particular business groups on the social media outlets were required. For example, LinkedIn business groups such as Small Business Solutions and Finance Brainstorm. Special discussion forums on the SBA website were another source to recruit participants. The membership base consisted of entrepreneurs seeking SBA loans. The small business owners collaborate with finance profiles to explore business-financing options (Sibona, 2012).

All participants were local to the domestic United States. I collected data through Skype interviews. As the researcher, I recorded the interview and transcribed the recording for analysis. The recruitment process adapts to the principles outlined in the Belmont Report, considering the guidelines required for ethical fieldwork (U.S. Department of Health & Human Services, 1979).

Research Method and Design

The case study design, as described by Vohra (2014), aligned best with the goals for the study. I used a case study design to explore the human experience (Yin, 2014) around funding small businesses primarily implementing factoring. By using a case study design, the hope was to see a pattern emerge from purposive participant interviews (Krippendorff, 2013).

At the onset of the study, I made no particular claims about the outcome of the study. Avoiding bias maintains high validity of the study (Bakker, 2015). The study required an analysis of the participant interviews before determining the results of the

study (Krippendorff, 2013). The results of the study relied on the participants' view to provide meaning (Bishop, 2012).

Method

I selected a qualitative method with a case study design to focus on the experiences of a select group. The group consisted of two subgroups. One subgroup was comprised of small business owners with factoring or special funding experience. A second group were finance managers faced with finding a viable funding source to operate and grow their business.

Given the purpose of the study, I determined the use of a qualitative method to be more appropriate than the use of the quantitative study. Quantitative studies focused on using numerical data to quantify the variables relevant to the study. Quantitative studies also used statistical analysis to test the relationships between the study variables (Buculescu, 2013). Based on the results of the statistical analysis, the quantitative researcher drew conclusions and generalizations regarding the research questions of the study (Atieno, 2009; Maltby, Williams, McGarry, & Day, 2013).

To compare, the method in qualitative studies requires researchers to collect data to contribute to the understanding of participants' experiences and choices (Atieno, 2009). According to Munhall (2010), researchers emphasized the concept of perspectivity in several qualitative studies, recognizing that multiple realities can exist for one phenomenon, based on the individual experiences with the phenomenon in question. Data collection aimed to extract contextualized, multidimensional descriptions to add to existing knowledge about the business problem (Holloway & Wheeler, 2010). Compared

to quantitative researchers, qualitative researchers study participants in their natural environment (Denzin & Lincoln, 2008). Quantitative research uses numerical data to quantify phenomena (Holloway & Wheeler, 2010). Qualitative research relies on the participant's interpretation to provide meaning to a business problem (Denzin & Lincoln, 2008).

Research Design

The case study design fit the doctoral study because the case study allowed the study of the meanings provided by the participants. I used a case study design to examine the unique situations of participants. This selection made sense, given the purpose of the study. The purpose of the study was to explore the information small business owners would need to understand the effect of invoice factoring on the business.

A qualitative research method allowed various designs to use in a doctoral study. I considered the other qualitative designs, such as the grounded theory design, ethnography, the historic qualitative study design, and the phenomenological design (Denzin & Lincoln, 2011). The grounded theory design did not align to this study because, in a grounded theory study, researchers focus on formulating, testing, and redeveloping propositions with the purpose of developing a theory supported by the data. Similarly, the ethnographic design did not work because the purpose of an ethnographic study was to learn more about a particular culture through immersion. The historic qualitative study did not work with the study because the focus of historic qualitative studies was to examine and describe previous events to understand present events and anticipate future events (Laberge & Ledoux, 2011).

I considered phenomenology as a possible method for this study. Phenomenological studies focus on creating an in-depth understanding of a phenomenon based on individual experiences (Marchant, 2013). The phenomenological method did not align with the purpose of this study. The case study design was the most appropriate design for this study.

A constructivist worldview best described the study approach to understanding the problem from a human perspective to supply meaning (Lacerda, Ensslin, Ensslin, & Dutra, 2014). The emphasis was on the construction of knowledge, as opposed to the creation of knowledge (Andrews, 2012; de Gialdino, 2009). For constructivists, individuals define reality based on their experiences. No single experience or reality is true or correct, and multiple realities can exist for one phenomenon (Munhall, 2010).

The case study approach allows researchers the ability to examine the topic in question, within a particular context (Thomas & Magilvy, 2011; Yin, 2014). I reviewed factoring within the context of its application as a source of funding for small businesses. The important factor in choosing a case study method for this research was to implement a teaching strategy. The objective of the teaching strategy was to further the knowledge of future researchers about the long-term effects factoring could have on small businesses.

The use of the case study design also involved the use of multiple data sources of information (Yin, 2014). According to Thomas and Magilvy (2011), researchers use the case study designs to analyze people, events, decisions, periods, projects, policies, institutions, or other holistic systems. The study included one or more data sources

(Thomas & Magilvy, 2011). In this study, I collected data from three sources, namely small business leaders, small business finance managers, and financier managers. Each source affected factoring relationships with small businesses. The data collected from the three sources certified saturation. Data saturation was achieved because the interview questions did not provide any new information as the interviews progressed (Walker, 2012).

To ensure objective analysis of the data, I implemented the Krippendorff (2013) method of content analysis. The content analysis employed a set of techniques to translate collected data (Krippendorff, 2011). The flexibility of analyzing data can be systematic (Finfgeld-Connett, 2014). Finfgeld-Connett (2014) cited to use data that was strict regarding organization to provide a clearly explained analysis. According to Hsieh and Shannon (2005), three approaches exist to translate the meaning of transcribed and digital data. The three methods of content analysis consisted of directed, conventional, and summative (Hsieh & Shannon, 2005). The distinct differences between the listed methods were the code origins, coding schemes, and threats to trustworthiness (Hsieh & Shannon, 2005). The conventional method aligns best with Krippendorff (2013).

Population and Sampling

The population for the study was composed of three groups of managers. The target population's experience related to managing technical services companies with less than $3 million in annual revenues. The description of a technical service was a nonproduct related service that consisted of providing solutions to other businesses (B. Hunter, 2013). The management groups were namely small business leaders (including

chief executive officers, owners, operators, and founders), small business financial managers (including chief finance officers, finance managers, and accounts receivables managers), and financier managers (including factoring managers, lenders, and account supervisors). To recruit participants for this study, I executed a purposive convenience sampling strategy within purposefully selected populations. According to Trochim and Donnelly (2007), studies assumed that participants who willingly volunteer for the study cooperate and become proactive participants.

In this qualitative case study, the sample size was set at 15 participants. The sample was composed of five small business leaders, five financial managers, and five factoring program administrators. I based this sample size on saturation, diminishing returns in data collection, the nature of data collection, and analysis in qualitative studies (Jafari Jozani, Majidi, & Perron, 2012). The concept of saturation indicated that the collection of more data did not necessarily yield valuable information for the study (Bernroider, Sudzina, & Pucihar, 2011). Similarly, the concept of diminishing returns in qualitative studies means that collecting more data did not result in new information. In the experience of most qualitative researchers, little new information emerges after 20 or so interviews (Green & Thorogood, 2009). A sample of 10 to 20 participants was adequate when gathering data through detailed accounts of personal experiences (Silverman, 2011). Last, the nature of data collection and analysis in qualitative studies was more time-consuming and labor intensive as compared to quantitative studies. While researchers recommended large samples in quantitative studies, they considered a smaller

sample size ideal for studies such as this present qualitative case study (Bernroider et al., 2011).

Ethical Research

As part of the thrust to protect the participant welfare, I required participants to submit an informed consent form. Participants had to return a signed informed consent form prior to conducting the interview. Participants received the informed consent form at the same time they received the letter of invitation to participate in the study.

The informed consent form included the policies and procedures to ensure participant privacy (see Appendix F) and data confidentiality. First, participants were made aware about the voluntary nature of participation in the study. Participants received no incentive for participating in the study. Participants were free to decline, stop, or separate from the research without any adverse social or economic consequences. Second, the participants could choose to respond to the interview questions with as much detail as they wished. The participants could also elect to skip any uncomfortable questions. Last, the participants could withdraw from the study at any point if they could no longer continue to participate. The study did not include a formal procedure to withdraw. The participant needed to notify the interviewer of the need to withdraw from the study. Should the participant have chosen to stop the interview, I would have immediately halted the proceedings, destroyed any notes taken during the interview, and deleted the audio recording of the interview (Bishop, 2012).

I prioritized participant welfare by implementing specific policies to maintain participant privacy and data confidentiality. The participants identified whether they were

a small business owner or a small business financial manager. Further screening asked candidates to disclose their corresponding position.

The candidates did not provide their name or any other identifying details. I referred to the participants in the drafts as “Participant 1” or “Participant 2” and so on. To ensure data confidentiality, no one other than I as the researcher has access to the data.

I securely stored hard copies of the data, such as drafts or printouts of the completed online survey instrument, in a locked filing cabinet in a personal office. The electronic files are in password-protected files. After completion of the study, I will store collected data, subsequent drafts, and reports for 5 years after the study ended. After this period, I will shred hard copies of the data and permanently delete the electronic files (Bishop, 2012).

Data Collection

Instruments

As the researcher, I was the primary data collection instrument. The semistructured interview guide was researcher-created and composed of open-ended questions to help facilitate data collection (Schatz, 2012). Using open-ended questions allowed the participants to express their views on factoring services as a source of funding for small business using their words (Knight, 2012). At the same time, the use of the semistructured interview guide helped to ensure that participants discussed the aspects relevant to the subject under investigation during the interviews (Bishop, 2012). Considering the questions were open-ended, the participants answered questions in as much detail with which they were comfortable.

The reliability and validity of the data collection instrument were essential. I enhanced the reliability and validity of the data collection process by conducting a test run of the interview questions (see Appendix D). The first objective of the test run was to check the feasibility of the questions. Poor responses indicated the need to re-evaluate the research questions (Forouzan et al., 2014).

Data Collection Technique

The primary source of data came from interviews (see Appendix B). Prior to collecting data, I obtained approval 08-12-15-0350430 from Walden University's Institutional Review Board (IRB). The IRB reviews the research proposal prior to giving approval to conducting the study. I conducted a field test survey after IRB approval of the study proposal. A field test is a small preliminary study. The purpose of the field test was to assess the feasibility and improve internal validity (van Teijlingen & Hundley, 2001). The field test allowed for improvement of the research design prior to conducting the full-scale version of the study (van Teijlingen & Hundley, 2001).

Pilot studies were a necessary tool for reliability and validity (Zhang, Zheng, Sun, & Zheng, 2012). The proposed study did not include a pre-existing survey. Conducting a field test evaluated my questionnaire as a research instrument (van Teijlingen & Hundley, 2001). The field test consisted of two participants and six questions (see Appendix D). Data from the field test was not necessary for the full-scale study. Field test participants still qualified to participate in the main study.

Once the IRB approved the study, I conducted a field test by personally sending letters of invitation (see Appendix C) to small business owners and small business

financial managers using electronic mail. The invitation letters indicated a brief description of the study and its purpose, the nature of participation required, and a copy of the letter of informed consent. The invitation letter also included researcher contact details and an email address if the potential participants had any clarifications or concerns about the study. Interested individuals established contact through email to indicate their willingness to participate in the study.

I also employed other methods to recruit participants for the study, such as posting advertisements through LinkedIn professional groups. The advertisement invited small business owners with experience implementing factoring services as a means to finance their business. The advertisement invited finance managers of small businesses with experience managing factoring programs to fund a small business to participate in the study.

I also posted a notice on SBA community boards. The purpose was to invite individuals to participate in the study. The interview method required the use of online meeting tools such as Skype. Advertisements included an email address, so interested individuals can establish contact to receive more details about the study. Interested individuals received a copy of the formal invitation letter and the letter of informed consent.

The advertisements included details about the study itself. Business finance was always an intriguing topic to business owners. Funding a small business was the rooting interest of entrepreneurs who dream of starting a company. To an entrepreneur, participating in a study that furthers the entrepreneur’s knowledge was an attraction to the

study on its own merits. Learning more about factoring and its effects guaranteed adequate participation. If the proposed recruitment methods failed to reach the goal of 20 participants, I sought additional candidates using Walden's On-Line Research Participation System. The process requires setting up an account and registering the doctoral study. After registration completion, the study posts in a database for the participant pool to review.

After I gather participant responses, I scheduled a date and time to conduct the interview over the phone. I allow more time for the interview to accommodate any extended talk times or unseen issues such as disconnected calls, tardiness, or participant questions. A follow-up phone call was needed to confirm the interview time on the day the interview was scheduled. I noted the time, date and location of the interview before placing the phone call to the participant while located in a quiet closed room ensuring no person in proximity of the call. Once the call was connected, I advised the participant that the call was going to be recorded and started the call recording.

The conversation began by discussing the purpose of the interview and asking a few probing questions to make the participant more comfortable. Afterwards, I started asking the open ended interview questions (see Appendix B). The data collection reached saturation when information became repetitive and no other new information emerged (Walker, 2012). The duration of the interview averaged 20 minutes. After asking the research questions, I asked the participants if they had any additional information to add that was not covered already. I ended the call and checked the quality of the recording listening to the playback. I transcribed the recordings and emailed the transcriptions with

the respective participant for accuracy and assure reliability (Stake, 2010). The participants did not request and changes to the transcriptions. I analyzed that data and returned to the participant to conduct member checking ensuring the participants meaning of their answers. According to the participants, the results of the analysist were accurate.

Participants received a copy of their interview transcript. Sharing the transcripts served as a method of employing member checks (Sheppard, 2015). The purpose was to ensure narrative accuracy and validity. Participants received a letter of thanks and set a schedule for the SKYPE video (face-to-face) interview. Participants also submitted a signed consent form using an electronic signature prior to conducting the interview. The consent form included instruction for the participants to email the form to my university inbox. Scheduling of the interview was contingent on confirming receipt of a signed consent form from the participant. Through the letter of informed consent, I informed participants that the interviews were to be audio-recorded as part of data collection procedures. The letter of informed consent also included a waiver for the audio recording. The location of the interview questions is Appendix B.

Recording the interview includes using an iPhone 6 smartphone and a Sony handheld audio recorder for backup. Both the iPhone and Sony audio recorder employs digital technology. Compared to the analog technology of a tape recorder, digital technology has fewer points of failure and provides higher quality audio. High-quality audio ensured clear and accurate transcriptions. When compared to digital pens, the cell phone and Sony Audio recorder have equal amounts of transcribing options as the Livescribe Echo Smart Pen.

Data Organization

After each interview, I transcribed the recordings and used the transcriptions as the basis for data analysis. As a form of member checking for reliability, participants reviewed their transcripts and make necessary clarifications or corrections in the transcripts (Sheppard, 2015). The interviewee received the transcripts in an email from my university email address. Respondents have one week to review and endorse the transcript. Follow up contact was required for non-responsive participants. Participants indicated their approval with a signature at the end of the transcript. The study included approved transcripts only. The researcher did not analyze the data until the participants review and approve the transcript of their interview (Silverman, 2011). The researcher maintained and secure the transcripts for 5 years (Bishop, 2012).

Data Analysis Technique

The data comprised the responses provided by the completed interview. The research questions provided the framework for the interview. I facilitated data analysis for this study with the use of NVivo v. 8.0. NVivo is a qualitative and thematic analysis software program used to store, code, retrieve, compare and link the interview data. The evaluation of other qualitative research analysis tools such as QSR, NUDIST, and MAXDA did not compare well against NVivo and Atlas.Ti. Compared to Atlas.Ti, NVivo allowed searches of previous questions. Annotation of memos and images were equal for both NVivo and Atlas.Ti. Features that provide an edge to analyzing transcriptions were preferred.

I analyzed the data using the Krippendorff (2013) method of data analysis (see Table 2). As defined by Krippendorff, content analysis is a technique that researchers use to make valid, replicable inferences about their data (Krippendorff, 2013; Walby, 2013). The six steps of the Krippendorff method of content analysis are in the table below. The designated steps help researchers analyze qualitative data objectively, in acknowledgment of the impartialities inherent in human researchers (Krippendorff, 2013).

Based on the data collected from the participants, I derived basic units of meaning. Themes emerge from analyzing the transcripts of the interviews. Last, the analysis results address the research questions (see Table 2).

Table 2

Krippendorff Method of Content Analysis

Step	Procedure
1	Researcher completes the following tasks: • Define the bounds of the study and the context in which to conduct the study • Specify what is unknown, but directly observable in the study • Delimit the study findings to the contexts or settings where the conclusions are applicable • Itemize procedure for data analysis
2	Identify the units for data analysis
3	Design sampling strategies to reduce impartialities in the data collected
4	Code the data by classifying units of analysis into categories of chosen analytical constructs based on the criteria of reliability of relevance
5	Decide how the coded data relates to the phenomena under investigation, restricting inferences to aspects of the topic not directly observable
6	Validate inferences based on the data collected from the respondents based on their responses to the online survey

Note. Adapted from *Content Analysis: An Introduction to its Methodology* (3rd ed.), by K. H. Krippendorff, 2013, Thousand Oaks, CA: SAGE Publications. Copyright 2013 by SAGE Publications.

Reliability and Validity

The primary concern in quantitative studies is reliability and validity. Qualitative researchers focused on four areas to uphold the quality of the research findings (Yang, Kumaraswamy, Pam, & Mahesh, 2011). The areas were credibility, transferability, dependability, and confirmability. Credibility involved describing or exploring the subject of interest through the participants' viewpoints (Trochim, Donnelly, & Arora, 2014).

Reliability

To ensure that the discussion section of the study accurately reflected the participants' perspectives, I conducted member checking by reviewing and interpreting the responses with the study participants. The participants made the necessary clarifications. To ensure reliability and validity, the study included pilot questions to test feasibility (see Appendix D). The interviewer also shared the transcript synthesis with the participants. This process repeated until no new data was available to collect (Harper & Cole, 2012). Data triangulation also provided points of convergence of three data sources (Denzin, 2012).

Validity

Transferability referred to whether researchers can generalize the findings of the study applied them to other contexts and settings (Trochim et al., 2014). The use of the case study design presented a challenge because researchers used the case study designs to examine a particular subject within a specific context. The findings of most case studies are limited concerning the generalizability (Merriam, 2014). To address this concern, I enhanced transferability by thoroughly describing the context of the research study. Similarly, the beginning of the doctoral study specified the assumptions, limitations, and delimitations to ensure that future researchers can determine whether the findings of this study were transferable to other contexts or not.

Compared to transferability, dependability involved accounting for the changing context in which research occurs (Trochim et al., 2014). Because this study indicated a business-related problem, the business environment may have influenced the participants'

responses. Participants described the circumstances of their experiences with using factoring services, particularly concerning the business-related factors and concerns that motivated the use of factoring services. To enhance the dependability of the study, I described the method of the study in detail, to serve as a prototype for future researchers who wish to replicate the study in other contexts.

Last, the issue of confirmability involved addressing the assumption that researcher bias affected the outcome of the study. Consider the need to ascertain the degree to which researchers can confirm or corroborate the research results (Trochim et al., 2014). In this study, I addressed the concern of confirmability using data triangulation. Data triangulation involved the use of multiple sources of data on the same subject and was useful for identifying points of convergence within the data (Denzin, 2012). In this study, the data collected included three perspectives on the use of factoring services. One perspective came from the small business owners and a different perspective came from the small business finance managers. The third data source came from managers of the funding source.

Data triangulation use works for identifying points of convergence to support the validity of the study findings. Data triangulation can also result in identifying points of divergence. Points of divergence provide opportunities to uncover deeper meaning in the data (Guion, Diehl, & McDonald, 2011).

Last, the policies and procedures that I implemented were encouraged by the principles described in the Belmont Report (1979). The purpose was to preserve data confidentiality and participant privacy, supporting the validity of the study findings. The

procedures promoted participant honesty during the data collection procedures (Shenton, 2004). Distribution of the informed consent form as an attachment to the invitation letter allowed the participants to make an informed decision about participating in the study. Likewise, the informed consent form helps ensure that study participants were genuinely willing to take part in the study by contributing data. The emphasis on the importance of participant honesty contributes to helping gather reliable data for the study.

Transition and Summary

The objective of Section 2 was to detail conducting the research. The purpose of this qualitative case study was to explore the experiences of entrepreneurs concerning using factoring services as a primary source of funding for their businesses. In this chapter, I discussed the suitable method to accomplish this objective. The discussion included a detailed view of the plan to collect, review and analyze the data for the research.

A qualitative method with a case study design makes sense to collect data from a sample of small business owners and small business financial managers. From this data, I derived themes to characterize the perspectives of the participants on the use of factoring services as a source of funding for small businesses. Section 3 includes detailed results of the data collection and analysis procedures.

Section 3: Application to Professional Practice and Implications for Change

Overview of Study

The purpose of this qualitative exploratory multiple case study was to explore and understand the effects of invoice factoring on small business. Small businesses create the most jobs in the United States (SBA, 2014). The doctoral study began with the following overarching research question: What information do small business owners need to understand the effect of invoice factoring on the business? Appendix A contains the list of exploratory research questions. Data collection consisted of semistructured interviews with 15 participants (Bjerregaard, 2011).

In this section, I discuss the results of the analysis based on the collection of codes and emerging themes. Findings from the study revealed effects of invoice factoring on small business. The lack of financial planning for their business, need for cash, and difficulty merging a factoring relationship with existing customers showed to have an effect on small businesses. Financial literacy of an entrepreneur emerged as an area for further study. Small businesses need to have plenty of cash flow to navigate the challenges of their respective markets. The findings of this study showed the results of when financially unprepared businesses attempt to solve financing new business opportunities (see Appendix E). Factoring professionals search for sales leads targeting small business owners that need to build cash in a short amount of time. Small businesses do not anticipate the risks that emerge from being required to introduce their factoring company to their customer relationship.

Presentation of the Findings

The analysis of the data collected from the interviews answered the overarching research question: What information do small business owners need to understand the effect of invoice factoring on the business? I used participant interviews to achieve triangulation as saturation of the data for this academic study (Oleinik, 2011). The findings confirm financial literacy is a key component that is often overlooked when determining the success of a business. The findings extend the knowledge of studies cited in the literature review. Atherton (2012) suggested that a low level of startup money was a strong determinant of the low probability of the businesses' survival. Atherton identified this phenomenon as a financing deficit. The findings of this study show the level of profit margin can determine a company's ability to successfully use factoring as a primary source of funding.

The study aligned with the conceptual framework of systems theory because factoring was necessary. If eliminated, small business owners could fail, causing other gaps in the current supply chain system of businesses (von Bertalanffy, 1972). Analysis of the data aligns with the conceptual framework because a business owner's competency determined the need for financing as well as the level of eligibility. The study findings show such an interrelationship between financial literacy in the small business owner's eligibility driving the level of need for additional financing. Further analysis of the codes determined emerging themes within the data. The emergent themes were (a) owner eligibility for financing, (b) profit margin, and (c) third-party relationship.

The first theme involved the business owner's circumstances, the respective business's need, and the limit of the owner's financial knowledge. The second theme consisted of factors surrounding various relationships with the company's profit margin. The third theme involved perceptions around having intermediate financial partner between the business and its customer. Using a qualitative data analysis, I coded the three themes. The three themes supported the study's systems thinking conceptual framework.

During the analysis process, I grouped the participants by population sample. I used this approach to ensure triangulation and saturation to reduce impartialities in the data collection (Krippendorf, 2013). Table 3 includes participants by their respective sample and indicates their contribution to the data collected.

Table 3

Background of Participants

Sample	Number	Percentage of Total
Business Owners	5	33.3%
Finance Managers	5	33.3%
Factoring Professional	5	33.3%

Interview Questions

The data collection included semistructured interviews with 15 participants. I recorded the interviews and transcribed the interviews into separate Word documents. I reviewed the transcribed documents and organized the transcribed interview text into codes using the qualitative analysis software tool called in NVivo. As a form of member

checking, I reviewed the text transcripts with the participants for clarification and change requests (Houghton, Casey, Shaw, & Murphy, 2013). Appendix E shows the interview question and summary of responses by the sample groups.

I asked all participants an overarching question to discuss anything about factoring not already covered during the interview. All of the business owner participants reflected on their experience with factoring. The experiences led them to learn more about financing. The participants provided responses advising readers of the study to conduct their diligence before using factoring. Other advice included seeking an alternative funding source. The overarching response to this question was the use of factoring could serve as a means to an end exhausting all other financing options.

Theme 1: Owner Eligibility for Financing

The first theme that emerged refers to cash flow and the specific need for cash. The business owner experiences a lack of capital to fund new growth opportunities (Halabi et al., 2010). Traditional bank loans require collateral. Services businesses do not have inventory to sell and rely on their receivables for collateral (SBA, 2014). Most small business owners start a business and do not focus on accumulating eligibility to capitalize their business properly (M. Hunter, 2011). Improper capitalization hinders businesses and their respective operations (Yallapragada & Bhuiyan, 2011). Customers and lenders become concerned about the business's ability to grow (Ropega, 2011). This first theme summarizes the analysis of the business owner's need for capital as well as their cash problems going into a relationship with a factoring company.

The need for cash. Companies as a whole experience periods where they do not have enough finances at the time (Participant 10). The consideration to use a factoring company came from the lack of access to capital (Participant 2). The customer insists on 90-day payment terms. The company needs to pay the contractors during this extensive billing cycle (Participant 3). Payments from the customer were taking a long time. The value of the project exceeded the lines of credit that were available at the time (Participant 8).

Participants 6 recalled having payment terms with a duration of 120 days with their customer. The long payment cycle induced a cash flow problem. The company used most of its cash to cover their payroll for 4 months. An abnormal billing cycle was the reason the participant used factoring as a solution to the cash flow situation (Participant 6). The company experiences an extended billing cycle between receiving payment from the customers and having cash on hand to pay the workers (Participant 13). Factoring presented a solution to this problem because it allowed the business to use invoices as collateral (Participant 9).

Participant 5 received a rejection notice from his bank because the bank did not understand how the business plan to finance the project without tangible assets. The bank did not recognize the company’s receivables as collateral and referred the company to a third-party factoring company (Participants 5 & 7). The factoring company was a strategic partner with the bank. Most finance managers in an organization were not part of the decision to use factoring (Participants 5 & 7). The finance managers cited being aware of the company need for cash to finance operations or special projects (Participant

2). The customer's terms play a significant role in whether a small business needs to go outside of their financial threshold to secure capital to take advantage of growth opportunities (Participant 18).

Cash management problems. The company had cash problems before they identified the opportunity that caused the business to need additional financing (Participant 1). Most cash problems start before identifying the opportunity (Berger & Black, 2011). Poor financial planning or the incapability of the business owner to raise capital are common problems that lead to the need for special financing (Hite et al., 2011). Cash management problems stem from poor finance skills and lack of discipline when it comes to managing the company's cash flow (Doi et al., 2014). The financial literacy of a business owner may cause eventual cash problems (Monticone, 2010). Founders usually own services related companies. In Williams's (2014) study, the founder started the business providing services as an individual freelancer and employee for another company. Business owners who enter their market without adequate business management experience expose themselves to the cash flow management problems (Oseifuah, 2010).

Most professionals only understand a bank to be an ethical financial institution that loans money (Participant 11). Ogala (2012) found that business owners of startup companies were not aware and did not understand all the financial programs that were available to them. Individuals start most services companies with no business management experience (Participant 13). The only experience the business owner possesses was the specialty skills that framed their businesses capabilities (Oseifuah,

2010). Business owners in the services industry lack the foresight to acquire capital prior to entering the market to prepare for funding new opportunities (Participant 1).

Collins's (2013) study results showed small business owners did not prefer direct involvement with the financial management or accounting practices. Theme 1 aligned with Collins's study by confirming those results. The data collected from the business owner sample revealed the entrepreneurs' indirect involvement in the financial planning. Monticone (2010) provided a study showing that financial literacy had a direct effect on small business owners' ability to make sound financial decisions. The findings in Theme 1 also confirmed Monticone's study because the data collected showed business owners' lack awareness of financing options other than invoice factoring.

Theme 1 findings aligned with the systems theory conceptual framework. Small business owners may need to place a higher priority on financial planning and increasing their level of financial literacy. Without this action, the number of failing businesses may continue to grow (Knudsen, 2010). The rate of small business failure may affect the system of business.

Theme 2: Profit Margin

The second theme regards having enough profit margin to sustain a third-party factoring relationship. Most of the participants referenced profit margin to be the central focus when choosing to implement a factoring program to fund their project or entire business operations. Few business owners experienced a situation where revenue yielded higher profit margins, and the funding costs were transparent. Higher profit margin was not the case with most services businesses (Participant 14). Services businesses do not

have collateral other than their receivables. Market saturation was a common challenge to services businesses (Participant 9).

Most business professionals confuse profit margin with markup percentages (Oseifuah, 2010). Finance professionals and business owners determine the amount of capture by calculating their profit margin. The amount of margin also dictates cash flow (Participant 12). The second theme compares participant responses regarding the relationship with profit margin and using factoring successfully. The amount of profit margin may determine the outcome of a company's relationship with a factoring company (Participant 12).

When asked Question 5 regarding thoughts toward working with an invoice factoring company, Participant 4 had a positive response. Participant 4 claimed the relationship worked well because factoring invoices help the company to meet all of the business needs. Participants referred to the high costs of factoring. The participants referred to wide profit margin contributing to the ease of doing business with the factoring company. Because the company was able to operate with a profit margin of 50%, the cost of factoring seemed insignificant (Participant 4). Invoice factoring met the needs of the owner because cash flow was high (Participant 11). Though Participant 11 acknowledged the exorbitant costs and fees and accruing interest rates, the relationship with the factoring company was painless (Participant 4).

Participant 3 also cited their profit margin though his company had a much thinner profit margin than Participant 4. Participant 3's response to Question 5 was negative. The relationship between Participant 3 and the factoring company contrasted

greatly with the relationship experienced by Participant 4. In Participant 3's case, the business experienced enough revenues but operated at around 20% gross margin. According to the participant, the business was not aware if their company had the financial tolerance to sustain factoring in its associated costs. The first year of doing business with their factoring company, the business experienced $3 million in gross revenue. Participant 3 cited paying $600,000 to the factoring company for interest and fees to fund the $3 million in gross revenue in 1 year. Participant 3 calculated the fees and interests to be 21% of the gross billing of revenues.

Most of the participants referred to profit margin when asked questions regarding risks and moving away from the factoring company. The core benefit of using a factoring company was to receive the cash on their billing immediately so they can have cash on hand to pay bills and grow their company (Participants 8 & 9). Business owners and financial professionals feel that they were on a treadmill by repeating the cycle of needing cash on hand to survive (Participants 14, 15, & 16). The ability to save enough cash to buy out of a factoring relationship eventually becomes futile (Participants 14 & 16).

Participant 17 cited entrepreneurs needing to show more discipline when it comes to finances and that factoring services were not to blame for a company that cannot improve their funding source. Participants 7 and 8 gave responses that supported Participant 17's response by citing their situation of having thin profit margins but eventually buying themselves out and no longer needing immediate cash to operate. If a company has small margins, according to Participant 12, a factoring relationship may

only put the company in a worse position because the costs to finance their receivables further narrows the profit margin. Most of the participants cited profit margin affecting their business relationship with the factoring company (Participants 3, 4, & 16). None of the participants stated that their profit margin was directly responsible for their company's ability or inability to use factoring as a funding source.

Atherton (2012) suggested that businesses with little start-up capital have a low probability of survival. Theme 2 findings extended on this knowledge by looking further into circumstances that may contribute to the low likelihood of a business's survival. Having a lower profit margin may contribute to business failure because companies seek high-risk alternative financing out of desperation (Frishberg, 2013). Such desperation brings a lack of planning that forces businesses to operate at lower margins (Shaukat, 2013). Lending and May (2013) defined systems theory as social issues with interrelated issues. Theme 2 findings supported the systems theory conceptual framework by showing profit margins as an interrelated issue, the entrepreneur's need for planning, and a higher level of financial literacy.

Theme 3: The Third-Party Relationship

The funding source usually was transparent to business relationships (Participants 17 & 18). Factoring companies require their clients to submit their customer's contact information as part of the contractual terms and onboarding process (Ambrose, 2012). This third theme emerged in the qualitative analysis and 80% of participants referenced it in their interviews. The third-party relationship theme gave the study an integral view

into the working parts of the funding relationship between the company, its customer, and the factoring company.

At the outset of a factoring relationship with clients, many business owners have misconceptions about factoring companies (Ambrose, 2012). Business owners perceive a factoring company to be a bank (Participant 1). Factoring companies are different from banks. Factors do not extend credit to their clients. A successful factoring relationship depends on the credit of their clients customers (Participant 18). Before a factoring company agrees to fund their client's receivables, the factor has to ensure their client's customers can pay the invoices. A small business may not have the credit to qualify for a traditional loan. If the small business's customers are creditworthy, the small business can qualify to use the services of a factoring company to buy their invoices (Participants 15 & 16). Most factoring companies insist on having a direct relationship with their clients' customers. The need for this relationship requirement encroaches on business relationships (Participant 17). A few participants cited having to deal with relationship challenges brought on by the introduction of a third-party funding source that required direct contact with their customers. For Participant 15, the customer started to question their ability to sustain their business. Though there was no hard evidence to support such a claim, Participant 15's business was not included on future opportunities based on the perception brought on by them using a factoring company. Business owners who were new to factoring programs become disheartened immediately with the relationship and begin to look for a way out. Business owners referred to feeling misled about their contract with a factoring company (Participant 3). Factoring companies claimed that they

expressed their required diligence to the clients during the intake phase of their relationship (Participant 18).

The financial managers understand a factoring companies due diligence when prospecting new clients (Participant 5). The entrepreneur did not share the same understanding because the entrepreneur handled building the business relationship with the customer. Not all customers were open to having a third-party relationship with their vendors funding source (Participant 9). Some customers require 30 days' notice before allowing suppliers to assign their receivables to be payable to a third-party source (Participant 7). Some customers do not want contact with anyone other than the company in which they have a relationship (Participant 16). In these cases, a factoring relationship did not work. The denial of credit to their customers places a further burden on finding other financing solutions (Participant 5). Other customers have payables programs that are set up to accommodate a third-party funding relationship. Such customers make a factoring relationship preferable.

Existing literature by Ambrose (2012) explains if factoring invariably helps or hurts small businesses. Hopson and Hopson (2014) described the traditional route for a small business was to obtain a bank loan. A study by Keasey et al. (2014) shows that factoring was more accessible than bank financing. Findings in Theme 3 confirms the existing literature. The findings indicate why factoring was a viable option for small business owners. Entrepreneurs, who need cash to fund opportunities, urgently choose to factor because they were not aware of other funding options. The finding in this study reveals the lack of awareness due to lower levels of financial literacy (Halabi et al.,

2010). Companies choose to use invoice factoring despite the requirement of the factoring company to intercede in their client's business relationship with their customers. Interceding between a client and their customer may invariably hurt a small business (Participant 9).

Factoring companies being involved in the billing process may also help the small business. Many small businesses fail because of a lack of business experience (Thygesen, 2012). Factoring companies do not intercede with business relationships but merely supervise the billing process. The factoring company possesses more billing experience in hopes to avoid billing mistakes that caused subsequent delays in payment (Participant 18).

The data collection for this study used semistructured interviews to explore the participants experience with invoice factoring. The data reveals factors that may contribute to the effects that factoring may have on small businesses (Ambrose, 2012). Theme 3 findings show alignment with the studies conceptual framework of systems theory. The third-party relationship was a subpart of the overall business system of funding small businesses. Theme 3 shows a problem that may require study well into the future. Factoring companies hurt and help business relationships. The previous question exceeds the scope of this study and identifies an area for future research.

Applications to Professional Practice

A company's profit margin, eligibility, and third-party relationship was central to conducting business using a factoring company (Sawicki, 2013). Small business entrepreneurs are visionaries but do not start a business with a primary focus on raising

capital (Atherton, 2012). Small business owners do not possess the financial literacy to overcome funding challenges proactive (Collins, 2013). Instead, small businesses address funding challenges in real time. The study analyzed data from interviews with small business owners, financial managers, administrators of factoring programs.

Lack of planning can be the culprit of small business funding challenges along with the need for additional financial education. Entrepreneurs need to have a clear understanding of available funding sources (Frishberg, 2013). The company’s need to pursue options that were within their risk tolerance. Factoring programs seem to be better suited for mature companies who can afford the high costs of selling receivables. In contrast, a startup company has more risks to monitor besides the inherent risks that come with factoring receivables. A primary risk assessment would yield a different direction than selling receivables for funding. Small business owners should incorporate better risk assessments when approaching a decision to use a factoring company as a primary source of funding for their business.

Very few businesses are recession-proof. Many factors cause businesses to turn to alternative forms of financing. When such economic downturns take place, it was good to have a viable option to fund your business. Factoring was an excellent source of funding for companies that have an upturn in business growth. The profit margin within their revenues should be able to sustain the growth potential while using factoring as a source of financing. Factoring companies should implement a social responsibility to their clients the same way financing institutions need to submit a truth-in-lending statement to their borrowers (Giurcă Vasilescu, 2010).

The sale of receivables is not the same as acquiring a loan. Factoring companies can charge their clients an interest rate for buying their invoices. If a factoring company can charge interest, then the purchase of receivables technically is a loan. Factoring programs should have guidelines similar to a traditional bank. Such guidelines will be the same, as any lender would have to follow when issuing a loan to a borrower.

Implications for Social Change

This study identifies an emerging business problem related to small business owners who have used factoring to fund their business. Small business owners create jobs, but they do not have adequate access to capital (Luckett, 2011). The interviews with 15 participants gained understanding showing why small businesses choose invoice factoring to fund their businesses. One sees how such a decision affected the course of their businesses. This study analyzed factoring and the effects on the small business demographic (Lee et al., 2012). The findings from this study may affect social change if small business owners and aspiring entrepreneurs review this study and observe the need to focus on raising capital and making sure their business has proper capital before they take their product or services to market. Small business owners were more successful by reading the findings of this study, perhaps the pool of successful business owners would grow. Small businesses could add even more jobs and add a much-needed boost to the nation’s economy.

Recommendations for Action

The purpose of this qualitative exploratory multiple case study was to explore the information that small business owners need to understand the effect of invoice factoring

on the business. Future small business owners should pay attention to the qualifications necessary to grow their company. Small business owners should focus on raising capital and properly capitalizing their company prior to encountering financial issues that force them to use alternative financing (Atherton, 2012).

Current business owners should educate themselves on asset-based lending. Factoring is similar to asset-based lending except that the asset-based lending is a program administered by traditional banks. Asset-based lending loans money against a company's receivables as a whole. This type of program not only funded working capital but also allowed a company to fund growth. The financial education of small business owners should be the responsibility of the entrepreneurs and their financial staff.

Factoring companies should pay attention to the results of this study because the factors can benefit from understanding small business owners approach toward using factoring services. Finance managers should pay attention to the results so they can understand and intelligently provide alternate solutions to the small business owners when facing a decision to use alternative financing. Knowing the actual cost of lending can benefit finance managers in advising their company leadership.

The final recommendation was for factoring companies to offer features inside of their factoring programs that help their client's transition into a funding program that better sustains their particular business. Factoring companies should use the same diligence when vetting their client's eligibility as they do their client's customers. The factors can analyze their client's financials and determine the company's ability to sustain if it were to implement a factor as the primary form of funding. I disseminated the full

version of this study to the participants so they can review the overall results. Based on the findings, participants can discuss the study results and ask for advice via phone conference.

Recommendations for Further Study

The purpose of this study was to understand the effects of invoice factoring on small businesses. Further research can benefit from a larger sample size and methodical triangulation (Heale & Forbes, 2013). I recommend further study to examine the relationship between a company's profit margin and their ability to sustain factoring programs as a primary source of funding. An examination of the contractual terms issued by the factoring companies may generate a new round of questions that could improve business practices. Also further study and to the relationship between lengthy billing cycles and the use of alternative financing by small businesses.

There may be a social responsibility for larger customers to consider shorter payment terms for their smaller suppliers. The study limits to small businesses, but I recommend further study to compare small businesses against large businesses. An examination of the conditions that causes the organizations to implement a factoring relationship. Small business owners can also benefit from a further study into the need for a minimum standard of financial literacy for small business owners seeking business funding.

Reflections

This doctoral study helped to develop focus on becoming more scholarly as a professional. The research process forged an understanding to substantiate one's theories

rather than openly express opinions. This study expressed a business problem and selected a method in which to study the problem. The opinion towards factoring and small businesses changed during the literature review. Transformation from research to expertise aided in the realization of further areas of factoring to explore.

When I completed the analysis of the data, I gained a different perspective on the study as well as a clear way forward for future research. This study did not show any bias during the data collection process. The doctoral study did not divulge any preconceived ideas or values towards the participants or the study topic. In interviewing the participants, the way of thinking towards small business owners and administrators of factoring programs changed somewhat.

Small business owners have great ideas and happily take on the burden of an employer. It was easy for them to overlook the importance of planning their companies need for financial sustainment. Perhaps because entrepreneurs are trailblazers and are seemingly fearless. In contrast, administers of factoring programs think they were providing a lifeline to small businesses. Both of these groups had a profound effect on my changed perceptions.

Summary and Study Conclusions

The purpose of this qualitative exploratory multiple case study was to explore the information that small business owners need to understand the effect of invoice factoring on the business. Data collection use triangulation of three groups using semistructured interviews with 15 participants. The participants consisted of small business owners, small business finance managers, and administers of factoring programs. The study

reached saturation when the data became exhaustive and repetitive yielding no additional or new information.

Three themes emerged from the analysis of the coded data that I was able to link back to the literature review as well as the systems theory conceptual framework. The findings of the study suggested that owner eligibility, profit margin, and a third-party relationship has a significant effect on small businesses when using factoring as a primary source of funding. This doctoral study provides a foundation for future research and exploration of other areas that may help more entrepreneurs understand business financing. This study may help small business managers to obtain a negotiating advantage over funding providers and leverage in the marketplace.

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Appendix A: Research Questions

I will ask the following questions to establish boundaries of the business problem based on responses of the target population and sample.

1. What conditions made you decide to use a factoring company?
2. What is your background and experience with invoice funding?
3. Other than invoice factoring, what financing options are available to companies who do not have collateral?
4. What is the immediate risk of using invoice factoring?
5. How do you like working with an invoice factoring company?
6. What kind of fees do you pay for this service?
7. How did your company move away from factoring?
8. Looking back, what do you think about your decision to factor your receivable?
9. Did your factoring interrupt or improve cash flow?
10. What benefits do you think you gained from using invoice factoring?

Appendix B: Interview Protocol

Interview Protocol	
What you will do	**What you will say—script**
Introduce the interview and set the stage—often over a meal or coffee	Script: I am conducting an academic study about factoring and small businesses. I think your input could be helpful. Would you like to participate in my study?
• Watch for non-verbal queues • Paraphrase as needed • Ask follow-up probing questions to get more in-depth	1. Interview question
	2. Interview question
	3. Interview question
	4. Interview question
	5. Interview question
	6. Interview question
	7. Interview question
	8. Interview question
	9. Interview question
	10. Last interview question should be a wrap up question such as: What additional experiences have you had…?
Wrap up interview thanking participant	Script: Thank you for your time today.
Schedule follow-up member checking interview	Script: You should hear back from in the near future to schedule a follow up discussion.
Introduce follow-up interview and set the stage	Script: I would like to have some more time with you to share some feedback with you.
Share a copy of the succinct synthesis for each individual question Bring in probing questions related to other information that you may have found—note the information must be related so that you are probing and adhering to the IRB approval.	Script: I am going to go over so questions with you.
	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

Walk through each question, read the interpretation and ask: Did I miss anything? Or, What would you like to add?	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
	9. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed
	10. Question and succinct synthesis of the interpretation—perhaps one paragraph or as needed

Appendix C: Invitation Letter

Dear Business Owner/Financial Professional,

I am conducting interviews as part of an academic research study of invoice factoring as a primary source for funding small business. You have been identified as a potential volunteer because you may able to lend valuable firsthand information as a small business owner and/or financial professional.

The interview takes no more than 20 minutes. The interview is informal with an objective to gain your perspective on the influence of factoring services on small businesses. Though the interview is informal, your responses will remain confidential. No personal identifying data will be used. You will be given an assigned code. The interview will be stored for my personal analysis.

There is no compensation or incentive to participate in this study. Your contribution is certain to be valuable to my research, which could help entrepreneurs, and financial professional understand the long-term effects of factoring on small businesses.

If you are willing to participate in my study, please review the accompanying consent form. Once I receive confirmation of your consent, we can schedule a convenient time to conduct the interview.

Thank You,

Ivan Salaberrios

Appendix D: Field Test Questions

1. What year did you start your business?
2. Was the process difficult?
3. What is your experience with factoring?
4. What is your level of education?
5. Was any of the words offensive to you?
6. Were any questions confusing?

Appendix E: Interview Questions and Sample Group Summary Responses

Interview Question	Sample Group	General responses
Describe the conditions that made them decide to use a factoring company.	Business Owners Finance Managers	This question revealed conditions of cash flow issues and the company's inability to cover payroll when trying to fund a new project opportunity or contract. Other conditions included long billing cycles that required the business to finance payroll for up to 90 days in some cases. Participants who were business owners reference the need for cash to fund their business where the other participants needed the cash for this particular project but not the business as a whole. In general, the companies needed capital to move operations forward.
Discuss their background and experience with invoice funding.	Business Owners Finance Managers Factoring Professional	The business owners possess over 10 years of business experience however only reference two to three years of experience with invoice funding for working with the factoring company. In contrast, factoring professionals have over 10 years of experience working with small businesses administering their factoring needs.
Discuss their knowledge of other financing options for companies who do not have collateral.	Business Owners Finance Managers Factoring Professional	Most business owners did not have any awareness of financing alternatives other than traditional banking programs. After their experience with factoring, the same owners gain more experience with financing and were able to refer to other funding alternatives. Factoring professionals were aware of bank loans and personal loans as alternate funding for small businesses without collateral. Most candidates also referred to acquiring loans from family and friends as an alternate source of funding.

Identify the immediate risk of using invoice factoring.	Business Owners Finance Managers Factoring Professional	New information emerged identifying various risks. When the company introduced a third-party factoring company, the clients had the perception that the business is unable to sustain. (Participant 11). The factoring company contacted the company's customer without the permission of the company. Contacting the customer causes confusion between the company and its customer. Most business owners are not aware or do not consider the factoring company interceding between them and their customer. Multiple participants identified the risk of a third-party interceding. The data showed mixed feelings regarding their factoring company interceding with their customer relationship. Small business owners risk nonpayment from their customers. If customers do not pay the invoice, the factor charges the invoice amount back to the company (Participant 17). Such risks force companies to manage their collection of receivables closely. This area of risk can determine a company's success when using factoring (Participant 17). In contrast, factoring professionals referenced factoring does not pose any risks if set up correctly (Participant 12). This reference brought up the potential need for further research to explore structuring factoring programs to avoid risks completely. Most participants referred to the additional debt incurred as immediate risks. Most small business owners and financial managers see the factoring program as additional debt. The financial team must monitor and control factoring fees weekly.

How did they like working with a factoring comp any?	Business Owners Finance Managers	Most participants responded positively and expressed a great working relationship with the factoring companies. Three business owners expressed mixed feelings but mostly referred to a negative experience with a factoring company. Negative responses were mostly describing the company's inability to grow despite an uptick in cash flow. The bad experiences included interference with their customers as well as realizing fees and costs accrued over time. This piece of data may link to the entrepreneur's lack of diligence or awareness of financing costs.
What are the fees that they pay for factor?	Business Owners Finance Managers Factoring Professional	The participants referred to the interest rates for factoring invoices as 6% of the invoice amount. Interview participants referred to rates as high as 12%. Interest rates accrue until the customer pays the invoice. Most factoring companies charge administrative fees and additional percentages on invoice amount to process paperwork and funding. The factoring company charges fees to the company for processing payments as well as posting the payments. The factoring company also charges the company a fee to refund payments. These fees are in tandem with the interest rates on the invoice amounts. Lastly, the factoring company charges a penalty if they have to charge the invoice amount back to the company.
How were they able to move away from factoring?	Business Owners Finance Managers	The most interesting response I received from a couple participants regarded their challenges to save enough money to buy out their receivables. Half of the business owners stated that the never did get away from factoring in were still using it at the time of their exit.
Describe their decision to factoring receivables.	Business Owners	Most business owners would support their decision to factoring receivables even if

	Finance Managers	their experiences were not favorable. They understood the circumstances and accepted them despite feeling abused. The business owners believe that if they had to do it over, they would do it again.
Did factoring interrupted or improved cash flow.	Business Owners Finance Managers	Some participants gave mixed responses but agreed that factoring improved their cash flow. Despite the substantial costs and unexpected fees, factoring did what it was supposed to do (Participant 15). Only two participants said that factoring interrupted their cash flow. The participant attributes the interruption to lower profit margins and difficult collection practices.
Describe the benefits they gain from using invoice factoring.	Business Owners Finance Managers	Participants referred to the term *experience* repeatedly. Business owners felt as if they grew their financial experience by overcoming the challenges of factoring. The company also tested their internal processes and controls. The company was satisfied with the results because the company was able to implement a factoring relationship as well as successfully deliver services.

Appendix F: NIH Certificate

Certificate of Completion

The National Institutes of Health (NIH) Office of Extramural Research certifies that **Ivan Salaberrios** successfully completed the NIH Web-based training course “Protecting Human Research Participants”.

Date of completion: 07/04/2012

Certification Number: 946848