

Bootstrapping motives in non-financially constrained firms: A case study

A firm's approach to lower operating costs but may delay growth and expansion

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Abstract

The purpose of this paper is to examine the reasons or motives for firms with enough capital investment, thus not financially incapacitated, but still utilizing some form of financial bootstrapping in their daily operations. This paper uses the empirical findings on techniques and motives for bootstrapping according to Winborg and Landström (2001) and Winborg (2009) as a basis for analysis to evaluate the various bootstrapping methods and motives. Two case studies in southern Sweden were carefully selected, a manufacturing company in operation for four years and an IT company with three years in operation. Each company has adequate financial support internally and externally, but still bootstrapping in various ways. The results indicate that bootstrapping is not a form of cheap finance for firms lacking financial capital since even financially fit companies bootstrap to lower their day to day operating costs. Results also show that companies will not use customer-oriented bootstrapping techniques for fear of being too strict to make customers pay on time while risking losing them to their competitors. Joint utilization bootstrapping techniques are widely used and save a lot of time and money in the long run. The findings do not support the use of customer-oriented bootstrapping techniques as observed in previous research as the customer is the means for the firm's survival, if threatened can move to obtain an alternative product or service from competitors. As far as bootstrapping is said to save money, this study's findings show that it wastes time in return especially in projects that are short-lived or need to be launched within a limited period. Meaning that bootstrapping will take a lot of time to develop a product or service although may lower the overall cost. Practical implications for this study could assist business owners to understand why they bootstrap, and to carefully evaluate a project before bootstrapping since it is important to decide whether it is worth it to save time or save money. This study is among the few studies which have gone further to explore the empirical findings of bootstrapping in a case study approach, hence obtaining in-depth information of bootstrapping in specific companies operating in capital-intensive industries.

***Keywords:* Bootstrapping, motives, techniques, investors, venture, case study**

1. Introduction

To define bootstrapping narrowly according to Winborg (2009), it is the securing of resources that benefit the firm at below market price or at no cost, resources that would otherwise require the firm to spend time and money to obtain. These resources include office equipment and space, marketing tools, obtaining stock from suppliers without advance payment, customers paying in advance, use plant and machinery of other businesses or use of manager's own resources to run the company. Financial bootstrapping can be broadly defined as the various techniques of securing and utilizing the needed amount of resources without reliance on long-term and conditional external finance (Winborg and Landström, 1997; 2001; Freear et al, 1995).

Bootstrapping reduces overall external capital requirements and improves cash flows (Ebben and Johnson, 2006). By bootstrapping, small firms reduce their dependence on external funding and make use of internal company resources or resources owned by other firms in their network. It is interesting to note when bootstrapping in a newly established venture starts, in which previous research reveal it starts at the point of financial constraints faced by small and new firms (Winborg and Landström, 2001; Van Auken and Neeley, 1996). However, Winborg (2009) found other motives for companies to bootstrap apart from financial constraints. By bootstrapping, managers proactively reducing costs, minimizing risks, helping other businesses, save time, limit the amount of external funds to

borrow, which reduces external capital dependency, and ultimately gain the internal decision-making freedom.

As a start-up company obtains legitimacy in the industry it operates and increases good relationships with customers and suppliers, some forms of bootstrapping increase while others decrease. Overtime, bootstrapping techniques change within a company such that owner-related and joint-utilization bootstrapping decrease while customer-related bootstrapping increase (Ebben and Johnson, 2006). When start-up companies insist on obtaining external funds from investors although their business idea has no practical prove of success and especially when a large amount of seed or start-up funding is required, it leads to unfavourable lending terms from financial institutions such as high interest rates, obtaining only a small percentage of the initial amount requested, or a requirement for collateral to guard the loan (Storey and Greene, 2010). To eliminate the need for external finance and stay in business, managers in these small, newly established and entrepreneurial firms employ various bootstrapping techniques (Winborg and Landström, 2001).

Even though some small businesses and new ventures are successful in obtaining external financing at the early start-up phase or at some point in time, it is interesting to note from this case study that bootstrapping is not only a result of financial constraints since firms have more reasons and motives to bootstrap regardless of their good financial status. By looking into two firms that already have funds from internal and external investors, hence not financially constrained to grow or expand, this study contributes to the knowledge of financial bootstrapping in start-up companies which are not forced to bootstrap for financial viability. Using a case study approach, we examined how financial bootstrapping is utilized in

start-up companies which managed to obtain large sums of long-term seed or start-up financing from internal, external, informal and formal investors, such as the original founders, Venture Capitalists (VC), Business Angels (BA), and governmental institutions.

This study assists practitioners to understand that bootstrapping does not necessarily mean a company is struggling financially, but another way to maintain close contact with customers, suppliers, and other similar firms in their business network. It could also be interesting for investors to know that with the ability for a company to bootstrap, there is no need to invest a lot of money in one company. Instead, a pool of funds can be divided among several start-ups. This enables the expansion of the investor's portfolio, reduces investment risk, and each company with capital need can utilize some form of bootstrapping to fill the excess gaps of financial need.

2. Literature Review

2.1 Financial resources for new ventures

Previous research indicates that adequate financial resource is a factor that will impact the new venture performance. From a resourced-based view, financial resource is regarded as one of the deterrents of new venture's good performance. Cassar (2004) stated that one reason limiting rapid growth of small firms is financial difficulties. Similarly, Cooper et al. (1994) also illustrated that the amount of initial financial capital contribute to the small firm's survival and growth. Solid financial resources offer several benefits to small businesses, such as giving financial protection to the business against random shocks like illiquidity and giving the opportunity to implement some business strategies which required a large cash flow.

Otherwise, financial constraint would result in the restriction of carrying out the fast mover strategy which is the crucial step of getting competitive advantages including obtaining certain amount of market share and dominating position in the market (Bhide, 1992; Kerin, Varadarajan and Peterson 1992).

New ventures that utilize more resources are examined to be more likely in generating a sustainable competitive advantages and above-normal return than those who are constrained by the resources obtained (Barney 1991; Lee, Lee, and Pennings 2001). In general, more financial

resources raise the likelihood of a new venture to survive and grow (Cooper, Gimeno-Gascon, and Woo 1994). Looking back on the previous studies of entrepreneurial external finance, it is obvious that the mainstream of the external finance is debt finance and equity finance, whereby equity finance can be further divided into formal venture capital and informal venture capital such as the business angel (Mason and Harrison, 1996).

Bootstrapping differs depending on the functions of a firm. When Van Auken and Neeley (1996) examined evidence of bootstrapping in 78 firms, they found that 65% of firm's start-up capital was obtained from traditional sources such as personal savings and borrowing from financial institutions while 35% was from other bootstrap sources of financing. However, it is observed that venture capital and business angel play a quite small role in new venture creation, (Timmons and Bygrave, 1986). Only 0.5% of the nascent ventures received the investment from venture capital or business angel (GEM 2003).

The reasons for the extremely low rate in accessing external finance can be concluded as information asymmetries, high transaction cost and entrepreneur's concern (Cassar, 2004). Reviewing the previous literatures, it is widely recognized that many firms fail to raise external fund from banks and investors due to information asymmetries (Berger and Udell, 1998; Cassar, 2004; Cosh, Cumming, and Hughes, 2009), which is relatively high in new firms because of the limitation of public information (Carpenter and Petersen, 2002). Moreover, due to the information asymmetries, the investors might consider the business as risky or with no potential to grow, thus result in a high interest rate, equity or control of the new ventures (Berger and Udell, 1995; Rajan and Zingales, 1995). Finally, it is stated in

Cassar (2004) that some entrepreneurs are undesired to get external finance because of the reluctance of losing equity and full control of their business.

2.2 Motives of using bootstrapping

Research findings suggest that financially constrained firms use bootstrapping more than firms with access to the financial markets and financially stable (Winborg and Landström, 2001; Freear, 1995; Ebben, 2009). More authors argue that it is desirable and necessary for the firms to bootstrap because of the difficulties and high cost in getting external debt and equity. The firms can obtain resources from outside parties according to the resource dependency theory. This situation is in line with early research regarding the reasons of using financial bootstrapping (Bhide,1992; Van Auken and Neeley 1996).

Bhide (1992) found out that belief in the “big money” theory is not the real situation of the entrepreneurs. In most cases the new ventures do not meet the requirements of the investors. Thus, it is more important for the entrepreneur to minimize the necessity for the external finance through different strategies. In other words, Bhide (1992) implies that entrepreneurs use bootstrapping mainly because of their incapability in accessing the external finance.

In a similar view, Van Auken and Neeley (1996) examined the use of bootstrapping finance in 78 firms and found out that the main motives why most new start-ups are unable to raise external fund is because of the limited access to capital market and unqualified to award the financial investment. Under this situation, entrepreneurs tend to use financing bootstrapping to acquire the needed resources. However, some recent

research found out that many small firms use financial bootstrapping not merely as a last resort, but as an optional choice for many other reasons (Brush et.al, 2006; Winborg, 2009). Brush et.al (2006) analysed the data of bootstrapping methods used by 88 woman entrepreneurs and found out those firms with equity use more bootstrapping than those which do not. An identical finding is also illustrated in Winborg (2009), in which “lower costs” is examined to be the most common reason of entrepreneurs using bootstrapping, followed by “lack of capital” and other reasons.

Fitzsimmons (2007) found evidence that high-growth firms bootstrap using internal means such as reducing inventory levels to sustain growth but this method is short-term as it affects the growth rate, meaning that external funding has to be sought to maintain sustainable growth. His findings are contrary to Winborg and Landström (2001) who found that bootstrapping influences profitability in the firm.

Referring to Freear et.al (1995), bootstrapping is “a highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources”. In a more common sense, financial bootstrapping is considered as “the use of methods for meeting the need for resources without relying on long-term external finance from debt holders and/or new owners” (Winborg and Landstrom, 2001). Specifically, Winborg and Lanstrom (2001) identified 25 bootstrapping techniques, which were further divided into 6 clusters: (1) delaying bootstrappers; (2) relationship-oriented bootstrappers; (3) subsidy-oriented bootstrappers; (4) minimizing bootstrappers; (5) non-bootstrappers; and (6) private owner-financed bootstrappers.

A study by Winborg (2009) found that as a new business founder’s experience in running business increases, motives for

bootstrapping also changes from the necessity of cost-reduction techniques to proactively reduction of the overall risk in the business. Harrison et al. (2004) concluded that there is a difference in how large and small organizations utilize bootstrapping. While large organizations use bootstrapping for product development, smaller organizations use the mostly cost-reducing bootstrapping techniques for business development.

2.3 Changes in financial bootstrapping techniques overtime

According to the pecking order theory which proposes a hierarchical form of financing new ventures, firms use internal sources of finance such as retained earnings before moving to debt financing and finally equity (Myers,1984). As a small company grows and expands its network of suppliers, customers, operating experience (Winborg, 2009), and gains legitimacy, financial bootstrapping methods used earlier when the firm was starting changes with time. This was found out by Ebben and Johnson (2006) when examining four bootstrapping techniques and their utilization in the lifecycle of new ventures. Their conclusion was that owner-related and joint-utilization techniques decrease while customer-related techniques increase, alternatively, delayed-payments methods decrease as firms attempt to become better customers to suppliers and partners, therefore, paying on time unlike previous years.

Nevertheless, manufacturing and construction start-ups have a greater base of assets which may act as collateral for debt than in service and retail start-ups, therefore having a higher possibility of obtaining external funding and bootstrap less with time. This proves the importance of the role

played by asset structure when seeking external funds (Cassar, 2004). As firms obtain more assets they have a higher probability to be funded by external investors. Tomory (2011) examined four cases of Microsoft Corporation, Dell Inc, Apple Inc. and Research in Motion Limited. His findings conclude that bootstrapping does not stop when a company is funded externally by different sets of investors, either Venture Capitalists or through the stock market.

3. Methods

3.1 Methodology

Based on various financial bootstrapping motives identified by Winborg (2009) such as reduce costs, reduce risks, lack of capital, fun helping others and be helped, save time, manage without external finance, and freedom of action, our aim is to examine how start-up companies which managed to obtained seed or start-up financing from external investors, thus not financially constrained, use a number of financial bootstrapping techniques (Winborg and Landström, 2001) to fulfil some of these motives.

In order to find out bootstrapping motives among companies with adequate financial backing from informal and formal venture capitalists, financial institutions or governmental institutions, but still utilizing bootstrapping methods in their daily operations, we conducted a multi-case study. Case study research methodology is an approach that facilitates the exploration of a given phenomenon within its natural context using several data sources. It is an approach where a given phenomenon under study is observed from different angles to ensure multiple facets of the issue studied is revealed and understood (Baxter and Jack, 2008; Chetty, 1996; Bonoma, 1985).

According to Yin (2003), a case study approach is best considered as a research method when trying to answer in-depth the why and how questions, and also especially when it is important to explore the context

in which a given phenomenon under study is located. Bootstrapping is the major phenomenon to be observed on how it is utilized within organizations that do not necessarily need to bootstrap to survive. To be able to examine, distinguish and compare the utilization of bootstrapping techniques within and across different companies that have capital from external investors, an exploratory, multiple-cases approach will be suitable (Yin, 2003). A multiple-cases approach will enable the study to predict similar or contrasting results across cases and ultimately be able to draw conclusions based on earlier bootstrapping theories that used quantitative research approaches, similarly, an exploratory perspective combined with multiple cases will enable the exploration of a phenomenon that has no single set of outcomes (Yin, 2003).

3.2 Sampling and Design

To sample out companies for this case study regarding motives for bootstrapping, we selected companies according to different ways of obtaining capital, including from a group of founders, venture capitalists, business angels, and governmental institutions. We chose two firms from different industries, and the chosen companies met the following conditions: 1) not financially constrained 2) regarded as a young company (1-5 years old), since a five-year period is long enough to establish how much bootstrapping has been used from inception and if these bootstrapping techniques, if any, have changed overtime (Ebben and Johnson, 2006) and 3) the company ought to have used at least one bootstrapping method during their operation.

In order to approach the targeted companies, we contacted Ideon Innovations, Connect Skåne and Almi. Ideon Innovations and Connect Skåne are business support organizations assisting the development and growth of innovative businesses. Almi is an institution with government connections to provide start-up company loans, venture capital, and advice.

The three important considerations for our research design according to Johnson et al. (1999) were: selecting the appropriate case studies, defining the unit of analysis, and deciding what data to collect and how to collect it. Our cases consist of a food manufacturing company (Foteviks AB) and a software IT company (Trialbee AB). We focused our study on the financial section of the company by conducting an in-depth interview with individuals in charge of making financial decisions in the firm and have direct link with the external investor, suppliers and customers. The two company officials we interviewed, one from each company, were both directly involved in forming the companies from the start-up phase, hence with informed understanding of financial bootstrapping histories of their companies.

3.3 Data collection

To conduct an in-depth study on the entrepreneurs' attitudes, motivation and behaviours towards bootstrapping, semi-structured interviews were the main approach throughout the case study (Bryman & Bell, 2007), along with documentary evidence, which was a basis for verifying the empirical evidence of bootstrapping motives and techniques according to Winborg (2009) and Winborg and Landstrom (2001). The semi-structured interviews consisted of three parts; the first part was about

the background information of the venture, including the year of foundation, type of external finance, amount of external finance. Second part is composed of 25 bootstrapping methods in 6 factor groups. The interviewees were asked if they used bootstrapping methods according to the 6 factor groups, if yes, they were encouraged to explore a more specific introduction of how they conducted these bootstrapping methods. The third part of the interview was mainly about the motives of bootstrapping. The interviewees were asked to talk freely about the reason they used the bootstrapping methods and indicate the importance of the reasons on a scale of 1 to 5.

In order to avoid misunderstanding of our interview questions, an email concerning the definition of bootstrapping and some examples of bootstrapping methods was sent to the interviewee prior to the interview. Moreover, a recording device was used during the interview for further rechecking to avoid the problem of misinterpretation while analysing the data.

3.4 Analysis

A short description about the basic information of each venture is presented. Then all the bootstrapping methods used by the venture were filled into a table containing 25 bootstrapping methods grouped in 6 factors or clusters. Additional new methods suggested during interview that did not belong to the 6 factor groups were added at the end of the table. After the classification, the table was further used to calculate how many bootstrapping method each venture uses and an analysis of which bootstrapping factor each venture uses the most is obtained. In terms of the motives part, the mentioned motives were graded by the interviewees from 5

points (strongest) to 1 point (weakest). Similarly, the mentioned motives were classified according to the 10 motives illustrated by Winborg (2009) and the ones which did not belong to any of the 10 motives were stated below. The differences and similarities of motives between the two ventures were pointed out and a further analysis was conducted aiming to link the motives and the bootstrapping methods used.

4. Results

4.1 Presentation of the cases

This section presents companies interviewed in terms of type of industry operated in, source of finance, ownership and future outlook. This presentation also includes the origination of the idea, goals of the business, risk tolerance of founder towards external investors, views and attitudes towards debt finance from banks, equity finance from investors and the government subsidies.

Venture A – Foteviks AB

Venture A is a food ingredients manufacturing company producing for major food manufacturers and producers, for example meat and fish packers, hotels and restaurants. It was established in 2009 and registered as a limited liability company in Lund, Sweden. A total of 3 Million SEK has been invested over the years to date by three founders each with equal shareholding in the company on top of a 275,000 SEK grant from the government at the initial phase. Venture A tried to apply for more grant from the government but since it has no large number of full-time employees under its name as the employer, it is one reason no more government subsidy has been obtained. Venture A uses unskilled labour periodically, which is very cheap but every production period results into new labourers, which means time has to be spent teaching them how to perform certain activities.

Venture A plans to grow and expand slowly without asking for additional capital from external investors to avoid the risk of diluting their shareholding. In the next five to ten years when Venture A obtains enough assets under its name, the major plan is to use the assets to obtain a bank loan for expansion. This will pose a risk on the company's assets but will not dilute ownership. This company is not financially constrained, growing organically, with close family ties, and currently not searching to attract more external capital from investors.

Venture B – Trialbee AB

Venture B is a software company registered in Lund, Sweden, and was established in 2010. At the start-up phase, 700,000 SEK was invested by Business Angels (BA). Almi gave additional funding of another 700,000 SEK in form of a loan. Later in 2011, Venture Capitalists (VC) came on board with two rounds of investment, first with 5 Million SEK and 15 Million in the second round. At one instance, a customer paid in advance for the development of the software. Venture B's ownership is divided among the founders, BAs, and VCs. The venture is not financially constrained and is open to attract more external finance in order to expand to reach more customers locally and internationally.

4.2 Presentation of the data

The data collected is presented in two tables. Table 1 illustrates bootstrapping methods used by venture A and venture B. Table 2 demonstrated the motives for using bootstrapping.

Table 1 –bootstrapping methods used

Factor	Bootstrapping Methods	Venture A	Venture B
Owner financing	Use of manager’s credit card	√	
	Loan from relatives/friends	√	
	Withholding manager’s salary	√	
	Assignments in other businesses		
	Relatives working for non-market salary	√	
Delaying payment	Delay payment to suppliers	√	√
	Delay payment of value-added tax		
Minimizing stock	Use routines in order to minimize stock		
	Best conditions possible with suppliers	√	
Minimizing account receivable	Cease business relations with late payers		
	Use routines for speeding up invoicing		√
	Use interest on overdue payment		√
	Offer same conditions to all customers		
	Choose customer who pay quickly		
	Offer customers discounts if paying cash		
Joint utilization	Borrow equipment from others	√	√
	Own equipment in common with others	√	√
	Co-ordinate purchases with others	√	
	Practice barter instead of buying/selling		√
	Lease equipment instead of buying		√
	Share premises with others	√	√
	Share employees with others	√	√
	Raise capital from a factoring company		
Subsidy finance	Subsidy from County Administrative Board		
	Subsidy from Swedish National Board for Industrial & Technical Development	√	√

The interviewees graded the motives on a scale of 1 to 5. It can be summarized that both ventures use a lot of joint-utilization bootstrapping methods with over 50% of the methods in this category used by both ventures, while minimizing account receivable methods are the least used methods with only 2 out of 6 methods used by venture B and 0 by venture A. In terms of the motives for bootstrapping, both venture A and venture B gave 5 points to “lower cost”. Additionally, “manage without external finance”, “freedom to move” and “trust in family /friend” are graded 5 by venture A, while “gain legitimacy “ and “lack of capital” are given 5 points by venture B.

Table 2—bootstrapping motivations

Motives	Venture A	Venture B
Lower costs	5	5
lack of capital	4	5
Reduce risk	3	3
Manage without external finance	5	4
Save time	4	3
Work satisfaction	4	4
Freedom of action	5	4
Wish to learn	4	4
Trust in relatives/friends	5	3
Gain legitimacy	4	5
stage of development	4	4
Line of industry	4	4
No immediate exit intentions	3	3

4.3 Analysis of the data

4.3.1 Owner financing

It can be concluded that owner financing is widely used by Venture A, whereby only one method, “assignments in other business” is missed. However, a totally different situation was found in Venture B, by which none of the owner financing method was used. The result can be explained by the findings in Winborg and Landstrom (2001) that owner finance is mostly used in the business that is newly introduced into the market and usage of owner financing indicates a need for future finance. In our case, Venture A is a start-up company with only one employee working full time on it. Although it has been established for 4 years, it is still new to the food market.

On the other hand, even though they obtained investment from the government, they still report a need of capital in the future due to their business specialty, which requires huge amount of money. For example, only the machines needed for the production would cost 50 Million SEK. Additionally, the specificity of Venture A that the owner’s father is the idea innovator of Venture A and has the specialized knowledge of Venture A’s core technology, the manager’s uncle’s company also invest a lot to venture A also had great contribution to the high rate of using owner financing in Venture A. In a nut shell, venture A can be classified as a family business, which used a lot of owner financing methods for the reason of low cost, maintain ownership, and trust in family.

On the contrary, Venture B used owner financing by withholding manager's salary only for the very beginning stage. After external investors' involvement, Venture B did not have any use for Owner-financing methods, which is in line with the opinion from Ebben and Johnson (2006) that the usage of owner finance methods decreased with more legitimacy is gained and less financial constraint the business is. Moreover, they do not have to worry about future finance, because a venture capital plans to invest a total of 20 million on their business development in the next 10 years. Thus, owner financing is not necessary for Venture B.

4.3.2 Delaying payments

Both Venture A and Venture B delayed payments to suppliers, but they did not delay any payment of value added tax, because value added tax is a requirement by the government regulations and therefore mandatory. To be more specific, Venture A delayed payments to suppliers due to its special relationship with its suppliers. The supplier can be regarded as a partner of Venture A, since the supplier is one of three companies that support Venture A's operation and growth. The manager of venture A illustrated that raw material from suppliers do not cost a lot and venture A does not really need to delay the payment. Thus, it can be concluded that Venture A delays payment to suppliers mostly based on the motive of trust in family and friends rather than on some specific financial purpose. Venture B delayed payment to suppliers to reduce the cost. However, the owner of Venture B also indicated that delaying payment to the suppliers are quite difficult for them, so they do not use this bootstrapping method a lot.

4.3.3 Minimizing stock

This section is only applicable for Venture A, since Venture B is a software company, which does not produce any physical product, thus will not be concerned about any stock issue. None of the methods in this factor is used by Venture B. Similar to the situation in delaying payments; Venture A maintains the best condition with the suppliers to minimizing stock. In fact, Venture A stock their product in the supplier's warehouse. Since the supplier is one of the partners of Venture A, they have free space for stock storage. The interviewee of Venture A concludes that the motive behind this is to reduce cost and due to trust built overtime with suppliers.

4.3.4 Minimizing accounts receivables

Venture A's biggest asset is their customers. Since the company operates in the food industry, an industry that is sensitive as one error could affect consumers directly, highly regulated and monitored by the Swedish government, customers are picky when it comes to trusting a supplier. Products of Venture A which is garlic and onion purees are valuable ingredients for food manufacturers such that once relationship is formed and trust established with customers, a customer stays long enough to sustain the business. Therefore, any customer-based bootstrapping techniques such as to cease business relations with late payers, use interest on overdue payment, choosing customers who pay quickly (Winborg and Landström, 2001) do not apply to this company. Minimizing accounts receivables is not a good technique for their application. Instead, they focus on forming trusted relationships with customers by allowing them longer payment periods.

In terms of Venture B, two of the methods in this category are used: use routines for speeding up invoicing and use interest on overdue payment. Venture B is in the IT industry, which is not as hard to get in as food industry and the relationship and trust for each other is also not as strong as in the food industry. However, a customer is still precious and important to company due to stiff competition in the industry. Therefore, Venture B only uses some bootstrapping methods to speed up invoicing, but they do not cease relationship or choose customers who pay on time. The interviewee of venture B also pointed out that even though they have the regulation for speeding up invoicing, the rule is not strictly executed and their customer have some space to negotiate the time of payment.

4.3.5 Joint utilization

Joint utilization technique is extensively used in both companies for various reasons. For venture A, the plant and machinery needed to prepare the final product could cost as high as 50 million SEK. With a company formed about 4 years ago and just recently started generating revenue, it is almost impossible for them to purchase the plant and machinery by themselves. Since venture A has the access to use the plant and machinery together with another company for free, they applied a lot of joint utilization bootstrapping methods such as sharing the plant, machinery and warehouse with the suppliers. Ordering supplies jointly with others is also commonly used to lower costs and obtain discount for bulk purchase. Similarly, venture B also used a lot of joint utilization methods, such as exchange expertise with other IT companies, and share office with other companies at the beginning stages.

4.3.6 Subsidy finance

Both ventures got Subsidy from Swedish National Board for Industrial& Technical Development, due to their technological characters and their great potential in growth. Subsidy finance can be in form of a loan or grant depending with the business operated but has requirements to be met by a company in need of the funds. Venture A obtained 275,000 SEK and needed more funds from subsidy, but due to not meeting some requirements such as not having many employees to support thus not providing employment on a large scale and paying employment taxes in return, the money was not granted. As for Venture B, a loan of 700,000 SEK was extended to them. It can be observed that this gave legitimacy to the company and enabled them to attract informal and formal venture capital funding as a result of the government trusting them enough to give them a loan, obviously after evaluation and seeing the potential in their business.

5. Discussion

5.1 Summary of the findings

From the above findings both Venture A and Venture B are relationship-oriented bootstrappers relying on joint utilization of resources (Winborg and Landström, 2001). This relates directly to the industries they are operating in. In IT industry as Venture B, jointly using servers and exchanging expertise is common. Harrison et al. (2004) found that small firms use financial bootstrapping for business development rather than product development and this is confirmed by our findings whereby Venture B exchanged employees with other firms to reduce employment costs involved with hiring a new employee. This action reduces costs as well as develops the business in the long term.

A manufacturing company such as Venture A jointly uses production facilities before accumulating enough funds to build their own production facilities. By a detail comparison of motives mentioned by the two company interviewees, it can be concluded that there exists direct link between the bootstrapping motives by the owners and the actions on the bootstrapping methods. In other word, from the bootstrapping methods used, the motives behind can be deducted. One huge difference is that owner finance methods are widely used in venture A, while venture B uses none of them currently. It can be assigned to the factor that venture A is basically a family business. Accordingly, it also explained why the direct manager of

venture A gave 5 point to the motive of trust in family and friends, while only 3 points was given by venture B.

On the other hand, maintain the ownership and freedom to action are also extremely important to venture A, which might lead venture A to seek capital within their own network rather than asking help from the external finance. This situation can also be explained by the pecking order framework, which suggests that firms seek for financial support hierarchically by first using internally available funds, followed by debt, and finally external equity (Chittenden et al., 1996). Another difference is in the account receivable factor, whereby venture B use two bootstrapping methods in this factor to speed up invoicing, but the manager of venture A pointed account receivable methods are not necessary for them. Meanwhile, the owner of venture B graded lack of capital 5 while direct manager of venture A graded this motivation as 4 points. It can be deducted that lack of capital is one of the reasons why venture B want to speed up invoicing.

We can conclude that firms backed up by external investor funds may not face the pressure to encourage customers to pay on time therefore relaxing their trading terms. This explains our findings in Venture A and Venture B where customer-oriented bootstrapping techniques are not strongly emphasized.

Both ventures agreed that saving time is not the most important motive for bootstrapping, because applying bootstrapping techniques are generally time consuming. For venture A, employing and training the unskilled labour are time consuming even though it saves money. It also took a lot of effort for them to keep the best condition with their suppliers in using shared resources. For venture B, they shared employees with other companies, where the employees are not always available. This is very time

consuming and might bring negative influence to the company, especially when there are some time-limited projects.

5.2 Managerial implications

Findings from these two cases can assist new venture managers to evaluate why they should utilize financial bootstrapping when they have investors on board or not. Clearly, this study confirms the hypothesis by Vanacker et al. (2011), "...when bootstrapping does not create new strong dependencies it will benefit start-up growth, especially when dependence from financial investors is high" (Venture B). "However, when bootstrapping creates new strong dependencies it will constrain growth, especially when dependence from financial investors is low" (Venture A).

Venture A's biggest motive for financial bootstrapping was to avoid diluting ownership, such that with a patent on their food production method they could attract enough amount of capital to build a well-equipped production facility and do away with jointly using facilities with others. But this would cost them to give up part of the company ownership to external investors. They decided to bootstrap even though this leads to resource dependency and will delay growth and expansion as they do not to rely on external investors (Vanacker at al. 2011). Therefore, managers should carefully decide why they are bootstrapping and not doing it because they can. Venture B's biggest motive for financial bootstrapping was to limit the extensive use of investor's funds which may lead to the company buying back shares owned by external parties in future. This study will assist new venture managers in IT and manufacturing industries to critically think of

the bootstrapping techniques they use and decide whether they add value and save money or a waste of time in the long-term.

Investors could use this case study to find out the ability for companies they invest in to bootstrap in various ways such that there is no need to invest a lot of money in one company. Instead, a pool of funds can be divided among several start-ups. This enables the expansion of the investor's portfolio, reduces investment risk, and each company with capital need can utilize some form of bootstrapping to fill the excess gaps of financial need depending with motives the companies want to fulfil.

5.3 Limitations

This study is limited to practically studying bootstrapping techniques and motives in two start-up companies from the IT and food manufacturing located in southern Sweden (Skåne region). The study is based on previous empirical evidence from quantitative studies of bootstrapping techniques and motives (Winborg and Landström, 2001; Winborg, 2009). Therefore its application can be limited to these two industries, age of the company to relate with, as well as the location. Thus, care must be taken in generalizing the results outside the specific research context. The number of cases used to draw conclusion is so minimal that probably a large number of cases from IT and manufacturing industries could be used to give a reliable pattern.

5.4 Recommendation for future research

Future research could proceed by examining a large number of start-up companies in IT and manufacturing using the case study approach in specific firms, and not limit the study to southern Sweden alone to try to examine the applicability of financial bootstrapping in various regions or countries. The pattern of bootstrapping motives may change depending with the region, government support available, or the availability of resources to a company in their location.

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