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BOOTSTRAPPING STRATEGIES AND ENTREPRENEURIAL GROWTH: A LONGITUDINAL STUDY (SUMMARY)

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SUMMARY

BOOTSTRAPPING STRATEGIES AND ENTREPRENEURIAL GROWTH: A LONGITUDINAL STUDY

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Principal Topic

Research in entrepreneurial finance generally assumes that growth-oriented ventures lacking internal funds have to attract external finance or alternatively have to keep their growth ambitions in check. An often ignored alternative is that entrepreneurs resort to financial bootstrapping, defined as more or less creative techniques to reduce the need for more external finance (Ebben & Johnson, 2006; Winborg & Landström, 2001).

The value of bootstrapping for growth has been subject to much debate. Some scholars view bootstrap strategies as desirable strategies. Bootstrap finance does neither require a business plan nor collateral (Van Auken, 2005) and allows entrepreneurs to test strategies without pressure from external investors (Bhide, 1992). Others, however, view bootstrap strategies as second-best strategies, only to consider when insufficient external finance is available. Bootstrap strategies, especially those involving the use of social contacts without formal commitments, may have a high opportunity cost, given the uncertainty and possibility of opportunistic behavior (Starr & MacMillan, 1990). Moreover, a reduction of the operating asset base by actively implementing bootstrap strategies may constrain venture growth (Harrison et al., 2004). Given these opposing views, we pose the following question: how does the use of bootstrap strategies impact startup growth?

Method

The sample includes 637 Flemish firms founded one to two years before September 2003 and employing less than 50 people (29.4% of the population). Combining both questionnaire and yearly financial statement data it is examined how bootstrap strategies measured at startup influence growth. The focus is on absolute growth in employment, total assets and value added from 2004 to 2006.

Results and Implications

Results indicate that most bootstrap strategies have no impact on growth. Bootstrap strategies that have an impact, however, are almost always enhancing startup growth. The use of interim personnel, joint premises and the early collection of money from customers, all have a positive impact on growth. While the most common theoretical assumptions about the nature of resources and resource environments offer little understanding of how some ventures prosper in resource scarce environments (Baker & Nelson, 2005), this research addresses the question how ventures may grow despite difficulties in attracting external financial resources.

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