EXPLORING THE RELATIONSHIP BETWEEN FINANCIAL BOOTSTRAPPING AND ORGANIZATIONAL EMERGENCE AMONG NEW VENTURES: ARE SOME BOOTSTRAPPING TECHNIQUES MORE SUCCESSFUL THAN OTHERS? (SUMMARY)

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SUMMARY

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Principal Topic

Bootstrapping in new ventures refers to a variety of techniques that founders use to raise funds from non-traditional business funding sources (e.g., spouses, friends and family) and limit business expenses (e.g., by utilizing used machinery, delaying salaries) (Bhide, 1992; Payne, 2007; Winborg & Landstrom, 2001). For the founders of new ventures, bootstrapping is a particularly important source of financing because they often do not have access to traditional sources of business funding (e.g., bank loans, venture capital financing, public equity) (Stouder, 2002). Although bootstrapping research has investigated the type of bootstrapping techniques companies use (e.g., Carter & Van Auken, 2005; Ebben & Johnson, 2006; Van Auken, 2004), researchers have not investigated whether the founders of new ventures who use certain types of financial bootstrapping techniques are more successful in having their venture become operational. We hypothesize that new ventures whose founders use higher percentages of cash-increasing and externally oriented bootstrapping techniques will more likely become operational than those engaged in higher percentages of cost-decreasing and internally oriented bootstrapping techniques.

Method

We will use data from the first Panel Survey of Entrepreneurial Dynamics (PSED I) dataset (Gartner, Shaver, Carter, and Reynolds, 2004). We will operationalize emergence as occurring when a venture’s revenues exceed expenses. The PSED I dataset contains information about founders’ use of ten bootstrapping items (e.g., using a second mortgage and using free helper-provided services).

Results and Implications

Preliminary analysis indicates that the ventures of founders who use higher percentages of cash-increasing and externally oriented bootstrapping techniques are more likely to become operational than the new ventures of founders who use higher percentages of cost-decreasing and internally oriented bootstrapping techniques. In other words, this preliminary analysis supports our hypotheses and suggests that the founders of new ventures should focus on raising cash and obtaining support from outside of the venture. This study will advance the nascent entrepreneurship literature by showing and explaining which bootstrapping techniques leads to greater success and why. It also helps entrepreneurs to decide which bootstrapping techniques to use.

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