DOES IT PAY TO BE CHEAP? HOW FINANCIAL BOOTSTRAPPING AFFECTS THE PERFORMANCE OF NEW VENTURES (SUMMARY)

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~ SUMMARY ~

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Principal Topic

There is generally a poor fit between the financing needs of start-up entrepreneurs and the supply of financial capital by external financiers due to information asymmetry and high transaction costs (Winborg and Landström, 2001). Financial bootstrapping may thus play a critical role for entrepreneurs who are unable or reluctant to acquire external sources of capital. Despite its widespread use in practice, research on bootstrapping remains scarce. In this paper we address two questions: Do founders employ a specific bootstrapping strategy or do they simply use it because other sources of financing are not available? And, how do bootstrapping strategies relate to new venture performance?

Method

This study is based on case studies of ten web-based start-ups in the Netherlands that provide Internet based services, either through online platforms or computer and mobile phone applications. The companies are between one and four years old, and self-financed for at least one year. In-depth interviews were conducted with the founders of these new ventures to identify their bootstrapping methods and motives, in relation to business goals, future sources of financing and company performance (i.e., time until break-even point).

Results and Implications

Our findings show that the use of bootstrapping decreases as the company reaches break-even point and varies with the bootstrapping strategy of the entrepreneur. Based on the entrepreneur’s bootstrapping motives, business goals and desired future sources of financing, we find evidence for three types of bootstrapping strategies. Long Term Bootstrappers resort to bootstrapping primarily to keep control of the company. They plan to exclusively use bootstrapping in the long run to finance future growth. Milestone Bootstrappers use bootstrapping mainly to reduce risk and prove their business concept. They intend to stop using bootstrapping after break-even point is reached, and to attract external capital to finance future growth. Adaptive Bootstrappers start bootstrapping due to lack of capital and continue after reaching break-even point to optimize business processes. The bootstrapping strategies influence the time to break-even point as follows: Milestone Bootstrappers reach break-even point the fastest, followed by Long Term and Adaptive Bootstrappers.

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