

# **BOOTSTRAPPING: METHODS ENTREPRENEURS REALLY USE TO START A BUSINESS; A HOLISTIC VIEW**

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## **Abstract**

This article examines the use of bootstrapping as a means to launch startup businesses as well as to manage ongoing operations. Although bootstrapping methods are widely used and discussed frequently in the business press, scholars have not addressed these practices holistically; nor have they vigorously pursued bootstrapping as a topic that is sorely in need of additional research. Existing research has primarily emphasized specific bootstrapping methods and identified typologies, often characterizing bootstrapping as a response in light of constrained resources. This article argues that bootstrapping may be a forced choice, or an elective choice. Once one does engage in bootstrapping, additional decisions as to specific methods must be made relative to options that are available or created.

## **Introduction**

An examination of several leading entrepreneurship textbooks showed that “bootstrapping,” which in the context of business startups refers to the use of creative techniques (Bhide, 1992; Arora, 2002) to launch and operate a business, is barely acknowledged. Entrepreneurship courses, as they are often taught may (accordingly) be flavored by this lack of coverage. In writing about the entrepreneurship classroom, Katz, Harshman and Dean (2000) referred to writing a business plan as “the sine qua non of modern entrepreneurship education” (p. 235).

This present paper does not dispute the value of a business plan; however, it does argue against the notion that the target audience of that writing is necessarily “bankers, investors, and lawyers” (p. 235).

On the one hand, some bootstrappers may not be considered worthy of traditional sources of capital by the gatekeepers who control that capital (Wirtz, 2001; Buttner and Rosen 1992). On the other hand, other bootstrappers may be rejecting traditional sources of capital; avoiding those sources; unaware of those sources (Van Auken, 2000); or “have limited business skills” (Van Auken, 2005, p. 94). Of the four alternatives suggested above, the important point being made here is that bootstrapping may occur as a result of an entrepreneur having no other choice (lacking knowledge, skills, or opportunities), or it may be that a business founder is not interested in dealing with bankers, lawyers, and investors. Bootstrappers commonly select from a range of resources or methods such as bartering, sharing, negotiating, drop shipping, locating in low-cost facilities, do-it-yourself (DIY); they may tap financial resources such as credit cards, home equity lines, retirement funds, severance packages, negotiated supplier repayment terms, internally generated cash flow, and money from friends, relatives, or personal savings (Pliagas, 2005; Roberts, 2003; Mamis, 1992). Hence, the issue for educators is to recognize that bootstrapping is far more prevalent than

teaching approaches (relative to the logical inference that bankers, lawyers, and investors are the sine qua non of business plans) and textbooks might suggest. Bootstrapping is the method most entrepreneurs really use to start the vast majority of businesses (Worrell, 2002). One estimate suggested that “between 75 and 85 percent of startups use some form of bootstrapping” (McCune, 1999, p. 1).

### **Existing Research on Bootstrapping**

The lack of formal acknowledgement in textbooks is mirrored by the research efforts of scholarly authors, to date. To further exacerbate this problem, it could also be the case that existing scholarship may be focused on more noticeable firms, those with public visibility, and greater chances for immediately or eventually obtaining capital from traditional sources in the first place. High-tech, Silicon Valley-type businesses (no derision intended to researchers or subjects under study—one must start somewhere) seem to have gained a lot more attention than small home-based businesses, for example. A comparative lack of glamour on the part of numerous small businesses is suggested by the imagery of a lawn care service or a similar business, where most of the assets of the business ride in the back of a pickup truck with a trailer in tow. Alternatively, very small, less visible businesses may be more difficult to recruit as participants in research on bootstrapping.

Nevertheless, the National Federation of Independent Business (NFIB) reported in its *National Business Poll* [on] *Business Structure* that “almost one-third (32 percent) of those [small businesses] employing nine or fewer people are located in the home” (Dennis,

2004, p. 5). The same report indicated that “59 percent of small (employing) businesses are owned by one individual (including his/her spouse if applicable)” and “twenty-seven (27) percent or over one in four have two owners” (p. 4). Adding these two figures together indicates that eight and one-half out of ten (86 percent) small (employing) businesses have only one or two owners. Thus, the population of bootstrappers which perhaps should be under study by future researchers may be associated with more quaint beginnings than those of businesses that are living “life in the fast lane.”

Van Auken, working alone and with co-authors, has produced several studies and is one of the more prolific researchers investigating bootstrapping (such as, Van Auken, 2005; Van Auken 2004; Van Auken and Neely, 1996 and 2000; Van Auken and Carter, 1989). However, earlier this year Van Auken, (2005) observed:

Although bootstrap financing commonly is used and is an important source of capital, few studies have investigated its use by small firms. Previous studies have focused on specific types of bootstrap financing techniques, such as accounts receivable, factoring, and leasing. However, few studies comprehensively have examined the role of bootstrap financing in small firm financing (p. 94).

In other words, “bootstrapping is a phenomenon which deserves more attention in future research on small business finance” (Winborg and Landstrom, 2001, p. 235).

### **Bootstrapping as a Philosophy**

At first glance, one might conclude that large, established firms, may be beyond the stage of development where they might turn to bootstrapping methods, as compared to small, early stage firms. However, an alternative view of bootstrapping, which could be described as a way of life among certain individuals who start and operate businesses, is another possible framework for future researchers to explore. Some individuals may thrive on a “grow from within,” type of strategy, based on cultural notions of independence and self-sufficiency, values that are strongly associated with entrepreneurialism. Bootstrappers may use know-how, imagination, and effort as a substitute for capital (Mamis, 1992; Levinson, 2005). As Lahm (2005) observed:

Bootstrapping is not necessarily a tool used only by business community “have-nots.” Some bootstrappers are awfully proud of the money they save (and the money they make)...It’s not simply an issue of having plenty of spending money, or not. Rather, there is a mindset that says, “I want fair value for my dollar, and I hate feeling ripped off by paying ‘way more’ than something is worth.” In many ways, bootstrappers develop their knowledge and personal skill-sets and use their abilities as a substitute for cash. There’s also a certain satisfaction that comes from becoming more self-sufficient. (p. 2).

Hence, this paper, which is necessarily exploratory in nature, suggests that in

addition to research focusing on specific types or methods of bootstrapping (as mentioned above), bootstrapping should be studied as a holistic approach on the part of entrepreneurs. That is, bootstrapping could be characterized as a philosophy, or a way of entrepreneurial life.

### **Bootstrapping by Choice**

It is certainly the case that in some instances business founders resort to the use of bootstrapping methods when they have no other choice (Cole, Lahm, Little & Seipel 2005; Roberts, 2003). These bootstrapping methods can help to either augment traditional sources of capital (Winborg and Landstrom; 2001) or be the sole source of financing for a business. The most common theme associated with bootstrapping is that it is an alternative action taken by entrepreneurial founders in light of constrained resources. Van Auken (2005) suggested that bootstrapping by small firms “may be especially important due to their lack of access to capital markets” (p. 95). There are several reasons that explain why entrepreneurs may elect to engage in bootstrapping by choice.

#### *“Discouraged Borrowers”*

Kon and Storey (2003) have proposed a type of borrower that they identified as discouraged borrowers: “good borrowers who do not apply for a bank loan because they feel they will be rejected” (p. 37); their findings relate to other research by Cavalluzzo, K.S, Cavalluzzo, L.S. & Wolken (2002) who studied discriminatory lending practices and identified business owners who did not apply for credit “because they believed their applications would have been turned down” (p. 641). Individuals have made a choice to *not even try* to

access capital from traditional sources; these individuals may or may not have been successful, if they had tried.

#### *Desire for Autonomy and Privacy*

Bootstrappers may avoid outside investors because “the venture capitalist plays a role in the management of companies receiving investment” (Fried and Hisrich, 1995, p. 101); besides venture capitalists, any other type of lender or investor usually becomes entitled to exercise some type of oversight. Further, any individual who has applied for business or personal credit cannot help but become immediately aware of the extremely intrusive nature of lending processes: complete credit, debt, tax, personal and other information is typically required. Even when one has “nothing to hide,” he or she may not want to endure such probing on the part of would-be traditional lenders (or other investors).

#### *Self-sufficiency as a Personal Value*

When one accepts capital, he or she must legally and ethically accept that there are certain strings attached. Even in the case of an outright gift from a benefactor, typically a close friend or family member (Detamore-Rodman, 2003), there are at least social strings attached. Some individuals may prefer self-sufficiency so as to avoid those social, legal, or ethical obligations. While this may impose a constraint on a business, “strings attached” are a cost and do imply some risk.

#### *Challenge of the Entrepreneurial Game*

Serial entrepreneurs and ex-franchise owners come to mind as possible entrepreneurial “types” who may feel compelled by their own vision, and confident in their ability to create a business from the ground up. These individuals may enjoy bootstrapping and attain gratification from activities such

as bartering, negotiating favorable terms, or otherwise exercising their creative financing skills.

#### *Emergent Nature of Entrepreneurship*

Entrepreneurship classes and business plans attempt to liken themselves to entrepreneurial reality, but they are not reality. Business startups, ideas, and new products all tend to lead tumultuous lives, filled with “bumps and turns” (Brush, Greene, Hart and Haller, 2001, p. 64). “The odds of any one idea becoming an economic success are so very low that many ideas are needed” (Stevens and Burley, 1997, p. 16). In real life, founding and nurturing businesses is an emergent, creative, problem-solving process. Bootstrapping is, at its core, a creative process (Bhide, 1992; Freear, Sohl & Wetzel, 1994); and it, too, can also be characterized in context as an emergent, problem-solving process. Entrepreneurs are necessarily adaptable, and they ordinarily must creatively meet not just financing challenges, but technological, human resources, operational, organizational, marketing, and virtually any other kind of challenge one might care to name. Entrepreneurs tend to use all of their wherewithal, including a lifetime of accumulated knowledge, skills, and personal resources (Longnecker, Moore & Petty, 2002) to create their businesses and manage them through “multiple iterations” (Brush, Greene and Hart, 2001, p. 64).

#### *Luck and Momentum*

On occasion, an entrepreneur may find a business that seemingly takes on a life of its own. A mere mention by celebrities such as Oprah can create a bestselling book or propel a business to success. As observed by Cohen (2005):

Lori Karmel's business, We Take the Cake, got the ultimate celebrity endorsement: Its Key lime bundt cake was featured on the "Favorite Things" episode of The Oprah Winfrey Show. Then Karmel had to deal with the aftermath. The Fort Lauderdale cake maker's server collapsed after its Web site recorded 800 orders in four hours. The voicemail reached capacity every four minutes. Karmel had to spend \$10,000 to hire an answering service. Orders poured in from far and near. "People were coming in, picking up 60 cakes, 80 cakes," Karmel said. (pg. 1).

### *Speed and Convenience*

As suggested by numerous articles in *Entrepreneur* (Worrell, 2002; Prince, 2003), *Inc.* (Hise, 1998), and *The Wall Street Journal* (Selz, 1994), bootstrapping in its various forms such as leveraging credit cards (Cole, Lahm, Little & Seipel 2005; Loftus, 2004; Report to the Congress, 2002) is faster and easier than suffering through a "chilly reception" from bankers (Rosenfeld, 1999, p.1). After all, startup entrepreneurs often conclude that tapping other resources (discussed above) is faster, easier, almost instantaneous and more certain relative to acquiring capital for a business (with less or no oversight). For example, by leveraging multiple credit cards (Deceglie, 1998; McCune 1999) business founders can gain access to relatively large amounts of capital in comparison to the size of a business startup loan (if that loan was even attainable). As Scully (2002) observed,

credit cards "are easy to come by and the credit limits are high" (p.1).

### **Conclusions**

As discussed in this paper, the existing scholarly literature on bootstrapping is limited. As an exploratory analysis, bootstrapping has been presented from several alternative vantage points. Implications for teaching, scholarship, and service to the entrepreneurial and small business community have also been indicated. If future small business and entrepreneurship researchers wish to connect with reality, they must go beyond a review of the sparse scholarly literature and include additional articles from the business press and more data from a plethora of bootstrappers as research subjects and informants. The overarching argument presented here is: bootstrapping is the way entrepreneurs really start and operate businesses; as such, it deserves far more respect, attention, research and analysis.

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