Bootstrap Finance among Entrepreneurs, Which Techniques They Use?

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Bootstrap finance is regarded as an alternative method to fulfill the need of capital for the entrepreneurs. This method is preferably used since compared to the traditional one, it has many advantages. The most notably is that it does not have to meet institutional requirements or market obligations, compared to if they use the traditional way of financing. This is particularly true for small and medium firms which have a limited access to formal channel of financing such as credit market or attracting angel investors.

The purpose of this study is to identify the techniques of bootstrapping commonly used by entrepreneurs as well as to explore how intense they make use of them. Using 36 small and medium firms in Surabaya, Indonesia as a sample, the result indicates that managing cash and assets is the most frequently used method for entrepreneurs in order to fulfill their necessity of capital. The techniques for this category include coordinating a purchase with other businesses, requiring a down payment, invoicing promptly, minimizing inventory and buying used equipment. This study will benefit entrepreneurs who want to initiate a new venture or business to understand various alternatives of financing outside the conventional ones.

Key words: small and medium firms, bootstrap finance, capital.

I. Introduction

Obtaining capitals to finance firms is a classical problem faced by entrepreneurs. Many efforts have been employed in order to satisfy the need of the capital. Classical method to address the lack of capital is to borrow from financial institutions such as banks and other financing institutions. In this case, bank or financing institution normally will require some collateral. For small and medium firms, the present of assets as collateral become a dilemma since for the firms in this sector, the main problem is the lack of capital. Alternative way of acquiring capital is to share the ownership by selling the stocks to the venture capitalists. However some of the owners consider this method as the last option since it will dilute the fraction of ownership.

For firms in this sector, bootstrap finance is often regarded as an alternative method to address the problem. An extensive variety of non traditional financing methods are available for the entrepreneur such as borrowing the assets, using second hand equipments, delaying payment to supplier etc. Bootstrap finance techniques could help the owner to fulfill the need of capital when traditional sources of capitals are not available (Winborg and Lanstrom, 2000).

Bootstrap financing often define as highly creative ways of obtaining the use of resources without borrowing money or raising equity financing from traditional sources (van Auken, 2004). In this regards through the spirit of entrepreneurship, the owner will find a creative way to find and use alternative method of financing (Bhide, 1992). Previous empirical studies demonstrate specific technique of bootstrapping methods used by the small and medium firms such as sacrificing personal assets, using a personal borrowing, managing cash and assets, using an external relation and making use of external resources (Winborg and Lanstrom, 2001).