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Beyond environmental scarcity: Human and social capital as driving forces of bootstrapping activities

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ABSTRACT

Although entrepreneurship scholars highlight bootstrapping as a key resource acquisition approach to respond to the inherent resource constraints that nascent ventures face, little is known about what causes nascent ventures to engage in bootstrapping. Theory highlights the environment as an important determinant of bootstrapping activity. Analyzing bootstrapping behavior of 298 nascent ventures, we find that beyond perceived environmental factors, individual characteristics of the nascent entrepreneurs and factors relating to the embeddedness of the entrepreneurs in the environment determine their venture's bootstrapping behavior. In a more fine-grained analysis we gain insights into how these antecedents shape the use of particular bootstrapping strategies. Findings contribute to our understanding of factors driving resource management approaches in nascent ventures.

1. Executive summary

The acquisition of resources to pursue the identified opportunities is a key challenge in the entrepreneurial process. Entrepreneurship scholars highlight the importance of bootstrapping as a key resource acquisition approach to respond to the inherent resource constraints that nascent ventures face. Drawing on extant literature, we view bootstrapping as an alternative resource management approach directed at avoiding market-based resource transactions (Ebben and Johnson, 2006; Harrison et al., 2004; Venkataraman, 2003; Winborg and Landström, 2001). Hence, bootstrapping can enable nascent firms to pursue business opportunities, which go beyond means/end combinations, that would be achievable based on conventional market transactions.

However, little is known about what causes nascent ventures to engage in bootstrapping. Extant scholarly work suggests that environmental and organizational antecedents explain bootstrapping activity (e.g., Ebben, 2009; Harrison et al., 2004; Van Auken, 2005), as exemplified by initial findings that the utilization of bootstrapping methods decreases when ventures mature (Ebben and Johnson, 2006). This suggests that bootstrapping is an approach driven by environmental necessities, leaving little room for entrepreneurial agency.

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In this paper, we theorize and subsequently scrutinize about the relevance of an individual's human capital (entrepreneurial and managerial experiences as well as academic education) and social capital (further distinguishing strong ties and weak ties) in addition to perceived environmental characteristics for bootstrapping behavior.

Analyzing bootstrapping behavior of 298 nascent ventures, we find that that the use of bootstrapping strategies in nascent ventures is an individualistic choice of entrepreneurs beyond what a venture's environment dictates. As such, our findings supplement the recently developing literature stream that views entrepreneurs as agents who seek to overcome the bounded capacities of their ventures and avoid resource dependencies (Edelman and Yli-Renko, 2010; Haynie et al., 2010). We find that nascent entrepreneurs with greater levels of human capital in different areas employ more bootstrapping activities. Entrepreneurs with managerial experience and those who have pursued higher levels of academic education or specific business training engage in bootstrapping to a greater extent. This shows that both specific direct experiences and education can affect bootstrapping. However, surprisingly, we do not discover any impact of prior entrepreneurial experience. It appears that with regard to preferences and abilities to engage in bootstrapping or engage in alternative resource acquisition approaches, entrepreneurial experience does not have a strong impact. Moreover, we discover interesting findings regarding the social capital of nascent entrepreneurs. Nascent entrepreneurs draw especially on their weak tie network for bootstrapping activities, but not on their strong tie network. Hence, our result supplements and nuances previous research stating that nascent entrepreneurs with more contacts are more likely to launch and successfully establish new ventures (De Carolis et al., 2009). As expected, we find that perceived hostile business environments or with insufficient access to external financial capital lead to a higher propensity of engaging in bootstrapping activities. This suggests that accessing resources through bootstrapping strategies supplements market-based resource acquisition strategies in nascent ventures.

The central finding of our study is that nascent ventures not only engage more in bootstrapping activities in environments perceived as hostile, but also when the entrepreneurs have higher levels of social and human capital. This aligns with recent insights from the entrepreneurship literature implying that bootstrapping is not a matter of last resort (Winborg, 2009). Nascent ventures' bootstrapping activities are largely a result of the entrepreneurs' individualistic backgrounds. Our conclusion advocates that entrepreneurs have decisive influence on the destiny of their nascent ventures and should be placed center stage in the strategy-formulation process in which bootstrapping appears to play a central role (Foss et al., 2008; Holcomb et al., 2009).

2. Introduction

The entrepreneurship and strategic management literature stipulates that resource management is a key factor for initial survival and subsequent progress of organizations, especially in a context of environmental dynamism and resource scarcity (e.g., Brush et al., 2001; Sirmon and Hitt, 2003). Purposeful resource management can optimize the way that resources are acquired, integrated, and deployed to cope with resource dependencies in a unique manner (Pfeffer and Salancik, 1978; Sirmon et al., 2007).

Nascent firms in the process of establishing new means/end relationships in the marketplace are inherently confronted with a dynamic and resource scarce business context (Davidsson and Honig, 2003). During the turbulent phase of organizational emergence, most nascent firms have to overcome the initial lack of substantial managerial, financial, organizational, and physical resources, which is usually supplemented by the burden of lacking legitimacy in the eyes of important resource providers (Stinchcombe, 1965; Wiklund et al., 2010). These circumstances limit the bargaining power of nascent firms, resulting in unfavorable resource dependencies (Ebben and Johnson, 2006; Packalen, 2007; Pfeffer and Salancik, 1978; Stinchcombe, 1965). Therefore, confronted with an unfavorable point of departure for competing on the resource markets, nascent firms must attract, develop, and utilize – that is, manage – their resources in purposeful ways (e.g., Bhidé, 1992; Brush et al., 2001).

Despite the immediate relevance of resource management for the survival and subsequent growth of nascent ventures, little is known about adequate resource management approaches in this context. Nonetheless, the entrepreneurship literature introduced the concept of bootstrapping as an approach to mitigate resource dependencies (e.g., Freear et al., 1995; Winborg and Landström, 2001). Reconciling the multitude of prior descriptions of the bootstrapping phenomenon, we view bootstrapping as an alternative resource management approach directed at avoiding market-based resource transactions (Ebben and Johnson, 2006; Harrison et al., 2004; Venkataraman, 2003; Winborg and Landström, 2001). Hence, bootstrapping can enable nascent firms to pursue business opportunities, which go beyond means/end combinations, that would be achievable based on conventional market transactions.

Main contributions in the bootstrapping literature relate to establishing typologies for bootstrapping activities (Freear et al., 1995; Winborg and Landström, 2001). Some studies created an initial understanding concerning how the utilization of different bootstrapping methods changes over the organization's life cycle (Ebben and Johnson, 2006) and how it relates to a venture's growth (Vanacker et al., 2011). Extant scholarly work suggests that environmental and organizational antecedents explain bootstrapping activity (e.g., Ebben, 2009; Harrison et al., 2004; Van Auken, 2005), as exemplified by initial findings that the utilization of bootstrapping methods decreases when ventures mature (Ebben and Johnson, 2006). This suggests that bootstrapping is an approach driven by environmental necessities, leaving little room for entrepreneurial agency. However, strategy focused entrepreneurship literature suggests that the entrepreneurs have an important role in determining a nascent firm's trajectory (Edelman and Yli-Renko, 2010; Haynie et al., 2010). Hence, questions arise whether firms' bootstrapping activities are mere responses to environmental demands or if bootstrapping is used beyond environmental conditions as a conscious or unconscious, yet characteristic, approach that reflects the background of the founders.

With the current study, we aim to contribute to the scholarly understanding of bootstrapping by scrutinizing how the founders' backgrounds shape bootstrapping activities in nascent firms. Therefore, this analysis follows prominent literature that