

An exploratory meta-analysis of the nomological network of bootstrapping in SMEs



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ABSTRACT

Bootstrapping, the pursuit of creative ways of acquiring resources in non-traditional ways, is a defining entrepreneurial behavior in small and medium-sized enterprises (SMEs). However, after nearly three decades of research there is no quantitative synthesis of the literature. We meta-analyze data from 22 empirical samples, across 62 effect sizes, and find no significant overall relation between bootstrapping and SME performance. We examined a set of moderators (i.e., type of performance, type of bootstrapping, and bootstrapping measures). Some moderators alter the direction and influence the statistical significance of the bootstrapping-SME performance relation, but none of these moderators were statistically significant.

1. Introduction

Roughly 75% of emerging firms make no use of external debt or equity and instead proactively undertake a bootstrapping approach (Robb and Farhat, 2013; Rutherford, 2015). Bootstrapping—defined as “highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources” (Freear et al., 1995, p. 102)—has been called “part and parcel to the entrepreneurial experience” (Rutherford et al., 2012, p. 3). Not surprisingly, a growing number of researchers in the entrepreneurship domain are exploring the antecedents and consequences of bootstrapping (e.g., Grichnik et al., 2014).

However, after nearly three decades since the seminal publication of Van Auken and Carter (1989) we know far too little about bootstrapping and its antecedents and outcomes. To make matters worse, the extant empirical literature is exceedingly confusing. Vanacker et al. (2011) found that extant literature (both theoretical and empirical) painted inconsistent pictures, with some work supporting the notion that bootstrapping constrains firm performance and other work espousing that bootstrapping enhances firm performance. For example, empirical results can show that bootstrapping has a positive impact on firm performance (e.g., Jones and Jayawarna, 2010; Jayawarna et al., 2011; Vassolo et al., 2005), a negative impact on firm performance (e.g., Rutherford et al., 2012), no impact (Perry et al., 2011), or both (e.g., Ebben, 2009; Fitzsimmons, 2007).

This muddled collection of findings is confusing for scholars, entrepreneurs, and policy makers alike. Our study undertakes a meta-analysis of the extant empirical research to sort out this empirical quandary. The overall model we explored is shown in Fig. 1.

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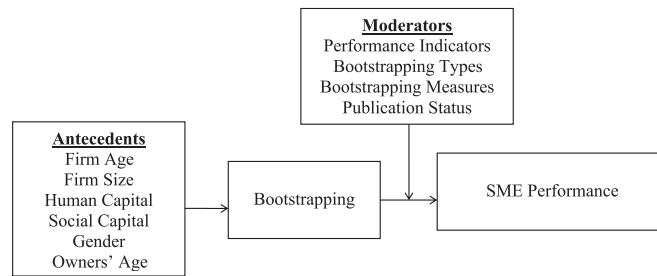


Fig. 1. A conceptual model of the nomological network of bootstrapping.

2. Theoretical Context: Bootstrapping

Although there are multiple ways in which emerging ventures bootstrap (e.g., Jones and Jayawarna, 2010), the preponderance of these behaviors are captured by Winborg and Landström's (2000) framework, which includes: (a) *customer-related bootstrapping* (also termed the “minimizing bootstrapper”), which is the practice of working hard to keep accounts receivable and inventory to the lowest levels possible, (b) *delay payment*, which is the relatively common practice of delaying payments to affect the cash cycle in the entrepreneur's favor, (c) *owner-related*, which is where the owner simply eschews external finance instead relying on personal resources, and (d) *joint utilization*, which is where entrepreneurs share resources to contain and reduce costs.

However, although we have some clarity on what bootstrapping is, there are conflicting theoretical arguments as to what the relationship between bootstrapping and SME performance might be. We briefly outline these perspectives below.

2.1. SMEs, resource constraint, and bootstrapping

One common characteristic of SMEs is that they exist in a severely resource-constrained environment (Baker and Nelson, 2005; Wiltbank et al., 2015). And, despite this substantial disadvantage there are firms that survive and thrive in such an environment. However, with regards to the theory that is applicable to such an environment, there is not a consensus as to what theory would predict. On one hand, we have theories that suggest that engaging in bootstrapping will not enable a SMEs to survive and thrive. In particular, a resource based view (RBT) perspective applied to bootstrapping would focus on whether or not bootstrapping fosters a sustainable competitive advantage. The crux of this approach in the bootstrapping context is the characterization of resources as: (a) valuable, (b) rare, (c) inimitable, and (d) non-substitutable (Alvarez and Busenitz, 2001; Barney, 1991). Although the behavior of bootstrapping may be valuable (i.e., some needed resources are acquired), it is not rare (over 75% of firms bootstrap). And, it is not inimitable (there are multiple ways to imitate the behavior) and it is not non-substitutable (i.e., multiple substitutions exist). Accordingly, bootstrapping should not be positively related to performance.

Similarly, knowledge based theory (KBT) complements the resource-based view of bootstrapping and proposes that knowledge, which resides in people, enables a firm to attain competitive advantage (Grant, 1996; Lepak and Snell, 1999). Our review of bootstrapping techniques (see also Winborg and Landström 2000) indicates that the knowledge required for many bootstrapping activities appears to be largely explicit and non-technical (e.g., use of manager's credit card, withhold manager's salary, ceasing business relations with late payers, collaborating with peers). Accordingly, knowledge based theory—similar to RBT—suggests that the resources created by bootstrapping will have little strategic advantage because, while they may add some value, they can be easily copied or trumped by competitors.

On the other hand, we have theories suggesting that engaging in bootstrapping will indeed enable a SME to survive and thrive. In contrast to RBT and KBT, these theories view bootstrapping as a creative approach to addressing the disadvantages of resource constraint. Rather than taking the very limiting view as organizations “either having the resources they need or they do not” (Baker and Nelson, 2005, p. 331), resource dependence theory (RDT; Pfeffer and Salancik, 1978) and resource constraint theory start from the assumption that organizations rely on resources that are typically not possessed by the firm. Accordingly, firms must acquire resources creatively (Ebben and Johnson, 2006; Jones and Jayawarna, 2010; Pfeffer and Salancik, 1978). Given the fact that SMEs typically have little leverage in acquiring resources from external financiers, they engage in strategic bootstrapping (Rutherford, 2015) to mitigate their dependency on external financiers, thus ostensibly improving their chances of survival and growth (Ebben and Johnson, 2006). They do this by acquiring other types of resources (i.e., social and human), that allow them to overcome a lack of financial capital. Bootstrapping is, from a RDT perspective, a natural and common—even, perhaps, optimal—path for new and small ventures to pursue.

Resource constraint theory (RCT) coincides with RDT, suggesting that firms with resource constraints can identify approaches to (a) efficiently use limited amounts of available resources, (b) to access valuable resources by utilizing their social network, and (c) to thrive by reconfiguring their current resources and exploiting social and institutional inputs that other firms may fail to recognize (Baker and Nelson, 2005; Jones and Jayawarna, 2010; Leibenstein, 1976; Vanacker et al., 2011). Thus, bootstrapped firms, albeit having limited resources, can still compete with more resource wealthy firms by searching for innovative ways to sustain growth and/or by finding approaches to stretch and leverage their resources (Baker and Nelson, 2005; Mosakowski, 2002; Vanacker et al., 2011).

Overall, our perspective on the extant literature is that RBT and KBT provide a limited viewpoint by which to examine

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