

A Research Project Examining Small Businesses Owned By Women In Coimbatore And Their Practice Of Self-Funding.

By

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Abstract

Financial bootstrapping can be understood as self-financing with an aim of starting and growing a business if any other source of investment is not considerable. This method of capital funding tends to build sustainable growth in brands with innovative idea and sufficient market knowledge. Entrepreneurs use their savings, acquire loan from family or friends, use credit card for initial transactions or sell their personal assets to acquire money for investing in their own company. In current trends, women seek financial independence by venturing into businesses. Women entrepreneurs face most problems during funding at different phases of their business. Startups lead by women entrepreneurs are growing substantially over years in every size of business and markets. The purpose of this study is to determine the bootstrapping strategies of small businesses of Coimbatore by understanding their challenges in funding and organizing the bootstrapped funds. This study has identified that most of the entrepreneurs use their salary from previous/existing jobs or seek loans from their friends or family. They use techniques like renting or buying second-hand assets as their way delegate funds. Their major challenge is customer acquisition and prioritizing expense.

Keywords: Bootstrap, Startup, Funding, Small business

Introduction

Financial bootstrapping, which can also be understood as self-financing or self-funding is one of the most under-rated, yet essential part of corporate funding. Self-financing, in layman understanding, is funding a business at founding or growing stage, using personal funds (savings, friends and family) or operating revenue. Acquiring capital funding for initiation and growth of a business, remains one of the most important and tough aspects for an entrepreneur. Small Medium and Micro Enterprises (SMMEs) play an important role in promoting employment, fighting poverty and economic growth and development (Cant and Wiid, 2013). Although there are several researches and articles on effects and sources of financial bootstrapping at various geographical territories and by different researchers, there are still gaps in perceptions when it comes to ideas, attitudes and perceptions of entrepreneurs in small businesses.

According to definition of “Women entrepreneurs” by Coughlin and Thomas (2002), Women entrepreneurs make decisions consciously and are good managers, as well as they move out to explore entrepreneurship to achieve independence and recognition driven achievements. As per the growth and contribution of women-led businesses, it is surprising that this population is not well researched by many past researchers (Brush, Carter, Gatewood,

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Greene and Hart, 2007). A further understanding of how women finance their firms using bootstrapping method can be useful for future women entrepreneurs.

Objective

To study and understand self-funding modes and strategies of women entrepreneurs of small businesses in Coimbatore.

Review Literature

Several researchers such as Van Auken (2005), Bhide (1992) and article by Joakim Winborg (2009) give us a fair idea about why self-funding, otherwise termed as “Financial bootstrapping” is a convenient resource to build a business with subsequent innovative plans.

McCune (1999) has quoted a statement from a research by Tom S. Gail (1997), which states- it is estimated that 75-80% of startups use some form of bootstrapping to finance themselves. Bootstrapping is an option mostly when other sources of funding such as through venture capitalists, banks, and angel investors is non-existent. (Van Auken, 2005). According to a research published by Robert J. Lahm and Harold. T Jr (2005), it is also clear that raising funds from banks or other corporate funding sources for early capitals can be tough in absence of induction factor that substantially benefit to bring investors on board. Even though credit cards are used extensively for business and personal use (Cole, Lahm, Little and Seipei, 2005), any review by authors stating it influences the readers that use of credit card as a merchant is more applicable than that of capital funding.

Bhide (1992), in his research “Bootstrap finance- the art of start-ups” has mentioned the importance of self-financing in initiating a new and small businesses. Van Auken (2005) has suggested that small business owners are quite unfamiliar with various sources of capital, and this influences their capital structure. According to Kriztina Horvath (2018), SME’s constitute a considerable majority of population in businesses in any economy and play an essential role in providing goods and services to other large companies and customers. They face constraints in acquiring resources for smooth functioning and that affects their potential to grow. For such instances, financial bootstrapped or simply understood as self- financing the business, make their lives easy.

When women set out to embark on initiating, organizing and managing business firms and organizations, they are termed as women entrepreneurs. (Suganthi, 2009). It is evident that the normal definition of an entrepreneur can be generally applied to women business owners as well (Tiwari, 2017). There are several studies that illustrate that women busi lack being a priority to investors who invest in return for equity. Some emphasize on women’s growth enduring skills and few researches state that they lack management skills required to run a business (Brush, Carter, Gatewood, Greene and Hart; 2007). Those entrepreneurs who attract equity funding deal are usually those with good technology or biotechnological companies who have access to financial networks. (Brush et al., 2003; Carter et al., 2003)

According to findings from Winborg and Landstrom (2001), there are different classification of self- financing methods such as customer related, owner related, delayed payments and joint utilization of resources. Through their findings, they illustrate these methods to cease financial constraints during the business process and remark them as a potential capital resource.

Methodology

The purpose of this study was fulfilled by collecting survey of Women Entrepreneurs owning small businesses in Coimbatore in form of questionnaire through online survey form. Furthermore, the sample, data collection, data analysis will be presented under this section.

a. Sample:

The sample for this survey were small businesses owned by of Coimbatore, Tamilnadu. A questionnaire based on survey by Winborg and Landstrom (2001); and Ebben and Johnson (2006) was distributed through an online Google form link to over 95 respondents, out of which 61 respondents sent in their responses. Out of 61 respondents, 7 responses were discarded for lack of information and irrelevance to the study. There is a total of 54 small business entrepreneurs whose responses have been finalized for the study. The criteria to be termed as small business in this research is assumed as firms with less than 50 lacs annual turnover.

b. Research design

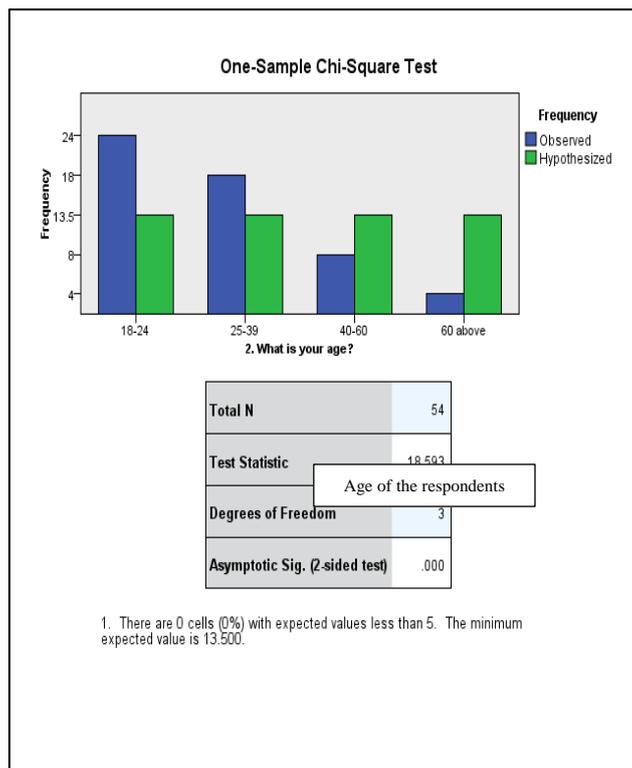
According to Ekanem (2005), there is an increase in superior use of qualitative methodology in researches involving small business. He also points out an argument by Gibbs (1997) which states that studies of requirements in business using questionnaires and checklists are positivist type approaches and does not help much in understanding the process. However, it is very important to get basic answers to such questions as the study becomes more effective.

Findings And Interpretation:

Out of 54 respondents, 24 respondents were of the age group 18-24 years of age, which constitutes 44.4% of total respondents. 4% of respondents are working on their small business over age of 60 years and the rest are between 25 to 60 years of age. About 87% of the respondents are residing in Urban areas of Coimbatore and the rest live in rural areas of Coimbatore. 50% of respondents have completed their under-graduation degree, 39% of them have completed post-graduation degree and the rest of the respondents have completed school and diploma level education.

As mentioned before, all the respondents are women entrepreneurs owning small businesses in Coimbatore. 66.7% of the total respondents are full time business owners. 50% of total respondents are sole proprietors, 39% of respondents are in partnership form of business and the rest have not registered their company yet. 50 % of the respondent's business falls under food and beverages industry. Majority of respondent's business belong to retail industry and rest of the businesses are from manufacturing, advertising, insurance and education industry. 56% of respondents have just started their business, 17% of them have achieved the maturity stage of business and the rest are either growing or losing their businesses. The total number of full-time employees is over 88% of these businesses are less than 25 employees. Majority of the respondent's business has a turnover of less that 5 lacs. However, 17% of them have a turnover for over 20 lacs annually.

Table V-A:



Source: Primary data

Interpretation:

The total number of respondents are 54 women entrepreneurs in family business. The minimum expected value as per the chi square test for age of the respondents is 13.500 with 18.593 with 3 degrees of freedom.

Table V-B

Factors motivating entrepreneurs to start-up:

		Responses		Percent of Cases
		N	Percent	
Motivation	Developing society	12	12.6%	22.2%
	For spreading awareness	3	3.2%	5.6%
	For offering employment opportunities	17	17.9%	31.5%
	Inspiration by family and friends	25	26.3%	46.3%
	Personal growth	38	40.0%	70.4%
Total		95	100.0%	175.9%

a. Dichotomy group tabulated at value 1.

Source: Primary data

Interpretation:

According to Schacter (2011), motivation drives individual’s behaviour to different factors of innovation. Through the questionnaire, the researcher has tried understanding motivation factors that push the women entrepreneurs to start and grow a business. Out of total respondents, majority of them chose their personal growth as a motivation to start-up their businesses. About 26% of the responses claimed that they were inspired by their friends and family. The rest intended to give other opportunities for employment or develop society. Rarely people gave a thought about spreading some kind of awareness through their startups.

Table V-D

		Financial bootstrapping sources:		
		N	Responses Percent	Percent of Cases
If Yes ^a	Credit card	12	12.5%	22.2%
	Own salary	24	25.0%	44.4%
	Profit earned from business	15	15.6%	27.8%
	Loan from friend or family	24	25.0%	44.4%
	Personal savings	21	21.9%	38.9%
	Total	96	100.0%	177.8%

a. Dichotomy group tabulated at value 1.

Source: *Primary data*

Interpretation:

Robert J. Lahm and Harold. T Jr (2005) has researched about textbook literature of financial bootstrapping in which he stated that many businesses are typically financed through a very creative process (Freear, Sohl & Wetzel, 1995; Bhide, 1992) which include sources such as personal savings, credit card or loan from friends and family (Cole, Lahm, Little & Seipel 2005). The researcher intends to understand how the respondents have sourced their funds for the business. Majority of the responses have received some loan from their friends and family or used their salary that they earned from their previous/part time jobs. 15.6% responses were of women entrepreneurs who reinvested their business profits. The rest of them have either used credit card or personal savings as their source of funding.

Table V-C

Alternate fund saving technique:					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Ran business from home	27	50.0	50.0	50.0
	Employed relatives into the business	10	18.5	18.5	68.5
	Rent/Lease assets	11	20.4	20.4	88.9
	Buy second hand machinery	3	5.6	5.6	94.4
	Other	3	5.6	5.6	100.0
	Total	54	100.0	100.0	

Source: *Primary data*

Interpretation:

Out of the total respondents, 50% of them ran business from home for saving costs and expenses. 20.4% of the respondents have either leased or rented or leased assets in order to run their business to reduce the necessity of capitals. Rest have either employed their relatives into business or purchased second-hand machineries.

Table V-E

How do you spend your profits?		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Reinvest in the business	48	88.9	88.9	88.9
	Invest in securities market (Equity, Derivatives and commodities)	3	5.6	5.6	94.4
	Transportation and utilities	3	5.6	5.6	100.0
	Total	54	100.0	100.0	

Source: *Primary data*

Interpretation:

Out of the total respondents, 89% respondents have reinvested their profits in the business and the rest have either invested in security markets or used as expense over transportation and utilities.

19. Please rank each of the following sources of capital relative to how often you have employed these methods to help finance your business. (Ranking scale is as follows: 0 = I never employ this funding method to 5 = I always employ this funding method.

Table V-F

	N	Maximum	Mean	Std. Deviation
Buy Used Equipment Instead of New Equipment	54	5	2.78	1.410
Choose customers who pay quickly	54	5	4.20	1.035
Collect advance payments from customers	54	5	3.56	1.475
Negotiate Best Payment Terms with Suppliers	54	5	3.52	1.514
Withhold Salary When Necessary	54	5	2.26	1.291
Deliberately Delay Payment to Suppliers	54	5	2.72	1.676
Speed up Invoicing	54	5	3.43	1.500
Valid N (listwise)	54			

Source: *Primary data*

Interpretation:

The mean of respondents who have chosen customers who pay quickly is a majority with is 4.21 and standard deviation is 1.035. The lowest mean is of respondents who withhold the salaries of their employees to delegate that to some other activity, i.e, 2.26 and standard deviation of 1.291.

20. Challenges you faced with self-financing (Financially bootstrapping) your business?

Table V-G

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Unable to prioritise expenses.	54	1	5	3.30	1.487
Low risk appetite	54	1	5	3.56	1.239
Depleting savings	54	1	5	3.59	1.311
Challenges in relationship	54	1	5	3.44	1.538
Customer acquisition	54	1	5	3.89	1.423
Consistency	54	1	5	3.67	1.467
Self-discipline	54	1	5	3.56	1.513
Valid N (listwise)	54				

Source: Primary data

Interpretation:

The maximum mean is of the respondents who have faced challenges in customer acquisition with value of 3.89 and standard deviation of 1.423. The lowest mean is of respondents who are unable to prioritize their expenses, i.e 3.30 with standard deviation of 1.487.

Limitations

The samples for this study are chosen from various profiles under the category of entrepreneurs (women) in general. Identifying and acquiring data from the entrepreneurs can be one of the significant challenges faced in this research.

Scope For Future Research

This research focuses on women entrepreneurs and their bootstrapping trend in Coimbatore. There are several researches on South African and US entrepreneurs too. However, not many researches have been done for Indian market. Further studies can be focused to businesses in tier 2 cities of Tamil Nadu or other states of India. This research can be further narrowed down into industrial or cluster based bootstrapping trend study. The researchers interested in this topic can also identify a model for delegation of bootstrapped funds for better results.

Conclusion

Financial bootstrapping or self-financing is mostly an easy resort when it comes to funding a new business. Their motivation to start a business pushes them with an intent to grow

the business. The study observes that the entrepreneurs who have started their business for personal growth lack consistency and self-discipline.

Funds are dedicated towards initial stage activities for the company. The entrepreneurs who have reinvested the profits into the business are the ones who have a turnover of less than 5 lacs. The rest have been frugal with the funds by renting assets, buying second-hand machines or working in either shared spaces or at the comfort of their homes. The challenge they face during the business that is financially bootstrapped is customer acquisition and delegating funds into the right activity, which in way can be identified as prioritizing their funds.

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