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Effects of Financial Bootstrapping Techniques on Operational Performance of Small and Medium-Sized Enterprises (SMEs) in Lagos State

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ABSTRACT

Accessing credit from the conventional banks has been one of the major challenges of Small and Medium-Sized Enterprises (SMEs) in achieving their goals and objectives. This has made SMEs not able to achieve their operational objectives from time to time, thus affecting overall performance of the business. The SMEs operators are forced to design methods which funds could be raised to finance the operational activities. The study investigated the effects of financial bootstrapping techniques on the performance of SMEs in Lagos State. Owner-related finance, delaying payments and customer-related finance were adopted as the financial bootstrapping techniques while operational performance is viewed from the angle of business operations. The study employed survey research design with simple random sampling method. Questionnaire was used as a research instrument for primary source of data collection. 226 copies of questionnaires were administered to SMEs operators in Lagos State, but 219 copies were returned. The findings of the regression analysis revealed that owner related finance and customer-related finance have significant effect on operational performance of SMEs in Lagos State. Delaying payments has no significant effect on operational performance of SMEs in Lagos State. The study recommended that SME operators focus more on owner-related and customer-related financing techniques, and that they consider utilising delaying payment techniques.

Keywords: Customer-Related, Delaying Payments, Financial Bootstrapping, Operational Performance, Owner-Related Finance

1. INTRODUCTION

The pressure that technology is putting on today's business environment has made business organisations to strive to operate with maximum effectiveness and efficiency. SMEs are not exempt from this pressure in today's business environment. To keep up with these demands, SMEs need to adjust their operations to align with the dynamic and unstable environment for business activities. There is no way SMEs can carry out their routine business operations without the need for financing. The operations of businesses need to be funded. Business operations require funding, as the availability of funds acts as the oil that keeps the wheels of business turning. Bootstrapping is among the financial strategies that are less costly and highly effective for ensuring constant cash flow (Salau, 2022). Financial bootstrapping is a technique of funding business operation especially for SMEs (Winborg & Landström, 2001). Financial bootstrapping provides a way for SMEs to generate funds in order to maintain cash flow and continue routine business operations (Muo et al., 2020). Financial bootstrapping entails creative ways of financing business firms especially for SMEs, to avoid relying on external finance (Fatoki, 2014).

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According to Schofield (2015), financial bootstrapping creates a platform for different sources of business financing, excluding the use of debt. Fatoki (2014) believed that financial bootstrapping aids the survival of small businesses. Financial bootstrapping is employed by business owners and entrepreneurs as a result of personal choice (Karlsson & Wallén, 2011; Ologunagba et al., 2022). Winborg (2008) found that financial bootstrapping is mainly employed when there is little or no means of external capital to keep the business operation going. Owner-related finance, joint utilisation of resources, deferred payment, customer-related finance, and account payables are among the components or dimensions of financial bootstrapping (Ologunagba et al., 2022; Salau, 2022; Muo et al., 2020). Contextual observation has demonstrated that businesses especially in developing economy like Nigeria, engage in one of the practices in an attempt to generate innovative means of sourcing funds before relying on external sources of business financing. It is uncertain if this practice of financial bootstrapping has aided smooth routine business activities to achieve the predetermined operational objectives.

Every business has its goals and objectives to be achieved in the short or long period of time. The manner in which business operations are carried out is one of the key determinants in achieving these goals and objectives. The availability of physical capital and talent (human) capital is not enough for businesses to meet their operational requirements without adequate funding. Hofferbeth (2017), Muo et al. (2020), Ologunagba et al. (2022) and Salau (2022) among others, have identified a lack of financial resources affects business activities, especially SMEs. This lack of funds has affected SMEs operations, which made many SMEs in Nigeria, causing many SMEs in Nigeria, as a developing nation, to struggle for survival and fail to achieve the purposes for which they were established (Ayodeji, 2018; Muo et al., 2020). Salau (2022) mentioned that SMEs do not have the required abilities to gain financial from the financial institutions. This resulted in constraints in the external sourcing of financing via the banks. Based on this, it should be noted that the Deposit Money Banks (DMBs) are not assisting SMEs operators due to the stringent conditions that must be met before loans are granted. This affects how ideas could be transformed to concept by the SMEs owners which would enhance the business operational activities. In developing country like Nigeria, most SMEs experience a slowdown in operational activities which makes it difficult to achieve business objectives. Due to this, SMEs operators embark on financial bootstrapping, knowingly and unknowingly, yet the attainment of operational objectives remains a challenge in meeting business mission and vision. Therefore, this study seeks to determine the contribution of financial bootstrapping in SMEs operational performance focusing in Lagos State, using owner-related finance, customer-related finance and delaying payments as indicators of financial bootstrapping.

The objective of this research is to assess the influence of financial bootstrapping (owner-related finance, delaying payment and customer-related finance) on the operational performance of SMEs in Lagos State.

2. CONCEPTUAL REVIEW

2.1 Financial Bootstrapping

Financial bootstrapping implies borrowing less in order to reduce interest costs. Financial bootstrapping entails adoption of creative means within the business capability to avoid the need for external financing. Financial bootstrapping is a cost-cutting and creative approach of financing a business entity (Al-Issa, 2020; Ologunagba et al. 2022). According to Fatoki (2014), financial bootstrapping is all about utilising available business resources to achieve desired results. Schofield (2015) regarded financial bootstrapping as the untraditional sources of business finance, and it is the internal means of generating capital to finance business operation. It saves the business and the owner from acquiring much debt which could threaten the survival of the business (Salau, 2022). Tomory (2010) defined financial bootstrapping as the innovative practice of that entails the use of financial resources without raising funds through borrowings or through equity from the traditional sources.

Financial bootstrapping is a creative means of new financial resources without the use of debt as well as stretching the existing financial resources that have to do with external sourcing for funds (Schofield, 2015; Pal et al. 2020). Mabonga (2022) mentioned that financial bootstrapping is a method of financing as a result of exhaustion of personal savings, excluding personal loans from banks. Financial bootstrapping is the use of extremely inventive practices generate funds without relying on external sources of funding (Vanacker et al., 2012; Winborg & Landström, 2001). Therefore, in this paper, financial bootstrapping is viewed as financing practice that does not rely on external sources of funds to finance the business. It does not follow the traditional methods of sourcing for funds but rather employs creative techniques by business owners or operators to make cash available for business operations.

According to Schofield (2015), financial bootstrapping offers several advantages to SMEs, including protecting them from external scrutiny regarding their finances, helping SMEs to minimise and control debt, reducing funds generated from external sources such as angel investors or venture capitalist, ensuring SMEs to be cash liquidity to finance business activities and preventing SMEs from sole dependence on external capital source.

2.2 Methods of Financial Bootstrapping

Owner-related Finance: This method comes directly from the personal resources of business owner. It involves utilising the owner's personal resources, which can be in the form of human, physical, or material assets. According to Zwane and Nyide (2016), this method involves the direct or indirect provision of resources by the business owner to finance the business's operations. As posited by Winborg and Landstrom (2001)**,** owner-related finance includes the business owner working without pay, working with other organisations to raise funds for the business, employing family members or relatives without agreed wages or salary, using the owner's personal property for the business, and hiring students or recent graduates as employees.

Delaying Payments: Delaying payments is another method of financial bootstrapping considered in this study. Schofield (2015) and Zwane and Nyide (2016) describe delaying payment as a method adopted by business owners or managers to delay the payments of certain bills the business owes. This includes delaying payments to the suppliers, rent, utilities, or salary. Muo et al. (2020) stated that before employing this method, it is better for the business owner to reach an agreement with the relevant parties. Zwane and Nyide (2016) stated that delaying payments aids the business position in terms of cash flow, as payments are deferred to a future date, giving the business time to maintain liquidity (Muo et al., 2020). Delaying payments involves postponing payments for the business to have cash to meet its routine cash expenses.

Customer-Related Finance: This method leverages the customer to improve the business's cash flow. Zwane and Nyide (2016) stated that businesses must operate efficiently to negotiate advance payments from customers. Obtaining advance payments as pointed by Winborg and Landstrom (2001) will increase the working capital and thus, reducing the need for external financing. It is necessary for business owners or managers to offer cash discounts to customers to make this method more effective. Cash discounts encourage customers to be in line with this financial bootstrapping method. Munyanyi (2015) established that customer-related finance involves practices that will induce the customers to pay for goods and service in advanced.

2.3 Operational Performance

Operational performance is the capacity of an organisation to lower management expenses, lead times, order times, and improve raw material utilisation and distribution capacity. Operational performance is the results of the internal operation of an organisation such as throughput, product quality that will meet customer satisfactions (Okunbanjo et al., 2022). According to Manikas and Terry (2010), operational performance indicates the results of business internal processes. Luo et al. (2012) suggested that operational performance involves the non-economic aspects of a firm's general interactions within society, as well as the competitive factors that enhance operational efficiency.

For businesses, operational performance is crucial because it enhances the efficiency of manufacturing processes and leads to the production of high-quality goods (Okunbanjo et al., 2022), thereby boosting sales and profits. Peng et al. (2011) measured operational performance of an organisation via five dimensions: cost, quality, delivery, flexibility, and innovation. These dimensions are employed as they serve as channels for transferring organisational strategy and vision into an instrument that will impact the performance of the organisation (Fullerton & Wempe, 2009).

3. THEORETICAL FRAMEWORKS

3.1 Pecking Order Theory (POT)

Donaldson presented the Pecking Order Theory (POT) in 1961 as a theory for financing of business entities. Stewart Meyer later developed the small company finance pecking order hypothesis in 1984. According to the pecking order theory, companies have a certain preference order for the sources of funding used to finance their operations (Myers & Majluf, 1984). Businesses rank their sources of funding based on the cost of financing, prioritising internal finance over equity and raising stock as a last option. Therefore, internal funds are utilised first. Debt is then issued when they are exhausted, and equity is offered when it makes no sense to issue more debt (Atherton, 2012; Minola & Cassia, 2013; Schofield, 2015). Pecking order theory is relevant to the objectives of the study because the theory outlines small business owners' preferences for financing operations. According to Atherton (2012), POT highlights the funding preferences of small business owners. The theory stressed on the preference for debt financing over equity financing. Small firms rely on internal funding methods before utilising the external sources of financing. This is because of the inability to acquire financial assistance from external sources (Osei-Assibey et al., 2012).

3.2 Empirical Review

Ologunagba et al. (2022) studied bootstrapping dimensions - owner's financing, bill payable and delayed payment - on the sales growth of small businesses using a survey research design and primary data. Through regression analysis, it was found that these bootstrapping dimensions had significant effect on sales growth. The study did not explore how routine business activities are influenced by financial bootstrapping. Salau (2022) examined effect of financial bootstrapping among SMEs and displayed that financial bootstrapping components such as payment delays and joint utilisation of resources, had a significant relationship with SMEs' performance. However, customer-related finance was omitted by the researcher. Pal et al. (2020) conducted a study on bootstrap finance using a qualitative research approach and extensive literature. The study concluded that the most common practice of bootstrap finance are owner financing methods, minimisation of accounts receivable, joint utilisation, delaying payments, minimisation of capital invested in stocks, and subsidy finance. Despite capturing important techniques of financial bootstrapping, the study was not empirically done which makes its findings to be generalised, thus, highlighting the need for further study.

Muo et al. (2020) employed regression analysis to study financial bootstrapping (owner's finance, joint use of resources and delaying payments) and growth of small businesses in Lagos metropolis. Growth was measured in terms of number of employees and expansion in outlets. It was indicated that financial bootstrapping does not have significant effect on small business growth in Lagos metropolis. The authors reported mixed results, and medium size businesses were not included. There is a need for clarification focusing on SMEs. In Costa Rica, Alvarado and Mora-Esquivel (2020) conducted an exploratory study on financial bootstrapping among small businesses. The study reported that customer-related finance, resource mobilisation techniques, and the sharing of resources and other assets with other organisations were common financial bootstrapping techniques in the study area. However, the study did not use appropriate statistical tool such as regression analysis, which the current study has adopted.

Mabonga (2020) used inferential statistics to show that owner financing methods, minimisation of accounts receivable, joint utilization, minimisation of investment in capital stock, and delaying payment had a significant positive effect on financial sustainability. Nchabeleng et al. (2018) found, using snowball sampling and t-test, that there was a significant difference between gender, education level, and the financial bootstrapping methods (minimisation of accounts receivable and joint utilisation;) used by rural small businesses. However, operational performance was not captured in the study, and it was not conducted in Nigeria.

The study of Bemaa and Daniyan (2017) on entrepreneurial financing in a knowledge-based economy discovered that there are many business financing options for SMEs. The study employed a qualitative research approach as well as using the content analysis to conclude that bootstrapping is a skillful source of financing a business. Despite capturing important techniques of financial bootstrapping, the study was not qualitative in nature which its findings cannot be generalised and this is not in line with the nature of current study, thus, necessitating the need for further study. Dagogo and Ohaka (2017) evaluated financial strategies of small business. The study employed quantitative research approach with secondary data. The panel study results revealed that financial bootstrapping was the strategy that most significantly impacted small business financing. However, operational performance was not captured in the study.

Zwane and Nyide (2016) examined financial bootstrapping in small business sector in South African economy. The study used primary source of data collection and analysed the data using descriptive statistics. The study indicated that most business owners in the study area unknowingly employed financial bootstrapping techniques such as owner financing methods, minimisation of accounts receivable, joint utilisation; minimisation of investment in capital stock and delaying payment. However, the study did not use regression analysis and it was not conducted in Nigeria.

Munyanyi (2015) stated that financial bootstrapping was practiced by rural entrepreneurs in Zimbabwe when the author investigated financial bootstrapping strategies of Winborg and Landstrom among Zimbabwe rural entrepreneurs. The study collected data from the entrepreneurs' and analysed it using descriptive statistics. Schofield (2015) found that financial bootstrapping contributed to the success of small businesses in New Hampshire. These studies did not focus on Nigeria and did not employ parametric analysis.

Fatoki (2014), established in his study on financial bootstrapping strategies among micro-enterprise using descriptive statistics that owner-related finance, account receivable minimising, resources sharing and delaying payments were among the financial bootstrapping strategies used by the South African micro-enterprises. Afolabi et al. (2014) examined financial bootstrapping techniques among small enterprises in Osogbo. The study adopted a survey research design. Data were collected via primary source using questionnaires. Descriptive statistics and chi-square were used to analysed the data. It was revealed that not all financial bootstrapping techniques were being adopted by the small business owners in Osogbo. These results differ from previous studies, which calls for further investigation. Moreover, regression analysis was not employed.

In line with the aforementioned, the study therefore hypothesises that financial bootstrapping techniques (owner-related finance; customer-related finance and delaying payments) do not have a significant influence on the operational performance of SMEs operating in Lagos State.

4. METHODOLOGY

The nature of this study is quantitative research study. The study used survey research design. The study was conducted in Lagos State as the economic center of Nigeria, with the highest number of SMEs. The total number of SMEs registered with Nigerian Association of Small and Medium Enterprises (NASME) in Lagos State is the population of this study. The number of SMEs registered with NASME is 583 (NASME Registered Book, 2022). The study used Krejci and Morgan (1970) to determine the sample size, resulting in a sample size of 226.

A simple random sampling technique was adopted. This technique was used in order to ensure that all respondents had an equal chance of being f being selected as participants in the study. Respondents were chosen at random without any element of sentimental reasons. Primary data was collected through questionnaire, which serve as the research instrument to gather data from SMEs operators in Lagos State. In order to achieve the objective of the study, Bonginkosi and Celani (2016); Muo et al. (2020); Schofield (2015) measurement scales for financial bootstrapping were adopted, while a self-developed scale was used for measuring business operations. The questionnaire contained items on each variable employed in this study. Six-Likert scale from strongly agree to strongly disagree was employed to rank the respondents' responses. The reliability test was carried out through Cronbach Alpha to ascertain the internal consistency, and validity was assessed to confirm that the items aligned with the study's objectives. The responses were analysed via multiple regression analysis.

4.1 Model Specification

This study adapts the model of Zwane and Nyide (2016) on financial bootstrapping.

$$OP = \beta_0 + \beta_1 ORF + \beta_2 CRF + \beta_3 DP + \mu_i$$

Where: OP= Operational Performance; ORF= Owner-Related Finance; CRF= Customer-Related Finance; DP= Delaying Payment; B_0 = The Constant of the Equation.; β_1-β_3 = The Coefficients of the Independent Variables; μ = The Stochastic Value.

5. RESULTS AND DISCUSSIONS

Table 1 Reliability Test of the Data

Variables	Reliability Test	Items	Validity Test
Financial Bootstrapping Techniques	0.741	12	0.649
Operational Performance	0.701	6	0.679

Table 1 presents the results of the reliability and validity tests conducted using Cronbach Alpha and Kaiser-Meyer Olkin respectively. The results in the above table indicate that the research instrument is reliable and valid for achieving the objectives of the study. The reliability results of the two variables exceeded 0.70 and the validity results of the variables were above 0.60.

5.1 Test of the Hypotheses

H_o: Financial bootstrapping techniques (owners-related finance; customer-related finance, and delaying payment) do not have a significant effect on the operational performance of SMEs operating in Lagos State.

H_1: Financial bootstrapping techniques (owners-related finance; customer-related finance, and delaying payment) have significant effect on the operational performance of SMEs operating in Lagos State.

The results of the hypotheses are shown in the Table 2.

Table 2 Results of the Hypotheses

	β	Std Error	t-statistic	P-value
Owners' Related Finance	0.298	0.066	4.874	0.009
Customer Related Finance	0.193	0.053	4.206	0.023
Delaying Payment	-0.129	0.061	-0.183	0.250
Adjusted R-Square	0.138			
F-Statistic (p-value)	8.753(0.002)			

Dependent Variable: Operational Performance

Table 2 presents the results of the hypotheses in this study. The findings reveal that R-square, which is the coefficient of determination is 0.138. This means that is 13.8% of the changes in operational performance are explained by the financial bootstrapping techniques, namely owner-related finance, customer-related finance, and delaying payment. The low R-square could be as a result of the fact that SMEs do augment their fundings with an element of external source(s). This implies that the remaining 86.2% are explained by other factors that are not captured in this study. It also shown in the Table 2 that owners' related finance (β= .298; P-value= .009). This shows that an increase in the owners' related finance results in an increase in the operational performance of the SMEs by 0.298 and customer-related finance (β= .193; P-value= .023) have positive and significant effect on operational performance of SMEs in Lagos State. This shows that an increase in the customers' related finance resulting in an increase in the operational performance of the SMEs by 0.193. However, the findings show that delaying payment has a negative and has no significant effect on operational performance of SMEs in Lagos State (β=-.129; P-value= .250). This shows that a decrease in the delaying payment results in a decrease in operational performance of the SMEs by -0.129. However, the model is fit for the achievement of the objective of the study. This is reflected by the F-statistic (8.753) with a p-value less than 0.05 ($p<0.005$). Therefore, the null hypothesis is rejected, meaning that financial bootstrapping techniques (owner-related finance, customer-related finance and delaying payment) do not have a significant effect on the operational performance of SMEs operating in Lagos State.

5.2 Discussion of Findings

The importance of finance on business organisation cannot be undermined. The difficulties in obtaining financial aid from the conventional banks by the SME operators have led to creative thinking of the entrepreneurs to adopt financial bootstrapping for the survival of their businesses. It is evidenced that the items for the measurement of owner-related finance are being practiced by the SMEs operators in Lagos state. SME owners use their personal money, source funds from friends, family, and relatives, and employ family members or friends as workers in order to reduce running cost among others. These approaches are effective in achieving business objectives. The findings provide insight into the methods of delaying payment embarked by the SME operators in Lagos state. SME operators do delay the payment to the suppliers, delay tax payment, payment of utility, withholding workers' salaries for the purpose of being liquid for smooth operational activities. SME operators have been using the customers to generate funds to finance their operational performance. This is done via advance payment by the customers, cash sales, absence of credit sales, and giving discount to customers among others.

The study indicates that the more the SME operators adopt owner-related finance and customer-related finance techniques of financial bootstrapping, the smoother their business operation. This implies that there are liquid funds available to sustain their operations. Although delaying payment also makes cash to be available, it has not shown significant impact on the efficiency of business operations. The findings demonstrate that SME owners do adopt financial bootstrapping, with owner-related finance is the most effective technique, followed by customer-related finance. These two techniques are the most commonly used by SMEs in Lagos State. The businesses utilise their personal financial resources, such as cash, personal equipment, personal assets among others, to operate their businesses and often divert personal funds to finance operational activities, yielding positive results in achieving business objectives. Unlike delaying payment, the technique is being adopted by the business owners in the area of study. However, the technique has not been able to determine the operations of the SMEs. It implies that delaying payment has not significantly contributed to operational performance. SMEs may delay payment to suppliers, rental payments, and creditors among others, but these actions have not made significant contribution to the operational performance.

Overall, the findings indicate the presence of financial bootstrapping in the financial practices of SMEs in Lagos State, as identified by past studies. The findings of this study agree with findings of Afolabi et al. (2014) and Muo et al. (2020) but contradict the findings of Fatoki (2014), Mabonga (2020), Ologunagba et al. (2022), Pal et al. (2020) and Salau (2022).

6. CONCLUSION

This study has achieved its objective which is to examine financial bootstrapping and operational performance of SMEs in Nigeria. This study concluded that not all financial bootstrapping techniques have significant influence on SME performance. The study therefore suggested that SMEs should continue to employ owner-related finance and minimise accounts receivable, as both techniques have great impact on their operational performance. Also, SME owners and managers should be careful and tactical when using delaying payment as a financial bootstrapping, ensuring that it contributes greatly to business operation.

The findings of the study would be useful to SME operators on the adoption or practice financial bootstrapping. It would make the operators to know how financial bootstrapping techniques such as owner-related finance, delaying payments, and customer-related finance aid the routine activities of their businesses. The findings would be important to the management of large-scale businesses by providing insight into how they can adopt financial bootstrapping techniques. The findings of the study would also be useful for prospective researchers that want to investigate financial bootstrapping and its dimensions. However, the study is limited to owner-related finance, customer-related finance and delaying payments as the techniques for financial bootstrapping. Also, the study is restricted to SMEs, with business owners as the respondents. Future research on financial bootstrapping could be extended to cottage and micro businesses as well as large businesses, especially those listed on the Nigerian Stock Exchange. Secondary data could be used when investigating financial bootstrapping in listed firms. Additionally, other financial bootstrapping techniques not covered in this study could be explored in future research.

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