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Winborg and Landstrom's Financial Bootstrapping Strategies and Zimbabwean Rural Entrepreneurs

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Abstract

Rural entrepreneurship development in Zimbabwe has been largely constrained by lack of external financing. This paper sought to investigate the strategies that Zimbabwean rural entrepreneurs are employing to finance their activities and how these strategies conform to those propounded in existing literature. The research design employed was largely descriptive survey in nature. Questionnaires were hand delivered and collected and the results were statistically analyzed using specialized computer packages and the results from the study show that the entrepreneurs employ numerous strategies that largely conform to existing literature with however, a few unlike strategies. Rural entrepreneurship in Zimbabwe has not yet fully developed and is still largely constrained.

Key words: financial bootstrapping, entrepreneurship, rural entrepreneurship, external financing.

1. INTRODUCTION

The introduction of the multicurrency regime in Zimbabwe marked a significant landmark in the transformation of the economy from a hyperinflation and economic sluggishness, to a more stable economic environment. UN (2010) records that the adoption of a multicurrency payments system in February 2009 marked a significant shift in economic policy, reinforced by the crafting and implementation of the Short Term Economic Recovery Programme STERP, its implementation instrument, the 100 Day Plan, and a revised 2009 National Budget denominated in US Dollars. The recently announced economic blueprint, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimASSET) is expected to spearhead a "new trajectory of accelerated economic growth and wealth creation" and "achieve sustainable development and social equity anchored on indigenization, empowerment and employment creation".

While the level of entrepreneurial activity is on the rise following the economic come around in Zimbabwe, the same cannot be said about financial support to these set ups. According to the Reserve Bank of Zimbabwe, financing from banks has been ranging from infrequent to none, with loan advances to small and medium enterprises accounting for only 6% of the total loan advances by the banking sector. This is despite the fact that the micro, small and medium enterprises sector, with 2.8 million owners of enterprises, provides employment to over 2.9 million employees and contributes 60% to the nation's Gross Domestic Product. Kachembere in Manyani (2014) stipulates that the Small to Medium Enterprises sector in Zimbabwe, which accounts for about 90% of the country's employable populace, is in dire need of financing. The situation has been adverse for the rural populace who have remained largely 'unbanked' for long.

According to Nyamwanza (2013), the closure of manufacturing businesses nationwide, and the downsizing of many has contributed to the liquidity crunch and deteriorating foreign direct investments. The Confederation of Zimbabwe Industries (CZI) records that by the end of 2012, the industrial capacity utilization in the manufacturing sector declined from 57,2% to 44.2% . To escape the predicament of unyielding job hunting, and rural to urban migration, many Zimbabweans have opted to setting up small business ventures in the rural areas. Many rural areas in Zimbabwe are slowly becoming self-containing as entrepreneurial activity increases in the rural areas. The evolution of the concept of mobile money transfer platforms like Econet Wireless' EcoCash and Telecel Zimbabwe's TeleCash not only aide in financial inclusion, but bolstered entrepreneurial activity as more and more people sign up to be mobile money transfer agents. The purpose of this research is to probe the strategies that entrepreneurs are employing in the rural areas and how they liken to those stipulated by Winborg and Landstrom.

2. RESEARCH OBJECTIVES

Zimbabwean capital and money markets have remained constrained despite the signs of economic recovery. Small firms are facing a mammoth task, accessing external financing. Therefore, the objective of this study is to investigate empirically the bootstrapping strategies employed by rural entrepreneurs in Zimbabwe, as an alternative to external financing. The foundation of the study has already been laid by the study carried out by Winborg and Landstrom and this research attempts to bring about the Zimbabwean context. The results of this study are aimed at bringing out valuable information for policy makers on initiatives to promote entrepreneurial activity and on the entrepreneurs themselves with regards to ways of financing business operations.Since there is very little research this research is intended to cover the gap that exist in literature by bringing the Zimbabwean perspective.

3. LITERATURE REVIEW

According to Shane and Venkataraman (2000) entrepreneurship is the creation and management of a new organization designed to pursue a unique, innovative opportunity and achieve rapid, profitable growth. Schinck and Sarkar (2012) argue that an entrepreneur must be able to coordinate resources in a successful way, using for that specific skills while Brush et al (2006) lists three main skills that influence the ability of entrepreneurs to reach success: visioning, bootstrapping and social skills. The view held by Bhide (1992) is that smaller firms are

typically more likely to be resource constrained, hence these firms may have a tendency to "bootstrap" available resources in order to achieve their objectives.
In entrepreneurship, resources are central to the implementation of the opportunity (Stevenson and Gumperts, 1985, Katz and Gartner 1988) and a firm considering embarking on a growth trajectory needs to take into consideration how that growth is to be financed (Fitzsimmons,2007). With little or no financial support, the question is, how are rural entrepreneurs financing their startups and managing to survive in the business world? There are a myriad of strategies that entrepreneurial ventures employ in the event of limited financing options. Existing literature has it that small firms that fail to access loans from financial institutions make use of financial bootstrapping to survive. Winborg and Landstrom (2001) identify six clusters of financial bootstrappers and research seeks to investigate whether these clusters do exist in Zimbabwe's rural entrepreneurs.
Worldwide , small to medium business ventures face the challenge of raising startup and working capital financing. Empirical studies have revealed that financing is a greater obstacle for SMEs than it is for large firms, particularly in the developing world, and that access to finance adversely affect the growth of the SME sector more than that of large companies (Schiffer and Weder, 2001; Beck et al, 2005; Beck et al, 2006). These small businesses especially those operating in smaller markets, are often not in the radar of venture capitalists, and their higher transaction costs translates into higher financial costs obligating recourse to alternative forms of financing (Storey, 1994, Schinck and Sarkar , 2010). In addition , the problem with raising money for start-up firms is mainly due to a requirement of "careful market research, well thought-out business plans, top-notch founding teams, sagacious boards, quarterly performance review, and devilishly complex financial structures" (Bhide, 1992). Existing literature has it that bootstrap finance is sometimes treated as a second-best strategy that becomes particularly important when access to external finance is more difficult (Van Auken, 2005).

According to Lahm and Little (2005) bootstrapping is entrepreneurship in its purest form, and involves a highly creative process of transformation of human capital into financial capital. Van Auken and Carter (1989) identify personal savings, the cash value of life insurance, home equity loans, and the sale of personal assets as sources of equity, and friends and relatives as a source of debt in their studies of capital acquisitions of 96 small businesses in Iowa. A more simplified definition of financial bootstrapping was given by Bhide (1992) who chose to define bootstrapping as simply "launching new ventures with modest personal funds". On the benefits of financial bootstrapping, Timmons (1999) argues that bootstrapping strategies can be a major competitive advantage by creating 'a discipline of leanness, where everyone knows that every dollar counts, permeates the firm' and the principle Conserve Your Equity principle becomes a way of maximizing shareholder value. This is supported by Ebben and Johnson, 2006 who argue that bootstrapping reduces overall external capital requirements and improves cash flows.

Vanacter et al. (2011) point out that there are four types of bootstrapping options namely; bootstrapping product development, bootstrapping business development, bootstrapping to minimize the need for outside capital financing, and bootstrapping to minimize the need for capital. Winborg (2000) argues that the methods included in bootstrapping can be categorized with respect to how they influence the financial flow in a business. The research by Winborg and Landstrom (2001) came up with six bootstrapping clusters and these clusters cover the major activities usually understood as bootstrapping namely;1) Delaying Payments, 2)Minimizing Accounts Receivable ,3) Minimizing Investment, 4) Private Owner Financing,5) Sharing Resources with Other Businesses, 6) Use of Government Subsidies. Under these clusters are various strategies that the research identifies as being in use by entrepreneurs. While researches have been carried out in Europe (Schinck and Sarkar, 2012; Fitzsimmons, 2007), in United States (Lahm and Little, 2005) and South Africa (Fatoki, 2014 ; Fatoki,2013), based on the propositions by Winborg and Landstrom (2001) , a gap exists in literature on the Zimbabwean context. In addition, existing literature does not focus on rural entrepreneurs on whom this paper is engrossed on.

4. METHODOLOGY

On the basis of the research by Winborg and Landstrom (2001), twenty eight financial bootstrapping strategies were identified and it is on these that the construction of the research instruments was based. The “Use of manager’s credit card” as a strategy was automatically excluded from the instruments as it is not well-suited with the Zimbabwean context. For ease of data collection some strategies were also merged without distortion to the categorization. A descriptive survey research design was used in this study. This research design is considered an efficient way of collecting information from a large number of respondents and the ability to use statistical techniques to determine statistical significance. (Spector, 1981; Denscombe, 2003)

This study was confirmed to Beitbridge Rural area and all ventures in the sample were handed a questionnaire. The study population was shaped based on the information provided by the Zimbabwe Revenue Authority ,of registered taxpayers under the “Corporate Tax” head and the “Individual –Business Tax” head. The population covered Swereki, Zezani, Siyoka, Tongwe, Lutumba, Madaulo and Chituripasi areas. The database held by the tax authorities show a total of 109 registered taxpayers with active business partner numbers operating from the rural areas of Beitbridge. Simple random sampling was used in selecting the respondents based on the information from the Zimbabwe Revenue Authority. A sample of 70 participants was drawn and of the 70 participants handed questionnaires, 58 were completed questionnaires. The data collected were analysed mainly using descriptive statistics. The analysis sought to described the demography of respondents and the responses using percentages, frequency, mean and standard deviation.

5. EMPIRICAL FINDINGS

Table 1 and Table 2 below provide the descriptive statistics on the bio data of the respondents. The majority of the respondents are below the age of 30 , which is an indication that rural youth entrepreneurship is a reality in Zimbabwe. Most of the respondents are educated with the majority having at least a college diploma. However the research shows that there are more men than women actively involved in business in the rural areas. Women entrepreneurship needs to be promoted in the rural areas.in addition the bulk part of rural enterprises are sole traders who started their operations using their own funds. These ventures mostly employ up to 10 people and have been in business for a substantial period.

Insert Table 1 and Table 2 here..

The results of the research indicate that entrepreneurs in rural Zimbabwe are employing the financial bootstrapping strategies as propounded by Winborg and Landstrom (2001). However there are some strategies that these entrepreneurs are employing that are not in the findings of the aforesaid. The descriptive statistics of findings are given in the table below. In Table 3, the strategies that are highlighted are the ones that are peculiar to the Zimbabwean rural entrepreneurs and are not found in Winborg and Landstrom's findings.

Insert Table 3 here..

6. DISCUSSIONS AND CONCLUSIONS

To a larger extent the entrepreneurs in the rural areas of Zimbabwe employ the strategies propounded by Winborg and Landstrom on financial bootstrapping. However there are some strategies that are peculiar to the study population and do not conform to those in studies carried out previously. The majority of the respondents in this study indicated that they started their business ventures using their own savings. The descriptive statistics indicate that the mode response to the question on sources of startup funds was "1" which corresponds to "Own Savings". The responds also showed that access to financing either from the government or from financial institutions remains inadequate. This stresses the notion that in order to survive rural entrepreneurs in Zimbabwe have to rely on financing alternative like financial bootstrapping.

In the absence of external financing, there is limited growth in entrepreneurial activity in Zimbabwe. There is a greater need for policy makers to craft policies that are aligned to provide financing to rural business ventures. The majority of the businesses in the rural areas employ less than five people. This is a relatively low figure given the levels of unemployment in the rural areas and low capacity utilization in the urban industries and businesses. Rural entrepreneur in Zimbabwe have resorted to using local transport operators to fury supplies from the city and wholesalers. This is the most widely used strategy by these business operators. It is essential to note that this most widely used strategy is not common in existing literature. The same can be said for the third widely used strategy which is operating "Money clubs with other operators". It can be concluded that the entrepreneurs in rural Zimbabwe have gained an appreciation of the uniqueness of the environment they operate in and have effectively adapted to the environment. One way of adapting that is evident is the ability to craft atypical strategies to finance operation in the absence of external funding.

Other strategies that are common among rural entrepreneurs are " Borrowing equipment from other businesses", " Buying used equipment instead of new" and " Sharing premises". These are traditional financial bootstrapping strategies that conform to existing literature (Fatoki, 2013, Lahm and Little , 2005). The research revealed that over 72% of the strategies propounded by Winborg and Landstrom are evident among the rural entrepreneurs of Zimbabwe. .In their final analysis, different groups of financial bootstrappers were identified and named. These group are the “Delaying bootstrapper”, the “Private owner-financed bootstrapper” , the “Minimizing bootstrapper”, the “Relationship-oriented bootstrapper” and the “Subsidy-oriented bootstrapper”. Five out of six of these categories are evident in Zimbabwe. It is the “Subsidy-oriented bootstrapper” that remains concealed because if the current liquidity crunch and the low economic activity that have left the government practically unable to offer any subsidies to various sectors.

7. RECOMMENDATIONS

Given the uniqueness of the country’s multicurrency system and the current liquidity crunch in the local financial system, financial bootstrapping seems to the only reachable alternative for Zimbabwean entrepreneurs. While awareness of the strategies for financial bootstrapping is evident in these entrepreneurs, more needs to be done. It is recommended that government ministries like the Ministry of Small and Medium Enterprises, quasi-government institutions aligned to the development of small and medium enterprises and non-governmental organization mandated to rural development intensify the awareness of these and other financial bootstrapping strategies as a way of promoting entrepreneurial activity. In addition, institutions of higher learning need to adopt extensively modules that have a bias towards entrepreneurship as entrepreneurship is proving to be a solution to the high unemployment that the country is currently experiencing. If courses on financial bootstrapping strategies are taught at institutions of higher learning , it could assist a great deal in enlightening entrepreneurs.

As a complimentary move there is need for policy makers to incentives banks and other financial institutions that finance entrepreneurial activity growth both in the rural and urban areas. Despite the pleasant results of financial bootstrapping as a financing strategy, the need for external financing, especially on startup cannot be over emphasized. If the government puts in place tax incentives and tax holidays to financial institutions actively involved in entrepreneurship promotion, there could be an increase in activity especially in the rural areas.

8. AREAS FOR FURTHER STUDY

It is essential that further studies be focused on establishing using quantitative methods , the impact of financial bootstrapping strategies on the value of entrepreneurial ventures. It is important for entrepreneurial activity growth that both entrepreneurs and government policy makers get a picture of the impact that these strategies are having on the overall value of the ventures.

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Table 1 : Bio Data Descriptive Statistics

		How old is the major owner of the business	What is the owner's highest educational qualification	What is the owner's gender	What type of setup is your business	What was the source of start-up funds	How long have you been operating	What is your annual turnover	How many employees do you have
N	Valid	58	58	58	58	58	58	58	58
	Missing	0	0	0	0	0	0	0	0
Mean		2.3621	2.2414	1.2759	2.5000	1.7931	2.6552	1.7241	1.5862
Mode		1.00	2.00	1.00	1.00	1.00	3.00	2.00	1.00

Table 2: Frequency Table

	Frequency	Percent
How old is the major owner of the business?		
Under 30	19	32.8
31-35	16	27.6
36-40	6	10.3
Above 40	17	29.3
Total	**58**	**100**
What is the owner's highest educational qualification?		
High School	12	20.7
College Diploma	25	43.1
Graduate Degree	16	27.6
Post Graduate Degree	5	8.6
Total	**58**	**100**
What is the owner's gender?		
Male	42	72.4
Female	16	27.6
Total	**58**	**100**
What type of setup is your business?		
Sole Trader	18	31
Private Company	11	19
Partnership	13	22.4
Informal Trader	14	24.1
Other	2	3.4
Total	**58**	**100**

What was the source of start-up funds?		
Own savings	27	46.6
Family and Friends	23	39.7
Bank Loan	4	6.9
Government Loans	1	1.7
Other	3	5.2
Total	**58**	**100**
How long have you been operating?		
Less than 2 years	6	10.3
3-5 years	15	25.9
6-10 years	30	51.7
Over 10 years	7	12.1
Total	**58**	**100**
How many employees do you have?		
less than 5	32	55.2
6 to 10	18	31
Above 10	8	13.8
Total	**58**	**100**

Table 3: Financial Bootstrapping Strategies by rural entrepreneurs in Zimbabwe

Descriptive Statistics

	N	Mean	Std. Deviation
1. Use of local transport operators to fury supplies	58	1.0690	.25561
2. Borrowing equipment from other businesses	58	1.1034	.30720
3. Money clubs with other operators	58	1.1034	.30720
4. Buying used equipment instead of new	58	1.1724	.38104
5. Sharing premises	58	1.2414	.43166
6. Using own funds for business	58	1.2759	.45085
7. Is the owner involved in the day to day running?	58	1.2931	.45916
8. Selling goods on behalf of suppliers and keeping mark-up	58	1.2931	.45916
9. Occasionally hiring personnel instead of employing permanent staff	58	1.3276	.47343
10. Deliberately delaying payment to suppliers	58	1.4310	.49955
11. Relatives working for non-market salary	58	1.4483	.50166
12. Substituting permanent staff by students on attachment	58	1.5517	.50166
13. Personal Bank Loans	58	1.5690	.49955
14. Charging interest on overdue accounts	58	1.6207	.48945
15. Delaying payment of taxes	58	1.6379	.48480
16. Sharing employees with others	58	1.7759	2.74688
17. Selling goods from vehicle	58	1.7931	.40862
18. Running the business from home	58	1.8621	.34784
Valid N (list wise)	58		