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### Bootstrap Financing as a Capital Raising Strategy in *Ikat* Weaving Enterprises

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#### ABSTRACT

Financial bootstrapping is a creative and non-conventional financing strategy by MSME actors to reduce dependence on external funding sources. This study aims to describe the implementation of the bootstrap financing method in obtaining a source of capital for MSMEs running the ikat weaving businesses. Using the samples of 167 ikat business owners in the district of Kampera of the regency of Sumba Timur in the province of Nusa Tenggara, this study used quantitative descriptive analysis techniques. The results show that ikat businesses use bootstrap financing strategies, including independent funding of the owners (including borrowed or invested funds from relatives), receivables management, sharing resources with other businesses, delaying payments to protect cash, and making use of subsidies. From the six indicators of bootstrap financing, the study found that the ikat businesses do not implement one strategy regarding inventory management.

**Keyword:** Bootstrap Financing, Msme, Capital

#### INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have played a critical role in developing the economy. In the Indonesian context, MSMEs have contributed to the country's Gross Domestic Product (GDP); and have survived the global monetary crisis. Additionally, MSMEs have also absorbed numerous workforces in the country. According to the data from the Ministry of Cooperatives and SMEs of The Republic of Indonesia (Kementrian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia), there were 64.194.056 MSMEs in 2018, which were classified into the following details: 63.350.222 micro businesses, 783.132 small businesses, and 60.702 medium businesses. This data shows an increasing number compared to the previous year, which was 62.922.617. In other words, the business has experienced a significant increase of 2.02%. The record also shows that the business units have absorbed 97% of the total 116.978.631 workforce (Kementrian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia, 2018). On 31 December 2019, the Office of Cooperatives Manpower and Transmigration (Nakertrans) of NTT province recorded 104.188 MSMEs (Tuames, 2019).

The data shows that MSMEs have played a crucial role in Indonesian economic development because they provide employment for the community and become the source of earnings for low-income groups of people (Ratnawati & Hikmah, 2012). MSMEs have also been the means for the community to meet their daily needs. Despite their potential, MSMEs are facing several challenges, including capital (Mazzarol & Reboud, 2017), human resources (Saini & Budhwar, 2008), relatively low education level (Efrata & Herdinata, 2012), and

issues related to business management. This study is going to focus on capital problems because they have become the main issue faced by MSMEs in developing countries, such as Indonesia (Ebben, 2009; Nguyen & Nghiem, 2016; Rao et al., 2019).

One of the indicators to determine a progressive business is its performance. In other words, a thriving business always keeps its performance by generating high income and obtaining profits larger than the expenses. The government expects that a region can increase its economic potential through the entrepreneurial community that utilizes local resources so local funding is well-absorbed and useful (Hendriyanto, 2015).

*Financial bootstrapping* was first coined by Auken (2005), who stated that *bootstrapping* is favorable because of some reasons: 1) accessible source of funds, 2) ease of use, and 3) less complicated requirements. Further, Rita (2019) suggests that the creative funding strategy and non-conventional funding sources may help MSME actors to reduce their dependence on external funding. The goal of *financial bootstrapping* is to help MSME actors enhance their businesses without the burden of the high cost of bank interest rates. Winborg & Landström (2001) categorize financial bootstrapping into six indicators: 1) independent funding from the owners, including borrowed or invested funds from relatives, 2) minimizing accounts receivable, 3) sharing resources with other businesses, 4) delaying payments to protect cash, 5) inventory management, 6) making use of subsidies. The method of financial bootstrapping is favorable to help MSMEs grow sustainably and create competitive excellence.

Based on the record, there are 4.830 employments in the existing 2.741 MSMEs in the Regency of Sumba Timur of the Nusa Tenggara Timur province (BPS Kabupaten Sumba Timur, 2020). The data shows that most of the MSMEs in the area are working in the traditional *ikat* weaving business. They are spread in two districts, namely Kambera, the largest center of *ikat* weaving; and Umalulu, the center for *songket* weaving. This study uses MSME actors in the Kambera district as respondents. *Ikat* is one of the local businesses in the Regency of Sumba Timur that still preserves its tradition regarding the production process. Therefore, the existence, operation, and sustainability of the *ikat* business are influenced by capital availability. Regrettably, similar to other MSMEs, *ikat* entrepreneurs in the area are facing challenges in obtaining capital to run the business. Pakereng (2017), found that capital is a classic problem faced by *ikat* businesses in the Regency of Sumba Timur; thus, the businesses hardly grow. For that reason, this study aims to analyze the use of bootstrap financing by *ikat* businesses in the district of Kambera in the regency of Sumba to obtain capital for their businesses.

It is common to find small businesses, especially private enterprises, face challenges in making financial decisions. Obstacles include practices of mixing business and personal goals, taxes, and personal or two-way transactions. Previous studies confirmed that maximizing wealth is not the main objective of small enterprises (Watson & Wilson, 2002). Information asymmetry, high transaction costs, credit rationing, and bad credit ranking, have also impeded MSMEs from obtaining capital. Further, MSME owners may: a) need external funding, but they are limited (Winborg & Landström, 2001), b) choose not to seek business credit, and c) opt for using internal funding.

Researches show that the preference of entrepreneurs has a significant impact on their capital gain. Watson & Wilson, (2002) argue that the *pecking order framework* (POF) is useful in understanding the capital acquisition of a business. They also found that POF is suitable for small businesses because of the owner-manager practices. Besides capital,

financial resources from personal asset support from friends and relatives, amenities, credibilities, and reputations, are valuable elements to help MSMEs grow (Bhide & Stevenson, 1992). Financial resources that are outside the financial structure of traditional enterprises are included in the integrated financing. Among informal resources, business owners usually have the highest preference for trade credits, which is then followed by the preference for having financial support from friends and relatives, and creditors. Meanwhile, external equity is usually the least preferred (Kent Baker et al., 2020).

A successful entrepreneur must be able to address any challenges in creative ways. It begins with the way they obtain resources to run the business. Since funding is the most critical resource for MSMEs, entrepreneurs are required to seek for alternative fundings to reduce their dependence on external parties. A well-known method of alternative funding is financial bootstrapping. It refers to a process where business owners collect funding resources without relying on debts, equity funding from banks, or external investors (Vanacker, 2011). According to Barra & Zotti (2016); Rita (2019), financial bootstrapping is a creative funding strategy and non-conventional funding sources to reduce dependence on external funding. The strategies can support MSMEs in developing their businesses without the burden of the high cost of bank interest rates. Although it is common to find small and medium entrepreneurs are having problems obtaining traditional funding resources such as bank loans and capital markets, financial institutions do not seem to see the opportunities. There are not many financial institutions providing financial support to growing small and medium enterprises (SMEs). Hence, SMEs have limited access to and little trust in traditional finances (Bhide & Stevenson, 1992). Dwelling on the problems, MSMEs are prone to bankruptcy because they are not able to collect direct or indirect funding. This is in line with the results of previous studies that found a correlation between a lack of funding and business failures (Carter & Van Auken, 2005).

The inability of financial institutions to provide support to MSMEs may be caused by information asymmetry and the theory between MSMEs and financial institutions. As one of the financial institutions, a bank may expect entrepreneurs to have adequate knowledge of banking requirements. However, it is frequent to find that the MSMEs cannot meet the requirements (Vanacker 2011). This study is going to investigate the implementation of bootstrap financing by MSMEs, especially in *ikat* businesses.

## METHODS

Using a quantitative method, this study used numbers for data collection, data interpretation, and result presentation. Begun with a common theory, the study then described it deductively. The theory's validity was tested through observations before concluding. Eventually, the study described the data to find solutions to the problems.

The object of this research was MSMEs running *ikat* businesses in the district of Kambara in the regency of Sumba Timur or Nusa Tenggara Timur province. They are chosen as the respondents because this district is the largest *ikat* industries in the area. As it is suggested by (Sekaran & Bougie, 2016), the population of the research is not only humans, but it includes objects and other natural objects. Populations are not only related to numbers, but also all characteristics or characteristics related to objects.

Using purposive sampling, the final samples in this study were 167 respondents, who were chosen using criteria. Samples were those who are: 1) owners of *ikat* industries residing and running their business in the district of Kambara; 2) having the businesses run for at least

3 years (because bootstrap financing was used in pre-existing businesses, not the new ones); and 3) orienting the industries for pure business, not personal use.

As for data, this study used primary data through questionnaires. Data were collected with the support of enumerators, who are students living in the area. Analysis was performed in a quantitative-descriptive manner using tables and diagrams then described them descriptively before making conclusions (Anderson et al., 2017). Finally, data processing was performed through four steps. First, questionnaires were scrutinized to minimize errors. The second was coding. In this step, the researchers coded each response to allow smooth analysis. The coding mechanism was 1 – agree to the provided statement to 0 – disagree. The third step was moving the required data (numbers) into tables and then classifying the data into six categories of bootstrap financing. As a final step, the researchers descriptively analyzed data in tables and graphs to draw conclusions.

## RESULTS AND DISCUSSIONS

Since it is a quantitative study, the result was in numeric data, which was then descriptively analyzed. The study aims to investigate how MSMEs in the district of Kampera in the regency of Sumba Timur implement bootstrap financing for their initial finance. Questionnaires were used to collect data from 167 respondents. The questionnaires contained six indicators of bootstrap financing, namely independent funding from the owner's savings (including borrowed or invested funds from relatives), minimizing accounts receivable, sharing resources with other businesses, delaying payments to protect cash, and making use of subsidies. It was found that the *ikat* businesses do not implement the strategy for inventory management. Characteristics of the respondents were used to get information about their background in running the *ikat* business. The characteristics, which include sex, age, education level, and the period of running the business, are presented as follows:

**Table 1. Respondents' Characteristics Based on Sex**

Sex	Number of Respondents	Percentage (%)
Male	77	46
Female	90	54
Total	167	100

Source: Processed data, 2021

Based on Table 1, the respondents were 167 *ikat* business owners, where 54% are female, and 46% are male. The result shows that the owners of *ikat* businesses in the district of Kampera are dominated by females. The reason for this result is that in the area, men are working as farmers, thus, weaving is a task mostly performed by women.

**Table 2. Respondents' Characteristics Based on Age**

Age	Number of Respondents	Percentage (%)
< 18 years old	0	0
18 – 25 years old	3	2
26 – 35 years old	23	14
36 – 45 years old	50	30
46 – 55 years old	68	40
> 55 years old	23	14
Total	167	100

Source: Processed data, 2021

From Table 2, it is found that the highest percentage of *ikat* business owners are 46-55 years old (40%), while the lowest percentage are those who are 18-25 years old (2%).

**Table 3. Respondents' Characteristics Based on the Education Level**

Education Level	Number of Respondents	Percentage (%)
Primary school	131	78
Junior high school	23	14
Hig school	10	6
Diploma	1	0,5
Bachelor degree	1	0,5
Master/ doctoral degree	2	1
Total	167	100

Source: Processed data, 2021

Table 3 shows that 78% of *ikat* business owners have a low education level. The result is understandable because education is not crucial and is not a mandatory requirement for *ikat* weaving. Therefore, the *ikat* business owners might not feel required to upgrade their education level. This result is in line with the analysis regarding the respondents' age. If we see the age of the respondents, they were living their young life when education facilities were exclusive because of their price and limited access.

**Table 4. Respondents' Characteristics Based on the Length of Business**

Length of Business	Number of Respondents	Percentage (%)
3-5 years old	11	7
>5 years old	156	93
Total	167	100

Source: Processed data, 2021

Table 4 shows that the owners of *ikat* industries have run their businesses for more than five years. It is not surprising because *ikat* weaving in Sumba Timur is a tradition that has been handed down over generations, so the business is not new in the area.

Regarding funding resources, it is found that 99% of respondents agree that the initial funding used to establish the business was from personal funding. Concerning the funding contribution from families and relatives, 72% disagree that the families and relatives give a contribution to the business. This means that the *ikat* business owners are self-reliant. The finding is relevant to the result of the International Labour Office (2019) finding that business owners in Indonesia dominantly use personal funding.

In general, owners can rely on personal savings because *ikat* businesses do not require a large amount of funding. It is because of several reasons. First, since the weaving tradition has been the legacy over generations, *ikat* business performers do not need to pay for any training. Second, the weaving process uses self-made traditional instruments; thus, people do not need to buy them. Families and relatives usually give their support voluntarily either in the form of money or weaving instruments. Based on the findings, 99% of the *ikat* owners use personal funding. It shows that they apply the first indicator of bootstrap financing. This result is contrasting with a previous study by Prahasiwi & Mildawati (2019), where they found that MSME actors tend to rely on bank loans. A previous study that yielded a similar result to the present finding was from Radja (2018), finding that a major number of MSMEs' funding is



either from personal assets, savings, donations from families and relatives, or business profit. This finding is also relevant to the capital structure theory, where *bootstrap financing* is one part of the pecking order theory. The notion suggests that *ikat* business owners prefer internal instead of external funding to minimize future risks.

**Table 5. Findings**

<b>Funding Resources</b>		
<b>Response</b>	<b>Personal fundings</b>	<b>Fundings from families and relatives</b>
Agree	99%	18%
Disagree	1%	72%
<b>Receivables Management</b>		
<b>Response</b>	<b>Loan is paid relatively in a short period</b>	
Agree	87%	
Disagree	13%	
<b>The Use of Amenities</b>		
<b>Respon</b>	<b>Sharing the use of weaving machine</b>	
Agree	93%	
Disagree	7%	
<b>Payment Method</b>		
<b>Response</b>	<b>Delaying payments to protect cash</b>	
Agree	25%	
Disagree	75%	
<b>Inventory Management</b>		
<b>Response</b>	<b>Making purchase based on the necessities</b>	<b>Production is Made by Orders</b>
Agree	31%	10%
Disagree	69%	90%
<b>Utilizing Subsidies</b>		
<b>Response</b>	<b>Obtain subsidies from the government</b>	
Agree	78%	
Disagree	12%	

Source: Processed data, 2021

Regarding the second indicator of *bootstrap financing*, which is receivables management, 87% of respondents agree that they need a relatively short time to pay loans. A high score in this indicator shows that the *ikat* business owners in the district of Kampera prefer to give their customers a short period to pay the receivables. The main reason is that *ikat* weaving in Sumba Timur is highly expensive, where each *ikat* may cost up to 3 million Indonesian rupiahs. The lengthy process required to produce *ikat* also makes it risky for the business owner to accept down payments and give long-term loans. The result of this indicator is in line with the findings of Auken (2005) and Wasiuzzaman & Nurdin (2019). They found that higher-risk businesses have higher possibilities of implementing bootstrap financing. In contrast, lower-risk businesses have a higher chance to the traditional funding resources.

Seen from the use of amenities (weaving machines, tools, and other instruments), 93% of respondents agree that the amenities can be shared with other family members who might also own *ikat* businesses. In Sumba Timur, it is common to find 3 to 4 members in a family doing *ikat* weaving. Although usually each of them owns their machine, tool, and other

instruments, the amenities are shared among family members in case someone's amenity has malfunctioned. The result of this indicator is in line with Rita (2019) who suggests that a creative funding category includes the joint use of amenities. The strategy aims to reduce dependency on external funding resources.

With regards to the next indicator, which is payment delay, only 25% of the respondents agree to delay payment to protect their cash. This means that most *ikat* business owners do not prefer to delay payments. The cause of this finding is related to the affordable cost of yarns and threads, which are the materials required for the weaving process. The price of these items is still reasonable for the *ikat* business owners to buy in cash. Although the number of respondents who agree to delay payment to protect their cash was relatively low (25%), it shows that the pecking order theory has played a role in the *ikat* business (Baker et al., 2017).

For the inventory management indicator, 31% of the respondents agree, and 69% disagree that they are making purchases based on necessities. Related to *ikat* production, 90% of respondents disagree, and 10% agree that they produce *ikat* by order. The result is understandable because *ikat* entrepreneurs in Sumba Timur usually produce their *ikat* continuously. It means, they do not only weave based on orders but make more *ikat* as a supply in case customers desire to repurchase. The result is in line with the last discussion of down payment, in which *ikat* business owners do not accept front money before they finish the weaving process. The practice has caused them the risk of having relatively limited funds to buy the *ikat* materials. Therefore, perceived from inventory management, there is a low percentage of *ikat* business owners in the district of Kambera who apply bootstrap financing because they do not seem to minimize the inventory.

Regarding subsidy utilization, 78% of the respondents received subsidies from the regional government, while 12% did not. The result represents that the regional-government of Sumba Timur has shown its support for the *ikat* business. The subsidies provided are usually not in form of cash. The government helps businesses by providing yarns and threads. The study found that the *ikat* business owners have benefited from the subsidies for the last 1 year.

According to the findings of six indicators of bootstrap financing to *ikat* MSMEs, it is found that they do not tend to rely on external funding. Instead, they prefer internal funding resources through bootstrap financing strategies. The findings validate the pecking order theory (Auken, 2005; Rasheed & Siddiqui, 2019). Furthermore, bootstrap financing strategies have also been favorable for *ikat* entrepreneurs, as startup businesses, to grow their ventures (Miao et al., 2017; Michiels & Molly, 2017).

## CONCLUSIONS

Bootstrap financing is an effective alternative to reduce the dependency of MSMEs, including the *ikat* business, on external funding such as loans. The financing strategy can help a business be independent and prevent them from any potential risks. Additionally, bootstrap financing may stimulate the growth of new *ikat* businesses.

Based on the results and discussions, it can be concluded that the *ikat* business owners in the district of Kambera in the regency of Sumba Timur, apply four *bootstrap* financing strategies, i.e., 1) independent funding from the owner (including borrowed or invested funds from relatives); 2) sharing resources with other businesses; 3) delaying payments to protect cash; 4) making use of subsidies. However, the result shows that the *ikat* businesses do not implement the strategy of inventory management and receivables

management. Bootstrap financing should have been an effective solution to capital gain if all six indicators are met, but the findings show that the *ikat* business owners have not used all of the strategies.

Since the result found that the *ikat* business owners in the district of Kampera have not managed their inventories, it calls for attention either from the regional government or higher education institutions to provide additional support. Therefore, the recommendation is to organize training or seminar.

For future studies, it may be required to determine whether a process or treatment affects the population of interest. It is recommended to investigate the implementation of bootstrap financing using different analysis methods, such as the T-test and F-test, to better insight into the bootstrap financing benefits on MSMEs.

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personal savings, including borrowed or invested funds from family or friends,