Effect of bootstrapping dimensions on performance of selected Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria

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ABSTRACT: The overall problems faced by the SMEs are similar in different jurisdictions, there are significant differences in their priorities and needs in different countries. One of the most challenging factors that have hindered the growth of SMEs globally has been the inability to pool financial resources together. As such, performance of SMEs has been dwindling across continents over the years, leading to the high mortality rate of businesses in the sector. However, one major obstacle that hamper SME growth is access to finance. Thus, this study investigated the effect of Bootstrapping on the performance of Small and Medium Enterprises in South-West, Nigeria.

The study adopted survey research design and population of the study comprised 14, 527 owner/managers of small and medium scale enterprises (SMEs) enterprises in Lagos and Oyo States. The study utilized stratified simple random sampling technique while sample size of 750 owner/managers of SMEs were enumerated using Cochran's (1977) formula and 86.4% response rate was achieved while data was analyzed using regression method.

The findings revealed that bootstrapping dimensions had significant effect on performance of SMEs in South-West, Nigeria (Adj. $R^2 = 0.219$; $F (5, 642) = 37.234$, $p < 0.05$). The study concluded that bootstrapping improved performance of SMEs in South-West, Nigeria. It was recommended that management of small and medium scale enterprises in South-West, Nigeria should pay more attention on subsidy financing, delayed payment, social capital with less attention on joint utilization in order to improve their performance.

KEYWORDS: Delayed Payment, Joint Utilisation, Owner Financing SME performance Social Capital Subsidy Financing

INTRODUCTION

A major challenge for SMEs is to constantly improve performance in the long term in this highly competitive environment. Several SMEs have been characterized by poor performance and shutdown before their fifth-year anniversary (Leithy,2017) Ali, Ozdemir, and Ozyurek (2020) observed that poor funding has been identified as one of the major challenges of SMEs. SMEs have been found to take careful approach in business decisions which affect the organization as a result of fear of taking calculated risks (Amoah & Amoah, 2018). As a result, most SMEs are unable to move with the trend in the dynamic business environment and as such have encountered loss of sales.

Loss of sales however, has enhanced the closure of several businesses as consistent decline in profitability mounted pressure on operating cost (Zairol, Haigh, &Amaratunga, 2018). Ogbari, Ibidunni, Ogunnaike, Olokundun, and Amaihian (2018) also observed that in the world of business today, where the assurance of the business cycle as well the environment is chocked with unprecedented uncertainties and risks, companies desiring to remain in business and competitive must learn how to navigate more strategically. This being the bane to organization success has led to the consistent loss of revenue and high mortality rate of SMEs. Also, the problem of low productivity growth of several manufacturing SMEs has been attributed to lack of innovativeness due to shortage of finance. Ibekwe (2018) observed that most SMEs only focus on their profit objective and are unable to invest adequately to keep track of the changing customer demands in the business environment. Lack of innovativeness and access to adequate financing has made several products or services of some SMEs become obsolete, thus performing optimally is a mirage

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STATEMENT OF THE PROBLEM

Various studies have investigated the relationship between Bootstrapping dimensions and performance (Felicio et al., 2014; Clarke et al., 2016; Pratono, 2018), alongside a meta-analytic review on studies on dimensions of Bootstrapping by Stam et al. (2014) on the effects of an entrepreneurs' social capital on small firm performance. Also, most of the research done on Bootstrapping and performance have focused on developed economies like Europe and North America (Cantner and Stuetzer, 2010; Ndofor and Priem, 2011; Patel and Terjesen, 2011; Brink, 2011) and African countries like Ghana and Kenya (Agyapong et al., 2017; Bradley et al., 2012). However, there has been a paucity of research on the effect of bootstrapping dimensions on the performance of small-scale businesses have not been fully explored in Nigeria. A methodological gap was as well observed in previous studies; hence the study on bootstrapping and SME performance remains inconclusive, hence, the need to fill this gap. To this effect, this study aims at filling the research gaps on the effect of Bootstrapping dimensions on performance of SMEs in South-West, Nigeria. The study hypothesised thatBootstrapping dimensions have no significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.

The study is limited to owner and manager of SMEs in Lagos and Oyo in South West Nigeria with a total population of fourteen thousand five hundred and twenty-seven (14,527).The two state selected for the study were states with the highest number of SMEs in Nigeria (SMEDAN, 2017). The findings from the study are of immense importance because it deepens the understanding of the effect of Bootstrapping on SME performance and how financing method impacts the activities of small and medium scale enterprises in South West as well as in Nigeria as a whole.

LITERATURE REVIEW

Concept of Bootstrapping

Bootstrapping is the process of building a business from scratch without attracting investment or with minimal external capital. It is a way to finance businesses by purchasing and using resources at the owner's expense, without sharing equity or borrowing huge sums of money from banks. A business that uses bootstrapping is characterized by a high dependence on internal sources of financing, credit cards, mortgages and loans. In other words, bootstrapping is characterized by limited sources of financing. It is also referred to as founding and running a company using only personal finances or operating revenue. This form of financing allows the entrepreneur to maintain more control, but it also can increase financial strain. Owners can bootstrap by cutting costs, personally financing operations, cutting back operations, or looking for other creative short-term financing solutions. This is in contrast to starting a company by first raising capital through angel investors or venture capital firms. Instead, bootstrapped founders rely on personal savings, sweat equity, lean operations, quick inventory turnover, and a cash runway to become successful. For example, a bootstrapped company may take preorders for its product, thereby using the funds generated from the orders actually to build and deliver the product itself.

Concept of SME Performance

SME performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently (Friyanti, 2016). Performance encompasses three specific areas of firm performance: financial performance (profits, return on assets and return on investment), product market performance (sales, market share), and shareholder return (total shareholder return and economic value added). Specialists in many fields are concerned with performance including strategic planners, operations, finance, legal, and organizational development (Ozigi, 2018). Friyanti (2016) adds that the SME performance is the product of factors which include organization structure, knowledge, non-human resources, strategic positioning and human processes. To be successful and remain in business, both profitability and growth are important and necessary for a company to survive and remain attractive to investors and analysts (Gudda, 2017). It is agreed that profit and growth are relevant motives for the existence of a business firm and must therefore be included in any framework to measure performance (Maldonado-Guzman, Pinzon-Castro, & Rodriguez-Gonzalez, 2019). In measuring financial performance, it is the view of Okundaye, Fan, and Dwyer (2019) to integrate both the financial performance and growth aspects of performance, since they are both different aspects of performance each of which reveals different important and unique information Onileowo and Fasiku (2021) believe that superior financial performance is a way to satisfy investors and can be represented by profitability, growth and market value where profitability measures the ability of a firm in the past to generate returns and growth demonstrates its ability in the past to increase its size. However, researchers have pushed forward the case of growth as the most important measure of firm performance mainly because it is more accurate and easily accessible more than pure accounting measures (Shah & Ahmad, 2019).

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Empirical Review

Buigues and Sekkat (2011) revealed a weak positive and significant effect of subsidy on performance. In the same vein, Bonginkosi and Celani (2016), and Fatoki (2014) opined that delayed payments are common among small scale businesses in South Africa and reported a positive and significant association between delayed payment and business performance. According to the studies of Githire and Muturi (2015), Kepha and Muturi (2013) and Njagi, Kimani, and Kariuki (2017), SMEs that use owner financing are seen to have a positive relation with the performance. On the contrary, Muo, Oladimeji, and Okunbadejo (2020) discovered that owner related finance is not statistically significant to small business growth, joint utilization of resources has no statistical effect and insignificant effect on small scale business growth; and also revealed that delayed payment has a negative and insignificant effect on the performance of small businesses in Lagos metropolis. Also, Munyanyi (2015) did not find positive influence of delayed payment on rural entrepreneurs in Zimbabwe. Likewise, Schofield (2015) examined the relationship between bootstrap financing, numbers of employees and small business success and reported that bootstrap use and number of employees did not significantly predict business performance. In the same vein, Bonginkosi and Celani (2016), and Fatoki (2014) opine that delayed payments is common among small scale businesses in South Africa and reported a positive and significant association between delayed payment and business performance. Likewise, Afolabi, Odebunmi, and Ayo-Ohyebiyi (2018) found that delaying payments influences small business performance in Osogbo. Similarly, Jones and Jayawarna (2010) find that the use of payment-related and joint-utilization Bootstrapping methods is positively associated with performance

METHODOLOGY

Research Design/Study Area

The study was carried out in Lagos and Oyo State. Survey research was adopted as a result of the need to generate primary data through the use of structured questionnaire to achieve the research objective.

Population of the Study

The population of this study comprised fourteen thousand five hundred and twenty-seven (14,527) owners / managers of the small and medium scale enterprises in Lagos and Oyo States (SMEDAN, 2017). The population of this study included small and medium scale enterprises in Lagos and Oyo States.

Sample size determination

The sample size for this study was determined using the Cochran's sample size formula (1977). The formula is shown below:

$$n = \frac{NZ^2pq}{d^2(N-1) + Z^2pq} \quad \text{.............................}$$

Where: n = Sample size N = Population size

Z = Standardized normal variable and its value that corresponds to 95 % confidence interval equals 1.96. P = Degree of variability (0.5) q = 1-p d= Degree of accuracy (0.05) α= level of significance (5%)

Applying the formula;

n = 14527 x (1.96)2 x 0.5 x (1-0.5) / (0.04)2 x (14527-1) + (1.96)2 x 0.5 x (1-0.5)

n = 13951.7308 / 24.202 =576.47 n = 577 respondents

However, to compensate for non- response probability; 30% of the sample will have to be added to it to increase the sample base as suggested by (Israel, 2009).

30% non-response = 0.3 x 577= 173.1Approximately, 173

n= 577 + 173n= 750 respondents

Sampling Technique

The simple random sampling technique was used in this study. The use of simple random sampling removes all hints of bias. Because individuals who make up the subset of the larger group are chosen at random, each individual in the large population set has the same probability of being selected. Thus, due to the large population which a sample size has been determined, simple random sampling was the most appropriate to utilise. Further, a proportionate sampling technique was used to know the samples among the selected small and medium scale enterprises in South West. Since the sample size cuts across two locations, that is, SMEs in Lagos and Oyo States, proportionate sampling is the most suitable method to scientifically determine the number of questionnaires to take to each location based on the population of the study in each location without any form of misjudgement.

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Methods of Collection and Analysis

The researcher made use of primary data for this study. The questionnaire was administered to 750 owner/managers of selected SMEs in Lagos and Oyo States, Nigeria. Multiple linear regression analysis was applied to test hypothesisto establish the effect of all the independent sub-variables (owner's financing, subsidy financing, delayed payment, joint utilization and social capital) onthe performance of selected small and medium scale enterprises in South-West, Nigeria. Analysis was carried out using Statistical Package for Social Science (SPSS) version 25 software.

Model Specification

The variables for this study were operationalized with the use of different statistical denotations and values.

$Y = f(X)$

Where: Y = Dependent Variable (SME Performance)

X = Independent Variable (Bootstrapping)

$X = (x_1, x_2, x_3, x_4, x_5)$

Where: x_1 = Owner's Financing (OF)x_2 = Subsidy Financing (SF)

x_3 = Delayed Payment (DP)x_4 = Joint Utilisation (JU)

x_5 = Social Capital (SC)

DATA PRESENTATION AND ANALYSIS

Response Rate Analysis

A total number of 750 copies of questionnaire was administered to the respondents and 648 which represents approximately (86.4%) were returned and found usable for the analysis. One hundred and two (102) where represents 13.6% of the copies administered were not returned and some were incompletely filled, hence judged as invalid and unusable for the analysis. The response rate was adequate for the research and this indicated that the analysis could be done using the above questionnaires.

Restatement of Research Objective, Research Question and Research Hypothesis

Research Objective: determine the effect of Bootstrapping dimensions on performance of selected Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.

Research Question: What is the effect of Bootstrapping dimensions on the performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria?

Hypothesis: Bootstrapping dimensions have no significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.

A multiple linear regression analysis was performed to test the hypothesis with Bootstrapping dimensions (Owner's Financing, Subsidy Financing, Delayed Payment, Joint Utilisation, and Social Capital) as independent sub-variables are while the dependent variable was performance of Small and Medium Scale Enterprises. In the analysis, data for Bootstrapping dimensions were created by adding together responses of all the items under the various dimensions to generate independent scores for each dimension. Performance was measured as a composite index of Sales Growth, Employee Turnover, Market Share Growth, Profitability, and Productivity Growth. A composite index was computed as the sum of responses divided by the total number of measurement items of performance sub-variables. The results of the analysis and parameter estimates obtained are presented in Table below

Summary of multiple regression analysis for effect of Bootstrapping dimensions on Performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.

N	Model	B	Sig.	T	ANOVA (Sig.)	R	Adjusted R^2	F (5,642)
	(Constant)	64.717	.000	13.491				
	Owner Financing	.005	.977	.029				
	Subsidy Financing	1.236	.000	7.179				
	Delayed Payment	.266	.001	3.225				
	Joint Utilisation	-.435	.000	-4.826				
648	Social Capital	.833	.000	6.600	0.000[b]	0.475[a]	0.219	37.234
	a. Dependent Variable: SME Performance							

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	b. Predictors: (Constant), Social Capital, Delayed Payment, Subsidy Financing, Joint Utilisation, Owner Financing

Source: Researchers' Findings 2022

Table above shows the multiple regression analysis results for the bootstrapping dimensions on SME Performance in South-West, Nigeria. The results showed that Subsidy Financing (β = 1.236, t = 7.179, p<0.05), delayed payment (β = 0.266, t = 3.225, p<0.05), and Social Capital (β = 0.833, t = 6.600, p<0.05) all have positive and significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria while Joint Utilisation (β = -.435, t = -4.826, p<0.05) showed negative and significant effect. The result shows that Owner financing (β = 0.051, t = 0.029, p>0.05) has positive and insignificant effect on SME Performance in South-West, Nigeria. The results of the analysis revealed that all the bootstrapping dimensions except Owner financing has an insignificant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. The coefficient of multiple determination Adj. R^2 = 0.219 indicates that about 21.9% variation that occurs in the SME Performance in Nigeria can be accounted for by the dimensions of bootstrapping, while the remaining 78.1% changes that occurs is accounted for by other variables not captured in the model. The predictive and prescriptive multiple regression models are thus expressed:

$SMEP = 64.717 + 0.005OF + 1.236SF + 0.266DP - 0.435JU + 0.833SC + U_i$----(Predictive Model)

$SME\ P = 64.717 + 1.236SF + 0.266DP - 0.435JU + 0.833SC + U_i$----(Prescriptive Model)

Where: OF = Owner Financing

SF = Subsidy Financing

DP = Delayed Payment

JU = Joint Utilisation

SC = Social Capital

SME P = SME Performance

The regression model shows that holding bootstrapping dimensions to a constant zero, SME Performance would be 64.717 which is positive. In the predictive model it is seen that of all the variables, except owner financing has positive but insignificant effect, so the owners/managers of the selected SMEs can downplay this variable which is the reason why they are not in the prescriptive model. This implies that the selected small and medium scale firms should pay more attention to the bootstrapping dimensions especially subsidy financing, delayed payment, joint utilisation and social capital. The prescriptive model further revealed that when all other variables of bootstrapping dimensions (subsidy financing, delayed payment, joint utilisation, and social capital) is improved by one unit, SME Performance would also increase by 1.236, 0.266, (-0.435) and 0.833 respectively. This implies that an increase in subsidy financing, delayed payment and social capital would lead to an increase in the rate of SME Performance in Nigeria while a change in joint utilisation, would lead to a decrease in performance of SMEs. The overall model is significant at F-statistics (df = 5, 646)= 37.234, at p = 0.000 (p<0.05) in predicting the effect of bootstrapping dimensions on SME Performance which implies that bootstrapping dimensions are important determinants in the Performance of Small and Medium Scale Enterprises (SMEs) in Nigeria. The result suggests that such Small and Medium Scale Enterprises (SMEs) should pay more attention towards developing the dimensions of the bootstrapping to increase the SME Performance. Therefore, the null hypothesis which states that bootstrapping dimensions have no significant effect on SME Performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria was rejected.

DISCUSSION

The aggregated results of multiple regression analysis for hypothesis six revealed that Bootstrapping dimensions of owner's financing, subsidy financing, delayed payment, joint utilization, and social capital have significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria, had a positive significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. Thus, Bootstrapping dimensions of owner's financing, subsidy financing, delayed payment, joint utilization, and social capital have significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.Conceptually, there are various Bootstrapping methods that can be applied in a company. Winborg and Landström (2015) categorized them as: customer-related Bootstrapping (minimizing the Bootstrapper) by maintaining the accounts receivable and keeping the inventory as low as possible, delaying payments to protect the cash flow cycle, owner-related Bootstrapping, where the entrepreneur depends more on personal resources than external capital, and sharing resources to reduce costs through joint utilization. SME performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently (Friyanti,

2016). Ozigi (2018) maintained that performance encompasses three specific areas of firm performance: financial performance (profits, return on assets and return on investment), product market performance (sales, market share), and shareholder return (total shareholder return and economic value added). Friyanti (2016) adds that the SME performance is the product of factors which include organization structure, knowledge, non-human resources, strategic positioning and human processes. Many factors are responsible for the success of business or performance (Seyoum et al; 2016). On one hand, SMEs have to compete with their counterparts and large-scale firms and strive to meet the dynamic and rising demands of their customers (Onyiego et al; 2017). As such business performance or success is the result of the interplay amongst many factors and according to Katialem et al; (2018), the greatest determinant of a business' success could be the entrepreneur himself/herself with his/her own strength ascertained coupled with the ability to build a winning team having complementary skills and talents to take care of his/her own weaknesses. This view is consistent with the assertion of Sawaya and Bhero (2017) and Gautam (2016) that success of a business is fundamentally dependent on individual capabilities and behaviors/actions. Empirically, several studies like Smith (2016) and Heim, Hüschelrath et al; (2016) directly analyzed the impact of R&D subsidies on firm survival and reported that a positive and significant causal effect of subsidy on performance and firm's lifespan. According to the studies of Githire and Muturi (2015), Kepha and Muturi (2013) and Njagi et al; (2017), SMEs that use owner financing are seen to have a positive relation with the performance. Buigues and Sekkat (2011) revealed a weak positive and significant effect of subsidy on performance. Also, Schofield (2015) examined the relationship between bootstrap financing, numbers of employees and small business success and reported that bootstrap use and number of employees did not significantly predict business performance. In the same vein, Bonginkosi and Celani (2016), and on the predictor variable of delayed payments Fatoki (2014) maintained that it is common among small scale businesses in South Africa and reported a positive and significant association between delayed payment and business performance. Likewise, Afolabi et al; (2018) found that delaying payments influences small business performance in Osogbo. Similarly, Jones and Jayawarna (2010) find that the use of payment-related and joint-utilization Bootstrapping methods is positively associated with performanceOn the contrary, Muo et al; (2020) discovered that owners related finance is not statistically significant to small business growth, joint utilization of resources has no statistical effect and insignificant effect on small scale business growth; and also revealed that delayed payment has a negative and insignificant effect on the performance of small businesses in Lagos metropolis. Also, while Munyanyi (2015) did not find positive influence of delayed payment on rural entrepreneurs in Zimbabwe though Schofield (2015) found mixed reactions to this Bootstrapping method among small business owners in New Hampshire. Also, Kim (2018) showed that the government subsidy has a negative impact on performance and long-term firm survival.Furthermore, in terms of social capital, Pratono (2018) investigated the mediating role of trust, selling capability and pricing capability on the relationship between social networks and firm performance and revealed that social capital enhanced performance. Also, Stam et al; (2014) conducted a meta-analytic review and found the existence of a positively significant relationship between social capital and performance. Based on the findings of previous studies, the positive performance is mostly associated with the direct control that owners have in their businesses and also having in mind that the and they always have to ensure that the business resources are efficiently allocated.In summary, from the field findings, Bootstrapping dimensions of owner's financing, subsidy financing, delayed payment, joint utilization, and social capital have significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. Njagi et al; (2017), SMEs that use owner financing are seen to have a positive relation with the performance. Buigues and Sekkat (2011) revealed a weak positive and significant effect of subsidy on performance. Also, Schofield (2015) examined the relationship between bootstrap financing, numbers of employees and small business success and reported that bootstrap use and number of employees did not significantly predict business performance. Their findings are in tandem with this study.The findings of this research work give credence and support to the theoretical assumptions of the Pecking Order Theory. Pecking Order Theory predicts that due to the information asymmetry between a firm and outside investor regarding the real value of both current operations and future prospects, external capital (debt and equity) will always be relatively costly compared to internal capital (retained earnings). Myers and Majluf (1984) argue that information asymmetry will lead to a mispricing of a firm's equity in the marketplace, causing a loss of wealth for existing shareholders. This is because of the adverse selection problem that arises because managers are more knowledgeable than outsiders (investors).The Pecking Order Model indicates that entrepreneurs use internal financing methods prior to external methods of debt or equity financing (Degryse et al; 2012; Zha & Zhang, 2010). Due to issues such as information asymmetries, financier demands, costs associated with attaining debt or equity, and loss of control, entrepreneurs tend to follow the pecking order (Minola & Cassia, 2013). Morugesan et al., (2016) added to the pecking order for capital structure theory, stating that the characteristics of the business may lead potential financiers to have differing demands for company performance. Unavailable information regarding the company, or information asymmetries, causes difficulties in measuring differing demands of financiers (Colombo et al; 2013). Information asymmetries play a role in the ability to attain financing, as well as the cost of attaining debt (Colombo et al., 2013; Guariglia et al; 2011). Information asymmetries occur when one party has more information than the other does, or the information is more obvious to one party over the other (Irwin & Scott, 2010). Considering the aggregated multiple regression results for hypothesis six Bootstrapping dimensions of owner's financing, subsidy financing, delayed payment, joint

utilization, and social capital have significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.

CONCLUSION AND RECOMMENDATION

Conclusion

The main objective of this study was to investigate the effect of Bootstrapping on performance of small and medium scale enterprises in South-West, Nigeria. Specifically, the study surveyed the effect of Bootstrapping dimensions (owner's financing, subsidy financing, delayed payment, joint utilization, and social capital) and performance of selected small and medium scale enterprises in South-West, Nigeria. Thus, the study concluded that Bootstrapping dimensions have significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.

Recommendations

Based on the findings of this study, it is considered pertinent to make the following recommendationthat Bootstrapping dimensions have significant effect on performance of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. Thus, the study recommended that management of small and medium scale enterprises in South-West, Nigeria should focus more on subsidy financing, delayed payment, social capital with less attention on joint utilization in order to improve their performance.

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