April 3, 2008

Nydia M. Velázquez, Chairwoman
1539 Longworth House Office Building
Washington, DC

Testimony for a hearing of the U.S. House of Representatives, Committee on Small Business entitled, "The Role of Credit Cards in Small Business Financing"

Thank you to the U.S. House of Representatives, Committee on Small Business for providing this opportunity to submit some of my research and observations for its consideration.

As you will note from my Bio, I am not a lifelong academic. I have been an entrepreneur. I have also been an entrepreneurial bootstrapper, i.e., one who has started a business from scratch with little or no capital. I know exactly how it feels to float with my head bobbing sometimes beneath and sometimes above the surface of treacherous entrepreneurial waters.

The credit card industry has in recent years been aggressively targeting the small-business market. My research shows that credit cards, whether labeled or classified as personal accounts or as business cards, have become a surrogate for traditional sources of capital by bootstrappers.

In one of my earlier papers entitled "Just Say 'Charge It': The Use Of Credit Cards In Entrepreneurial Startups," I attempted to extrapolate data from a variety of sources such as the Census Bureau, SBA, the Federal Reserve, and NFIB (many of us who conduct research recognize that data sets often overlap). While today's numbers would differ, 2001 census data showed 5.7 million firms with employees and 17 million without employees (for a total of 23.7 million businesses); 2002 census data showed 17,646,062 million non-employers. SBA data from 1998 showed that 48.2 percent of very small firms used personal credit cards as a source of capital. Obviously, it would have been ideal if the years matched up. However, by multiplying the credit card usage rate by the number of small firms, I estimated that somewhere in the vicinity of 8.5 million businesses with zero employees across all industry sectors were using personal credit cards as a source of capital in 2002. Usage rates as well as the total number of businesses have both increased since that time.

The subject of entrepreneurial bootstrapping has thus far not been vigorously researched. Bootstrapping is therefore evolving as a subject of study and discussion. For instance, while the term was originally used in reference to financing, I recently introduced a paper examining the construct of "bootstrap marketing." Some entrepreneurs use bootstrapping techniques because they have no choice, but my research suggests that others employ bootstrapping techniques deliberately.

Bootstrapping can be viewed as a philosophy, a way of life among certain individuals who start and operate businesses. Bootstrappers commonly select from a range of resources or methods such as

MTSU • Jones College of Business • MTSU Box 40 • Murfreesboro, TN 37132
615/631-9650 • RJLahm@Gmail.com • http://MTSU.edu/~RLahm • http://DoctorLahm.com

bartering, sharing, negotiating, drop shipping, locating in low-cost facilities, and do-it-yourself (DIY) methods. They may tap financial resources such as credit cards, home equity lines, retirement funds, severance packages, negotiated supplier repayment terms, internally generated cash flow, and money from friends, relatives, or personal savings.

Boostrappers do not, or cannot access traditional lenders, business angels who buy ownership in their firm, or venture capital. There are many reasons for this behavior. They may not want other owners to meddle in their business, they may want to prototype their business concept before jumping into selling ownership for capital, or they may fear the loss of control by having other owners. Even when one accepts money from family members on an informal basis, there are expectations and emotional strings attached. Some researchers, including myself, note that the constraints of having little or no capital produce innovation. When one is forced to make-do, the likelihood of a creative solution is increased.

To a bootstrapper, a business credit card is a fast, easy, virtually instantaneous, means of acquiring capital for their business. Credit card applications are easy to fill out as compared to preparing financial statements and perhaps incurring accounting fees in the process of submitting an application for a traditional loan. There are, however, many dangers for the would-be business (or consumer) credit card holder. Most of us are aware of the game that is played given that credit card companies incorporate regular change in terms provisions in their application/contracts. Indeed, language such as "we may change our terms at any time, or for any reason," foreshadow that they can and will do so regularly. The biggest problem with respect to credit card companies is that they can be whimsical in their treatment of credit card holders. I believe my use of the word "whimsical" above is appropriate given that some issuers have added "or for no reason" to their change in terms disclosures.

Another danger is that so-called "business cards," are no different from ordinary credit cards relative to personal liability (whereas many small business owners think that once they form a business, they are protected – they have typically never heard of veil piercing). What I fear is that less sophisticated bootstrappers may be drawn into this scheme, believing that there is a difference in personal liability between an advertised "business card" and a "personal credit card." There isn't.

Credit card companies may slap the unwary borrower with higher interest rates when payments are late, in addition to late fees. According to a United States Government Accountability Office (GOA) report entitled, CREDIT CARDS: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers, "35 percent of their [credit card issuers'] active U.S. accounts were assessed late fees and 13 percent were assessed over-limit fees in 2005." Even the IRS uses a postmark to signify compliance with the spirit of a taxpayer's filing deadline. Credit card companies will impose a late fee even if someone is "one hour late," and they are racking up huge profit margins on these fees. I also remain concerned about differences among women and minorities with respect to access to capital or the treatment they receive as borrowers in any context.

Knowing that entrepreneurship is vital to the economy, we must find ways to study and support bootstrappers, since they comprise the vast majority of all start-ups. These businesses may finally reach the cover of *Inc.*, *Fast Company*, or *Entrepreneur*, but they are started on kitchen tables. In terms of entrepreneurs as research subjects, scholars have tended to focus upon larger more

noticeable firms, those with public visibility, and greater chances for immediately or eventually obtaining capital from traditional sources. However, there are millions of very small businesses – bootstrappers – whose activities, operations, and aspirations are barely visible on the scholarly researcher's radar screen. These small businesses are visible to credit card companies, as they represent a promising new target market.

As policymakers, I would invite you to consider novel approaches to disseminating formal education and training for nescient entrepreneurs. I urge your consideration of the following:

1) We need better disclosure requirements. When other industries have produced products that may be hazardous to consumers' well being, they have been forced to educate consumers. I believe that so-called business cards should contain a bolded warning: "Though this card may be issued in your name and the name of your business, you are making a personal loan when you use this credit card. You are fully liable for paying on any debt created by the use of this card." The reverse mortgage industry produced a video.

2) Unfortunately, "personal finance" has been greatly underserved as a subject for contemporary students in high schools and universities. While this may fall under the purview of the U.S. Department of Education, I suggest that this Committee could pass along its recommendations for increased attention in addressing a societal need for financial literacy.

3) I fear that a proposal to require that the terms of credit be frozen at the time the credit was taken would actually raise the cost of credit to all. On the other hand, lenders who are utilizing predatory lending practices, trickery, and an obviously disingenuous strategy to trap borrowers in a classic game of "bait and switch" with change in terms agreements must be stopped, given that entrepreneurs are the life-blood of the economy.

There is one thing that Congress should avoid doing: please do not add to the complexity of regulation as it applies to individual entrepreneurs and small businesses.

We are all looking for a model to advance entrepreneurial growth and development, one with which we can prosper as a nation. As is the case in biological systems, it is a sad fact of life that some young will not survive. Nevertheless, we must thwart the predators and conditions that threaten new businesses. I appreciate this opportunity to share my observations. I would also like to thank the Committee Members for their service to our country and for their thoughtful deliberation of the challenges and role of entrepreneurial bootstrappers. I wish you well on your quest to create policies that can nurture those businesses that deserve an opportunity to succeed. If I may be of further service in the future, I hope you will call upon me again.

Respectfully submitted,

Robert J. Lahm, Jr., Ph.D.

MTSU • Jones College of Business • MTSU Box 40 • Murfreesboro, TN 37132
615/631-9650 • RJLahm@Gmail.com • http://MTSU.edu/~RLahm • http://DoctorLahm.com

JUST SAY "CHARGE IT": THE USE OF CREDIT CARDS IN ENTREPRENEURIAL STARTUPS

Robert J. Lahm, Jr.
Assistant Professor of Entrepreneurship
Jones College of Business
Middle Tennessee State University
P.O. Box 40
Murfreesboro, TN 37132

Phone: (615) 898-2785
Fax: (615) 898-5438
E-mail: rlahm@mtsu.edu
http://mtsu.edu/~rlahm

Abstract

This paper reviews the use of credit cards in small business startups and for everyday use by entrepreneurs. Credit cards, especially those classified as personal accounts, have become a surrogate for traditional sources of capital by bootstrappers. Indeed, the use of credit cards is among several methods entrepreneurs have adopted to launch businesses. The use of credit cards can be hazardous. On the other hand, some entrepreneurs have leveraged credit cards to create multimillion dollar businesses. Entrepreneurship educators and scholarly researchers should therefore acknowledge both bootstrapping and credit cards as the means by which most businesses are actually started and grown. Students must be trained to critically and creatively analyze every possible method by which they can possibly start, finance and operate a business.

JUST SAY "CHARGE IT": THE USE OF CREDIT CARDS IN ENTREPRENEURIAL STARTUPS

Robert J. Lahm, Jr., Middle Tennessee State University

Abstract

This paper reviews the use of credit cards in small business startups and for everyday use by entrepreneurs. Credit cards, especially those classified as personal accounts, have become a surrogate for traditional sources of capital by bootstrappers. Indeed, the use of credit cards is among several methods entrepreneurs have adopted to launch businesses. The use of credit cards can be hazardous. On the other hand, some entrepreneurs have leveraged credit cards to create multimillion dollar businesses. Entrepreneurship educators and scholarly researchers should therefore acknowledge both bootstrapping and credit cards as the means by which most businesses are actually started and grown. Students must be trained to critically and creatively analyze every possible method by which they can possibly start, finance and operate a business.

Introduction

Contemporary entrepreneurship courses, relying on popular textbooks, tend to emphasize (or at least include) writing a business plan. Indeed, Katz, Harshman and Dean (2000) observed that writing a business plan is "the sine qua non of modern entrepreneurship education" (p. 235). So far, so good—this paper raises no argument about the value of business planning, or with writing. The use of spell-check, correct grammar, and coherent thinking is also encouraged. However, the plot thickens. This paper does suggest that neither courses, nor authors who are involved in the development and writing of business plans should proceed under an assumption that "bankers, investors, and lawyers" (p. 235) are necessarily the target audience of that writing. A reality check would strongly suggest that most business startups rely on sources of startup capital besides that which arises from the coffers of bankers, investors, and lawyers.

Business plans have an internal function, and an external function (Hormozi, Sutton, McMinn and Lucio, 2002). According to guidelines from the U.S. Small Business Administration, SBA, in its publication (1993), *How to Write a Business Plan*, and despite any emphasis that courses may inculcate in the minds of students about traditional sources of capital through bankers and investors

> There are two main purposes for writing a business plan. The first, and most important, is to serve as a guide during the life of your business. It is the blueprint of your business and will serve to keep you on the right track. To be of value, your plan must be kept current. If you spend the time to plan ahead, many pitfalls will be avoided and needless frustrations will be eliminated. Second, the business plan is a requirement if you are planning to seek loan funds. It will provide potential lenders with detailed information on all aspects of the company's past and current operations and provide future projections. (pp. 2-3).

A textbook emphasis on- and business plans written for an audience of bankers and investors may be popular and appropriate for students at affluent institutions (Maddy, M. 2000). Venture

capitalists and angels do exist (Wirtz, 2001; Fried and Hisrich, 1995; Freear, Sohl and Wetzel, 1994), they just don't make themselves visible to the average undergraduate student by regularly frequenting classes at the average institution. In reality, even experienced business professionals, much less recently minted undergraduate students would probably better served by focusing their personal and business development efforts on learning more about bootstrapping (Van Auken, 2005; Van Auken, 2004; Roberts, 2003; Arora, 2002; Worrell, 2002; Winborg and Landstrom, 2001; McCune, 1999; Hyatt and Mamis, 1997; Van Auken and Neely, 1996; Mamis, 1995; Bhide, 1992; Mamis, 1992).

Overwhelmingly, startup entrepreneurs who do succeed in launching businesses do so by using other non-traditional methods for creating and launching businesses. Startups typically report a lack of access to venture capital and bank financing (Cole, Lahm, Little, and Seipel 2005; Van Auken and Neely, 2000). In keeping with this line of reasoning, this paper also argues in favor of increasing classroom emphasis on bootstrapping, and providing students with the skills to make progress with their ideas and create unique advantages (Brush, et al, 2001), despite a lack of traditional capital. Ingredients include picking the right type of business (one that is susceptible to low start-up costs), and understanding off-the-beaten track strategies such as, how to negotiate six months' free rent; how to enlist suppliers and customers as "champions" of the business; how others "do it," and the like.

The Widespread Use of Bootstrapping

Entrepreneurs typically rely on a variety of non-traditional methods to raise capital, or to otherwise mitigate some of their startup capital needs. In other words, the vast majority of all businesses are founded by individuals who employ bootstrapping as a means to launch their respective enterprises. Bootstrappers typically utilize methods such as bartering, sharing, negotiating, drop shipping, locating in low-cost facilities such as a home-based business (Pliagas, 2000), guerilla marketing (Levinson, 2005), and do-it-yourself (DIY). Relative to cash resources, business founders have leveraged credit cards (Detamore-Rodman, 2003; Anonymous, 2002; Deceglie, 1998), mortgaged homes, dipped into retirement funds, and used just about any other way to get their hands on operating funds including severance packages, negotiated supplier repayment terms, internally generated cash flow, and money from friends, relatives, or personal savings (Pliagas, 2005; Williams, 2005; Roberts, 2003; Mamis, 1992).

Bootstrapping is essentially a creative process (Mieszkowski, 2003; Arora, 2002; Freear, Sohl and Wetzel, 1995; Bhide, 1992). While it has been characterized as a creative financing method, which is true, that description doesn't necessarily convey the richness of the term. At an observable level, bootstrappers are saving money and building business revenues, sometimes starting from scratch or very modest beginnings (Fenn, 1999).

However, there is also a mindset (Lahm, 2005) on the part of these entrepreneurs who use "ingenuity and a lot of gumption" (Fenn, 1999, p. 43) to start their businesses. These individuals are sometimes characterized as driven (Longenecker, Moore and Petty, 2002), passionately committed zealots who take on their startup challenges as a personal quest. As a consequence, the businesses they create often exhibit remnants of earlier days (reflected in their organizational cultures), as illustrated by the following passage, which describes the beginnings and meteoric---internally financed--growth of The Pampered Chef:

> Today "The Kitchen Store That Comes to Your Door" occupies a modern 220,000-square-foot brick warehouse and office in an industrial park outside Chicago, employs more than 400 full-time workers, and fills orders for a sales force of 20,000 part-timers. Behind an everyday desk in an unassuming second-floor office--cost-constraint remnants from her bootstrapping years--chief executive Christopher remains TPC's master chef. And, never having financed growth beyond the company's $3,000 beginnings, she (together with her husband) owns every spoonful of the still-rising soufflé. (Mamis, 1995, p. 40).

The number of businesses that are founded through the use of bootstrapping is difficult to determine definitively. This is because small businesses may use both traditional sources of capital (particularly bank financing) in a mix, along with non-traditional sources (Shermach, 2004; Parchois, 2000). Further, some traditionally capitalized businesses no doubt have owners who may practice an observed behavior such as credit card use on behalf of his or her business, but that could be a matter of shopping convenience (Swain-King, 2004) as compared to the opposite end of the spectrum, wherein the credit card usage may represent a significant source of financing to the business. In addition, as mentioned above, besides tapping sources of capital, bootstrappers also employ specific methods. One thing is obvious, bootstrapping is the method most entrepreneurs to start the vast majority of businesses (Worrell, 2002). One estimate suggested that approximately 75 to 85 percent of startup businesses use some form of bootstrapping (McCune, 1999, p. 1).

Small Business Financing Patterns

Overview

Except as cited otherwise, data and statements in the following section are taken directly, or developed from the SBA (Office of Advocacy) report, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance;* Office of Advocacy Web site FAQ's (updated June, 2004); the Board of Governors of the Federal Reserve System (*Report to the Congress*, 2002); the National Federation of Independent Business (NFIB) *National Business Poll: Business Structure* (Dennis, 2004); and the U.S. Census Bureau (2002).

- Over 80 percent of the small businesses surveyed used some kind of credit and had outstanding debt on their books at the end of 1998.

- Fifty-five percent of small firms had some kind of traditional loan, while 71 percent obtained credit from non-traditional sources, mainly owners' loans and credit cards.

- The most frequently used kinds of credit were personal and business credit cards, lines of credit, and vehicle loans.

- Forty-six percent of small firms used personal credit cards, 34 percent used business credit cards, and 28 percent used lines of credit.

- A large percent of the smallest firms were forced to use personal credit cards because of limited availability of loans and of business credit cards.

- Very small firms tend to use alternative sources because other sources of financing, which are usually cheaper, may be unavailable; these firms also appear to rely heavily on costly personal credit cards and owners' loans.

- The use of home equity lines for business purposes in an important source (although not be quantified by the SBA study).

- The use of owners' loans and personal credit cards leveled off or diminished as firm size increased.

- Owner loans are a very convenient source of financing and may be preferred for their simplicity.

Small Women-Owned Firms
Credit cards were the most often used kind of credit, with 48 percent and 29 percent of firms using personal and business credit cards, respectively.

1.3 million women-owned small businesses had $110.3 billion in debt comprised of:

$99.6 billion from the six traditional types of credit.
$9.5 billion from owners.
$1.2 billion in credit card debt.

The most important form of borrowing was mortgage loans, which accounted for 43 percent, and credit lines, which accounted for 22 percent.

As compared to men, many women entrepreneurs avoid the sale of equity in their businesses and "are more likely to rely on credit cards and personal loans" (Thomas, 2001, p. B.2). "Women are not only more likely to start their businesses on a shoestring but also more likely to operate on a shoestring" (Brush, et al, 2004, p. 59).

Small Minority-Owned and Hispanic-Origin Firms
Personal credit cards, business credit cards, and lines of credit were the most frequently used types of credit, with 46 percent, 29 percent, and 20 percent respectively.

773,000 minority-owned small businesses had $59 billion in debt comprised of:

$51.5 billion in the six traditional loan categories.
$6.6 billion in loans from owners of partnerships and corporations.
$990 million in credit card debt.

Minority- and Hispanic-owned firms' reliance on high-cost personal credit cards and owners' loans was heavier than that of all firms. This was especially the case for very small minority

firms. This seems to confirm the anecdotal complaints expressed by very small firms regarding the shortage of credit and the inefficient operation of the credit markets for these firms. Overall, the means to acquire capital through traditionally accepted sources is more limited for minority and women entrepreneurs (Brush, et al, 2004).

Very Small Firms

In its *National Business Poll: Business Structure,* the National Federation of Independent Business (NFIB) reported that approximately one-third of small businesses "employing nine or fewer people are located in the home" (Dennis, 2004, p. 5). The same report indicated that "59 percent of small (employing) businesses are owned by one individual (including his/her spouse if applicable)" and "twenty-seven (27) percent or over one in four have two owners" (p. 4). Hence, the NFIB's data shows that 86 percent of small (employing) businesses have only one or two owners.

While the NFIB's data set and that of the SBA are not formally related, it is important to note that most businesses are very small enterprises. The SBA's data set distinguished very small businesses with no employees, and its report emphasized that these businesses are an important source of new business startups. According to the U.S. Census Bureau (Economic Census, 2002) most nonemployers "are self-employed individuals operating very small unincorporated businesses, which may or may not be the owner's principal source of income."

The Census Bureau uses Internal Revenue Service (IRS) data obtained from the annual business tax forms that are filed to identify nonemployer businesses. The Bureau's 2002 nonemployer data (latest available) indicated that there are a total of 17,646,062 million nonemployers across all industry sectors, with $770,032,328,000 in receipts. To place the number of nonemployer firms in perspective, 2001 Census data showed 5.7 million firms with employees and 17 million without employees (for a total of 23.7 million businesses). With or without employees, small businesses with less than 500 employees account for 99.7 percent of all businesses.

In Table 1, the SBA's data shows that among all very small firms, which it also defined as those with zero employees (as did the Census Bureau), the number one type of credit used was personal credit cards (48.2 percent). If we multiply the two figures (number of nonemploying businesses times the percentage that use credit cards) together, we can estimate that approximately 8,505,402 million businesses, with zero employees across all industry sectors are using personal credit cards as a source of business capital.

TABLE 1
Very Small Firms with Zero Employees and Their Credit Sources

Credit Type or Supplier	All Small Firms	Minority-Owned Firms	Women-Owned Firms
Any Depository Institution	32.8	16.8	15.1
Commercial Bank	17.3	8.9	12.4
Finance Company	11.5	11.2	5.4
Leasing Company	2.5	1.7	1.9
Family and Friends	3.6	6.9	4.2
Owner Loans	0.2	1.1	0.5

Personal Credit Card	48.2	43.3	47.7
Business Credit Card	17.4	18.8	14.1
Line Credit	12.8	5.5	8.0
Mortgage	6.5	9.7	7.2
Vehicle	12.3	13.9	11.0

Very small firms, defined as those with zero employees.
Data Source: SBA, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance,* p. 19.

It is well known among disgruntled business founders that banks can be difficult to deal with (if not impossible) when it comes to any discussions about startup capital for a new business (Van Auken and Neely, 1999; Van Auken and Carter, 1989). Most banks require an already established positive cash flow, three or more years in business, and good business as well as personal credit (Parchois, 2000). Thus, it is interesting to note that despite a reputation for being uncooperative with startups, the underlying source of capital that is being used by many businesses is still banks, except that they are lending, via plastic (Nixon, 1997).

Just Say "Charge It"

Credit Card Usage is Becoming More Popular

While 1998 SBA data above is already provocative, de Paula (2003), writing in *U.S. Banker,* cited more recent industry sponsored research. According to that later research, credit cards are becoming increasingly popular:

> Of the 64 percent of small business owners who use plastic for business expenses, 57 percent use personal cards, with 33 percent using those personal cards exclusively and 24 percent using them in addition to small-business cards, according to research recently commissioned by MasterCard. The research also indicates that of those who use credit cards for business expenses, 42 percent use only small-business cards. Credit cards of all kinds are quickly gaining in popularity as a method of financing for small business owners, says Charles Ou, senior economist in the Small Business Administration's Office of Advocacy. The SBA estimates increased credit card use may account for nearly all of the growth in its smallest loan category--micro-business loans--which are those under $100,000. While other forms of micro-business loans haven't risen much, micro-business lending through credit cards is up by 34.5 percent from $7.9 billion in 2000 to $10.7 billion in 2001. This far outpaces overall growth in micro-business loans, up only 4.4 percent from 2000 to 2001, for a total of $126.8 billion. (p. 54).

According to Rosenfeld (1999), commercial loans enjoy a "hallowed reputation for respectability" (p. 1), however, "more and more small business owners are turning to credit cards for funding…because they are easy to come by and the credit limits are high" (Scully, 2002, p.1). De Paula further observed that banking industry executives see the market for small business credit cards "as a growth area, mainly because the personal credit card market is saturated and because business owners tend to spend more per month and carry higher annual balances than

the average consumer, promising higher fees and interest revenue" (p. 54). Another reason that banks have become more aggressive is that "statistical models prompted a major leap forward. They demonstrated a strong correlation between company principals' repayment of personal debt, and the likelihood that a small business loan would be repaid, and made it easier to handle the risk." (Kitchenman, 1999, p.37).

Upon opening the floodgates to market expansion, some banks found similarities between small business credit card users and regular consumers, as compared to large corporations (Cocheo, 1997). However, they also found that they were sometimes competing with themselves (i.e., internally) due to competing offers that are presented to the same consumer, for business and personal credit cards. Cocheo (1997) quoted Cynthia Gadberry, director of marketing, BancBoston, Small-Business Banking, who (in recognizing the problem for banks) asked, "Why would anyone pay a higher rate for a commercial product?" (p. 7). (As a sidebar, but one that is related, bootstrappers have long recognized that in many instances the same product or service, once it is identified as a commercial product as compared to a personal product, comes with a significantly higher price tag; accordingly, they use the "personal" version of whatever that product or service may be.)

Some evidence suggests that certain potential applicants for traditional business credit do not even bother to apply (Buttner and Rosen, 1992). Kon and Storey (2003) identified a subject group that they called discouraged borrowers, described as "good borrowers who do not apply for a bank loan because they feel they will be rejected" (p. 37). Other research pertaining to discriminatory lending practices has similarly identified individuals who did not apply, "because they believed their applications would have been turned down" (Cavalluzzo, K.S, Cavalluzzo, L.S. and Wolken, 2002, 641). Hence, it is obvious by now, disenfranchised applicants for traditional business credit may adopt the view that they should, "Just Say "Charge It."

Multiple Credit Cards

Business founders have used multiple cards for startup funding. However, Selz (1994) reported that entrepreneurs were using credit cards both for startup capital, and to finance operating expenses. *Entrepreneur*, *Inc.*, *The Wall Street Journal*, and others in the business press regularly feature stories about card-carrying, bootstrapping entrepreneurs. Often, the imagery surrounding the individuals who are highlighted portrays a heroic (if not swashbuckling) persona. An article featured in *Inc.* magazine concluded that despite the horror stories that result from the use of credit cards to finance new businesses, personal credit cards remain a fast, cheap, and easy way to obtain much needed start-up capital (Hise, 1998).

The *Wall Street Journal* reported that it was not unusual for individuals who were starting businesses to amass "myriad of credit cards for this purpose—possibly 14 or 15!" (McCue, 1999, p. 6). Increasingly, credit cards are becoming a financing tool of choice (Loftus, 2004). As Prince (2003), writing for *Entrepreneur* magazine, observed: "Good, old-fashioned plastic" is a source of capital that remains "plentiful even in tough times" (p. 1). The result has been twofold: some fallout in the banking industry, but also numerous success stories.

"Many people use multiple credit cards to finance fledgling or marginal business ventures, which can result in hefty card balances. Personal bankruptcies are soaring to record levels right now"

(Streeter, 1996, 15). Relative to success stories, they are both abundant and compelling. An entrepreneur may leverage multiple cards for a while, and then grow a multimillion dollar business (Scully, 2001). *Entrepreneur* magazine's November 2004 cover story article titled, *Young millionaires*, profiled one business founder who initially amassed $50,000 in credit card debt; his company now has 55 stores with "sales topping $30 million" (Kooser, Pennington, Riggs, Torres and Wilson, pg. 82).

Plastic: The Entrepreneur's New "Venture Capital Card"

In many ways, the banking industry has painted itself into a proverbial corner. On the one hand, it would like to service good-paying small business customers, and it sees the potential in those customers as they represent a new marketing opportunity (Vincent, 2000). Credit cards, after all, are in a sense a commodity. It was not all that long ago that the banking industry new virtually nothing about marketing or customer service. Consultants could teach basic skills such as, greet the customer as he or she enters the lobby, and their advice was considered cutting-edge. On the other hand, bankers, as debt based and not equity-based lenders thrive on security, literally. As a consequence of these conditions, some entrepreneurs have created a de facto "venture capital card" (Nixon, B.(1997, p. 33):

> Another option for entrepreneurs seeking financing for a start-up venture is credit cards. Although difficult to measure, bankers concede that it is happening….Many entrepreneurs perceive that the process of obtaining a commercial loan from a bank is too difficult, or that it would ultimately be a vain effort. In some respects, this perception is not far off the mark. "In a typical small business banking environment, you start to measure capacity to repay and other factors relating to the five C's of credit….A credit card, or multiple credit cards, can be obtained over the telephone or through the mail, although the interest rate likely is higher. The bottom line for the entrepreneur is that this source of credit is easier to tap. "Some [credit card issuers] just give you the mirror test"…."They hold a mirror up to your face and if you're breathing, you get a card." In such instances, credit cards are serving as a substitute for venture capital. The possible problem for the banking industry, and credit card issuers in particular, is that when a consumer credit card becomes a business credit card, or when a home equity loan is used to establish a business venture, the risk profile of the credit product changes. Another issue: Credit card issuers and home equity lenders typically don't ask what the proceeds of these loan products will be used for and how they will be repaid. (p. 33).

In the final analysis, it is standard practice for thousands of entrepreneurs to use their personal credit cards to provide initial capitalization (Hise, 1998). They serve as a possible, if not highly likely substitute for traditional capital.

Conclusion

This paper has reviewed the use of credit cards in small business startups and for everyday use by entrepreneurs. Credit cards, especially those classified as personal accounts, have become a surrogate for traditional sources of capital by bootstrappers. Indeed, the use of credit cards is

among several methods entrepreneurs have adopted to launch businesses. While the banking industry and the federal government (Board of Governors of the Federal Reserve, Report to the Congress, 2002) have both expressed concern, banking industry executives recognize, and are actively pursuing credit card marketing efforts to small businesses. The process for acquiring traditional capital does perform a screening function by identifying business startups that do not have sufficient assets to guarantee debt repayment. However, many startups, having no tangible assets to report, cannot meet this test; all they have is the strength of an idea and whatever other skills, knowledge, and abilities they may bring to the table. As observed by Nixon (1997), even Bill Gates would have been told "sorry" (p. 31).

The use of credit cards can be hazardous, and bankruptcies have been on the rise in recent years. On the other hand, some entrepreneurs, having been thwarted in their efforts to obtain traditional capital, have leveraged credit cards to create multimillion dollar businesses. Entrepreneurship educators and scholarly researchers should therefore acknowledge both bootstrapping and credit cards as the means by which most businesses are actually started and grown. To insist that students write business plans under the assumption that investors, bankers, and angels will necessarily comprise the audience for their writing (and converge to offer salvation) suggests a teaching strategy that is totally out of step with the realities of launching a business that the vast majority of students will ultimately face. Students must be trained to critically and creatively analyze every possible method by which they can possibly start, finance and operate a business.

References

Anonymous, (2002), "Small Businesses in the USA Turn to Plastic for Finance," Credit Control, 23(4), 26.

Arora, P., (2002), "Secrets of Bootstrapping: Creative Ways to Shave Bucks off Those Start-up Costs," Entrepreneur.com, Retrieved July 8, 2005, from http://www.entrepreneur.com/article/0,4621,302878,00.html

Bhide, A., (1992), "Bootstrap Finance: The Art of Start-Ups," Harvard Business Review, 70(November-December), 109-117.

Board of Governors of the Federal Reserve System, (2002, September), Report to the Congress on the Availability of Credit to Small Businesses, Retrieved January 19, 2005, from http://federalreserve.gov/boarddocs/rptcongress/sbfreport2002.pdf

Brush, C. G., Carter, N. M., Gatewood, E. J., Greene, P. G. and Hart, M. M., (2004), "Women Entrepreneurs, Growth, and Implications for the Classroom," 2004 Coleman Foundation White Paper Series for the United States Association for Small Business and Entrepreneurship: Entrepreneurship in a diverse world, (pp. 47-91).

Brush, C.G., Greene, P.G., Hart, M.M. and Haller, H.S., (2001), "From Initial Idea to Unique Advantage: The Entrepreneurial Challenge of Constructing a Resource Base," The Academy of Management Executive, 15(1), 64.

Buttner, E. H. and Rosen, B., (1992), "Rejection in the Loan Application Process: Male and Female Entrepreneurs' Perceptions and Subsequent Intentions," Journal of Small Business Management, 30(1), 58.

Cavalluzzo, K.S, Cavalluzzo, L.S. and Wolken, J.D., (2002), "Competition, Small Business Financing and Discrimination: Evidence From a New Survey," The Journal of Business, 75(4), 641-679.

Cocheo, S., (1997), "More Banks Direct-Market Small-Biz Credit," [American Bankers Association] ABA Banking Journal, 89(6), 7-8, 74.

Cole, J.D., Lahm, R.J., Little, H.T. and Seipel, S.J., (2005, June), "Credit Cards as a Source of Start-Up Capital and Ongoing Capital Management," Paper presented at the 2005 International Council for Small Business World Conference, Washington, DC.

Dennis, W.J., (2004), "Business Structure," NFIB National Small Business Poll, 4(7), 4.

Deceglie, P., (1998), "A La Card," Entrepreneur.com, Retrieved November 5, 2004, from http://www.entrepreneur.com/article/0,4621,228667,00.html

De Paula, M., (2003), "Business Owners Are Putting Out With Plastic," US Banker, 113(8), 54.

Detamore-Rodman, C., (2003), "When the Money Tree Looks Dry, Sometimes You Just Have to Create Your Own Branch," Entrepreneur.com, Retrieved July 8, 2005 from http://www.entrepreneur.com/article/0,4621,306710-3,00.html

Fenn, D., (1999), "Grand Plans," Inc., 21(11), 43.

Freear, J., Sohl, J.E. and Wetzel, W.E., (1995), "Angels: Personal Investors in the Venture Capital Market," Entrepreneurship and Regional Development, 7(September), 85-94.

Freear, J., Sohl, J.E. and Wetzel, W.E., (1994), "Angels and Non-Angels: Are There Differences?," Journal of Business Venturing, 9(2), 109-124.

Fried, V.H. and Hisrich, R.D., (1995), "The Venture Capitalist: A Relationship Investor," California Management Review, 37(2), 101.

Hise, P., (1998), "Don't Start a Business Without One," Inc., 20(2), 50-53.

Hormozi, A.M., Sutton, G. S., McMinn, R. D., Lucio, W., (2002), "Business Plans for New or Small Businesses: Paving the Path to Success," Management Decision, 40(7/8), 755-763.

Hyatt, J. and Mamis, R.A., (1997), "Profile of a Bootstrapper," Inc., 19(11), 61.

Katz; J.A, Harshman; E.F. and Dean, K.L., (2000), "Nondisclosure Agreements in the Classroom: A Student Entrepreneur's Refuge or Risk," Journal of Management Education, 24(2), 235.

Kitchenman, W.F., (1999), "The Hunt for the Elusive Guarantor in Small Business Lending," [American Bankers Association] ABA Banking Journal, 91(4), 37-40.

Kon,Y. and Storey, D J., (2003), "A Theory of Discouraged Borrowers," Small Business Economics, 21(1), 37.

Kooser, A.C., Pennington, A.Y., Riggs, J., Torres, N.L. and Wilson, S., (2004), "Young Millionaires: Class of 2004," (Cover Story), Entrepreneur, 32(11), 77-87.

Lahm, R.J., (2005), "Starting Your Business: It all Boils Down to Making Money and Saving Money," EzineArticles.com, Retrieved August 14, 2005, from http://www.ezinearticles.com/?Starting-Your-Business:-It-All-Boils-Down-To-Making-Money-and-Saving-Moneyandid=57605

Levinson, J., (2005), "How Guerrillas Economize," gmarketing.com, Retrieved July 8, 2005, from http://www.gmarketing.com/articles/read/22/How_Guerrillas_Economize.html

Loftus, P., (2004), "More Firms Make Credit Cards Their Financing Tool of Choice," Wall Street Journal, (Eastern edition), July 6, 2004, A.20.

Longenecker, J., Moore, C. and Petty, J., (2002) Small Business Management: An Entrepreneurial Emphasis (12th ed.), Mason, OH: South-Western College Publishing.

Mamis, R.A., (1995), "Bootstrapping Lessons: Master of Bootstrapping Administration (MBA)," Inc., 17(11), 40.

Mamis, R.A., (1992), "The Secrets of Bootstrapping: 18 Ways to Grow or Survive by Substituting Imagination, Know-how, or Effort for Capital," Inc., Retrieved July 10, 2005, from http://www.inc.com/magazine/19920901/4287.html

McCue, T. J., (1999), "Breakaway (a special report): The Entrepreneurial Life --- Upfront: T.J. McCue on Books … Money, Money, Who's Got the Money?," Wall Street Journal, (Eastern edition), September 27, 1999, 6.

McCune, J.C., (1999), "Bootstrapping: Cutting Corners and Pinching Pennies to Finance Your Business," Bankrate.com, Retrieved from http://www.bankrate.com/brm/news/biz/Cashflow_banking/19991101.asp

Maddy, M., (2000), "Dream Deferred," Harvard Business Review, 78(3), 57.

Mieszkowski, K., (2003), "Back to the Garage," Fast Company, 66(January), 35.

Nixon, B., (1997), "Exploring Knowledge-based Lending," America's Community Banker, 6(4), 31-34.

Parchois, J., (2000), "The Line Between Personal and Professional," WellsFargo.com, Retrieved from http://www.wellsfargo.com/biz/products/resources/advisor/archives/01line/01line.html

Pliagas, L., (2005), "Financing Your Own Home-based Start up," Ms.Money.com, Retrieved from http://www.msmoney.com/mm/columnists/partners/financing_your_own_home_base_start_up.htm

Prince, C. J., (2003), "Plastic rap: The Pros and Cons of the Latest Trend – Using Credit Cards to Finance Your Business," Entrepreneur.com, Retrieved November 18, 2004, from http://www.entrepreneur.com/article/0,4621,305365,00.html

Roberts, B., (2003), "Bootstrapping is back: Entrepreneurs Dig Deep and Make Personal Sacrifices for Their Businesses," Electronic Business, 29(4), 44-45.

Rosenfeld, E., (1999), "Credit Where Credit is Due: Using Plastic to Finance Your Start-up," Inc.com, Retrieved November 18, 2004, from http://pf.inc.com/articles/1999/08/16625.html

Scully, S., (2002), "Finance With Plastic?," NFIB.com, Retrieved July 24, 2005, from http://www.nfib.com/ object/2991832?templateId=315

Selz, M., (1994), "Can't Meet Payroll? Businesses Use Plastic to Get Cash Infusions," *Wall Street Journal*, (Eastern edition), New York: August 19, 1994, B1.

Streeter, W. W., (1996), "Need $50,000? Just Sign Here," [American Bankers Association], ABA Banking Journal, 88(8), 15.

Shermach, K., (2004), "Is This Card for Business or for Pleasure?," Credit Card Management, 17(2), 24-26.

Swain-King, A., (2004), "Untangling the Effects of Credit Cards on Money Demand: Convenience Usage vs. Borrowing," Quarterly Journal of Business and Economics, 43(1-2), 57-80.

Thomas, P., (2001), "Women Entrepreneurs Opt for Equity Ahead of Growth," Wall Street Journal, (Eastern edition), February 27, 2001, (237)40, B2.

U.S. Census Bureau (2002) Economic Census Advance Nonemployer Statistics; Summary and Legal Form of Organization for the United States, Retrieved August 20, 2005, from http://www.census.gov/epcd/nonemployer/2002adv/us/US000.HTM

U.S. Small Business Administration (1998) Survey of Small Business Finance. Office of Advocacy, Retrieved August 20, 2005, from http://www.sba.gov/advo/stats/ssbf_98.pdf

U.S. Small Business Administration (August 2001) Small business–Frequently Asked Questions, Retrieved August, 18, 2005, from http://www.sba.gov

U.S. Small Business Administration (1993) How to Write a Business Plan, [Document MP-32.doc], Retrieved August, 18, 2005, from http://www.sba.gov/library/pubs.html

Van Auken, H., (2005), "Differences in the Usage of Bootstrap Financing Among Technology-Based versus Nontechnology-Based Firms," Journal of Small Business Management, 43(1), 93-103.

Van Auken, H., (2004), "The Use of Bootstrap Financing Among Small Technology-Based Firms," Journal of Developmental Entrepreneurship, 9(2), 145-159.

Van Auken, H. and Neely, L., (2000), "Pre-launch Preparations and the Acquisition of Start-up Capital by Small Firms," Journal of Developmental Entrepreneurship, 5(2), 169-182.

Van Auken, H. and Neely, L., (1999), "Obstacles to Business Launch," Journal of Developmental Entrepreneurship, 4(2), 175-187.

Van Auken, H. and Neely, L., (1996), "Evidence of Bootstrap Financing Among Small Start-up Firms," Journal of Entrepreneurial and Small Business Finance, 5(Fall) 235-250.

Van Auken, H. and Carter, R.B., (1989), "Acquisition of Capital by Small Business," Journal of Small Business Management, 27(2), 1-9.

Vincent, L., (2000), "It's a Small (Business) World," Bank Marketing, 32(5), 16-21.

Williams, G. S., (2005), "Commentary: Finance Options for Small Firms," The Daily Record, Baltimore, MD: January 11, 2005, 1.

Winborg, J. and Landstrom, H., (2001), "Financial Bootstrapping in Small Businesses: Examining Small Business Managers' Resource Acquisition Behaviors," Journal of Business Venturing, 16(3), 235.

Wirtz, R. A., (2001), "Nurturing the Light Bulb Economy: The New-found Profile of Entrepreneurs and Venture Capital Has States Eager to Get More of Both," Fedgazette, 13(4), 1.

Worrell, D., (2002), "Bootstrapping Your Startup," Entrepreneur.com, Retrieved June 4, 2005, from http://www.entrepreneur.com/article/0,4621,303443,00.html

BOOTSTRAPPING: METHODS ENTREPRENEURS REALLY USE TO START A BUSINESS; A HOLISTIC VIEW

Robert J. Lahm, Jr., Middle Tennessee State University

Abstract

This article examines the use of bootstrapping as a means to launch startup businesses as well as to manage ongoing operations. Although bootstrapping methods are widely used and discussed frequently in the business press, scholars have not addressed these practices holistically; nor have they vigorously pursued bootstrapping as a topic that is sorely in need of additional research. Existing research has primarily emphasized specific bootstrapping methods and identified typologies, often characterizing bootstrapping as a response in light of constrained resources. This article argues that bootstrapping may be a forced choice, or an elective choice. Once one does engage in bootstrapping, additional decisions as to specific methods must be made relative to options that are available or created.

Introduction

An examination of several leading entrepreneurship textbooks showed that "bootstrapping," which in the context of business startups refers to the use of creative techniques (Bhide, 1992; Arora, 2002) to launch and operate a business, is barely acknowledged. Entrepreneurship courses, as they are often taught may (accordingly) be flavored by this lack of coverage. In writing about the entrepreneurship classroom, Katz, Harshman and Dean (2000) referred to writing a business plan as "the sine qua non of modern entrepreneurship education" (p. 235). This present paper does not dispute the value of a business plan; however, it does argue against the notion that the target audience of that writing is necessarily "bankers, investors, and lawyers" (p. 235).

On the one hand, some bootstrappers may not be considered worthy of traditional sources of capital by the gatekeepers who control that capital (Wirtz, 2001; Buttner and Rosen 1992). On the other hand, other bootstrappers may be rejecting traditional sources of capital; avoiding those sources; unaware of those sources (Van Auken, 2000); or "have limited business skills" (Van Auken, 2005, p. 94). Of the four alternatives suggested above, the important point being made here is that bootstrapping may occur as a result of an entrepreneur having no other choice (lacking knowledge, skills, or opportunities), or it may be that a business founder is not interested in dealing with bankers, lawyers, and investors. Bootstrappers commonly select from a range of resources or methods such as bartering, sharing, negotiating, drop shipping, locating in low-cost facilities, do-it-yourself (DIY); they may tap financial resources such as credit cards, home equity lines, retirement funds, severance packages, negotiated supplier repayment terms, internally generated cash flow, and money from friends, relatives, or personal savings (Pliagas, 2005; Roberts, 2003; Mamis, 1992). Hence, the issue for educators is to recognize that bootstrapping is far more prevalent than

teaching approaches (relative to the logical inference that bankers, lawyers, and investors are the sine qua non of business plans) and textbooks might suggest. Bootstrapping is the method most entrepreneurs really use to start the vast majority of businesses (Worrell, 2002). One estimate suggested that "between 75 and 85 percent of startups use some form of bootstrapping" (McCune, 1999, p. 1).

Existing Research on Bootstrapping

The lack of formal acknowledgement in textbooks is mirrored by the research efforts of scholarly authors, to date. To further exacerbate this problem, it could also be the case that existing scholarship may be focused on more noticeable firms, those with public visibility, and greater chances for immediately or eventually obtaining capital from traditional sources in the first place. High-tech, Silicon Valley-type businesses (no derision intended to researchers or subjects under study—one must start somewhere) seem to have gained a lot more attention than small home-based businesses, for example. A comparative lack of glamour on the part of numerous small businesses is suggested by the imagery of a lawn care service or a similar business, where most of the assets of the business ride in the back of a pickup truck with a trailer in tow. Alternatively, very small, less visible businesses may be more difficult to recruit as participants in research on bootstrapping.

Nevertheless, the National Federation of Independent Business (NFIB) reported in its *National Business Poll* [on] *Business Structure* that "almost one-third (32 percent) of those [small businesses] employing nine or fewer people are located in the home" (Dennis, 2004, p. 5). The same report indicated that "59 percent of small (employing) businesses are owned by one individual (including his/her spouse if applicable)" and "twenty-seven (27) percent or over one in four have two owners" (p. 4). Adding these two figures together indicates that eight and one-half out of ten (86 percent) small (employing) businesses have only one or two owners. Thus, the population of bootstrappers which perhaps should be under study by future researchers may be associated with more quaint beginnings than those of businesses that are living "life in the fast lane."

Van Auken, working alone and with co-authors, has produced several studies and is one of the more prolific researchers investigating bootstrapping (such as, Van Auken, 2005; Van Auken 2004; Van Auken and Neely, 1996 and 2000; Van Auken and Carter, 1989). However, earlier this year Van Auken, (2005) observed:

> Although bootstrap financing commonly is used and is an important source of capital, few studies have investigated its use by small firms. Previous studies have focused on specific types of bootstrap financing techniques, such as accounts receivable, factoring, and leasing. However, few studies comprehensively have examined the role of bootstrap financing in small firm financing (p. 94).

In other words, "bootstrapping is a phenomenon which deserves more attention in future research on small business finance" (Winborg and Landstrom, 2001, p. 235).

Bootstrapping as a Philosophy

At first glance, one might conclude that large, established firms, may be beyond the stage of development where they might turn to bootstrapping methods, as compared to small, early stage firms. However, an alternative view of bootstrapping, which could be described as a way of life among certain individuals who start and operate businesses, is another possible framework for future researchers to explore. Some individuals may thrive on a "grow from within," type of strategy, based on cultural notions of independence and self-sufficiency, values that are strongly associated with entrepreneurialism. Bootstrappers may use know-how, imagination, and effort as a substitute for capital (Mamis, 1992; Levinson, 2005). As Lahm (2005) observed:

> Bootstrapping is not necessarily a tool used only by business community "have-nots." Some bootstrappers are awfully proud of the money they save (and the money they make)....It's not simply an issue of having plenty of spending money, or not. Rather, there is a mindset that says, "I want fair value for my dollar, and I hate feeling ripped off by paying 'way more' than something is worth." In many ways, bootstrappers develop their knowledge and personal skill-sets and use their abilities as a substitute for cash. There's also a certain satisfaction that comes from becoming more self-sufficient. (p. 2).

Hence, this paper, which is necessarily exploratory in nature, suggests that in addition to research focusing on specific types or methods of bootstrapping (as mentioned above), bootstrapping should be studied as a holistic approach on the part of entrepreneurs. That is, bootstrapping could .be characterized as a philosophy, or a way of entrepreneurial life.

Bootstrapping by Choice

It is certainly the case that in some instances business founders resort to the use of bootstrapping methods when they have no other choice (Cole, Lahm, Little & Seipel 2005; Roberts, 2003). These bootstrapping methods can help to either augment traditional sources of capital (Winborg and Landstrom; 2001) or be the sole source of financing for a business. The most common theme associated with bootstrapping is that it is an alternative action taken by entrepreneurial founders in light of constrained resources. Van Auken (2005) suggested that bootstrapping by small firms "may be especially important due to their lack of access to capital markets" (p. 95). There are several reasons that explain why entrepreneurs may elect to engage in bootstrapping by choice.

"Discouraged Borrowers"

Kon and Storey (2003) have proposed a type of borrower that they identified as discouraged borrowers: "good borrowers who do not apply for a bank loan because they feel they will be rejected" (p. 37); their findings relate to other research by Cavalluzzo, K.S, Cavalluzzo, L.S. & Wolken (2002) who studied discriminatory lending practices and identified business owners who did not apply for credit "because they believed their applications would have been turned down" (p. 641). Individuals have made a choice to *not even try* to

access capital from traditional sources; these individuals may or may not have been successful, if they had tried.

Desire for Autonomy and Privacy

Bootstrappers may avoid outside investors because "the venture capitalist plays a role in the management of companies receiving investment" (Fried and Hisrich, 1995, p. 101); besides venture capitalists, any other type of lender or investor usually becomes entitled to exercise some type of oversight. Further, any individual who has applied for business or personal credit cannot help but become immediately aware of the extremely intrusive nature of lending processes: complete credit, debt, tax, personal and other information is typically required. Even when one has "nothing to hide," he or she may not want to endure such probing on the part of would-be traditional lenders (or other investors).

Self-sufficiency as a Personal Value

When one accepts capital, he or she must legally and ethically accept that there are certain strings attached. Even in the case of an outright gift from a benefactor, typically a close friend or family member (Detamore-Rodman, 2003), there are at least social strings attached. Some individuals may prefer self-sufficiency so as to avoid those social, legal, or ethical obligations. While this may impose a constraint on a business, "strings attached" are a cost and do imply some risk.

Challenge of the Entrepreneurial Game

Serial entrepreneurs and ex-franchise owners come to mind as possible entrepreneurial "types" who may feel compelled by their own vision, and confident in their ability to create a business from the ground up. These individuals may enjoy bootstrapping and attain gratification from activities such as bartering, negotiating favorable terms, or otherwise exercising their creative financing skills.

Emergent Nature of Entrepreneurship

Entrepreneurship classes and business plans attempt to liken themselves to entrepreneurial reality, but they are not reality. Business startups, ideas, and new products all tend to lead tumultuous lives, filled with "bumps and turns" (Brush, Greene, Hart and Haller, 2001, p. 64). "The odds of any one idea becoming an economic success are so very low that many ideas are needed" (Stevens and Burley, 1997, p. 16). In real life, founding and nurturing businesses is an emergent, creative, problem-solving process. Bootstrapping is, at its core, a creative process (Bhide, 1992; Freear, Sohl & Wetzel, 1994); and it, too, can also be characterized in context as an emergent, problem-solving process. Entrepreneurs are necessarily adaptable, and they ordinarily must creatively meet not just financing challenges, but technological, human resources, operational, organizational, marketing, and virtually any other kind of challenge one might care to name. Entrepreneurs tend to use all of their wherewithal, including a lifetime of accumulated knowledge, skills, and personal resources (Longnecker, Moore & Petty, 2002) to create their businesses and manage them through "multiple iterations" (Brush, Greene and Hart, 2001, p. 64).

Luck and Momentum

On occasion, an entrepreneur may found a business that seemingly takes on a life of its own. A mere mention by celebrities such as Oprah can create a bestselling book or propel a business to success. As observed by Cohen (2005):

> Lori Karmel's business, We Take the Cake, got the ultimate celebrity endorsement: Its Key lime bundt cake was featured on the "Favorite Things" episode of The Oprah Winfrey Show. Then Karmel had to deal with the aftermath. The Fort Lauderdale cake maker's server collapsed after its Web site recorded 800 orders in four hours. The voicemail reached capacity every four minutes. Karmel had to spend $10,000 to hire an answering service. Orders poured in from far and near. "People were coming in, picking up 60 cakes, 80 cakes," Karmel said. (pg. 1).

Speed and Convenience

As suggested by numerous articles in *Entrepreneur* (Worrell, 2002; Prince, 2003), *Inc*. (Hise, 1998), and *The Wall Street Journal* (Selz, 1994), bootstrapping in its various forms such as leveraging credit cards (Cole, Lahm, Little & Seipel 2005; Loftus, 2004; Report to the Congress, 2002) is faster and easier than suffering through a "chilly reception" from bankers (Rosenfeld, 1999, p.1). After all, startup entrepreneurs often conclude that tapping other resources (discussed above) is faster, easier, almost instantaneous and more certain relative to acquiring capital for a business (with less or no oversight). For example, by leveraging multiple credit cards (Deceglie, 1998; McCune 1999) business founders can gain access to relatively large amounts of capital in comparison to the size of a business startup loan (if that loan was even attainable). As Scully (2002) observed, credit cards "are easy to come by and the credit limits are high" (p.1).

Conclusions

As discussed in this paper, the existing scholarly literature on bootstrapping is limited. As an exploratory analysis, bootstrapping has been presented from several alternative vantage points. Implications for teaching, scholarship, and service to the entrepreneurial and small business community have also been indicated. If future small business and entrepreneurship researchers wish to connect with reality, they must go beyond a review of the sparse scholarly literature and include additional articles from the business press and more data from a plethora of bootstrappers as research subjects and informants. The overarching argument presented here is: bootstrapping is the way entrepreneurs really start and operate businesses; as such, it deserves far more respect, attention, research and analysis.

References

Arora, P. (2002). Secrets of Bootstrapping: Creative ways to shave bucks off those start-up costs. *Entrepreneur.com*. Retrieved July 8, 2005, from http://www.entrepreneur.com/article/0,4621,302878,00.html

Board of Governors of the Federal Reserve System. (2002, September). Report to the Congress on the Availability of Credit to Small Businesses. Retrieved January 19, 2005, from http://federalreserve.gov/boarddocs/rptcongress/sbfreport2002.pdf

Bhide, A. (1992). Bootstrap Finance: The Art of Start-Ups. *Harvard Business Review*, 70(November-December), 109-117.

Brush, C.G., Greene, P.G., Hart, M.M. and Haller, H.S. (2001). From initial idea to unique advantage: The entrepreneurial challenge of constructing a resource base. *The Academy of Management Executive*, 15(1), 64.

Buttner, E. H. and Rosen, B. (1992). Rejection in the loan application process: Male and female entrepreneurs' perceptions and subsequent intentions. *Journal of Small Business Management*; 30(1), 58.

Cavalluzzo, K.S, Cavalluzzo, L.S. and Wolken, J.D. (2002). Competition, small business financing and discrimination: Evidence from a new survey. *The Journal of Business*; 75(4), 641-679.

Cohen, K.-J. (2005, June 27). Oprah air time puts Fort Lauderdale bakery in spotlight. *Knight Ridder Tribune Business News*, Washington, D.C., pg. 1.

Cole, J.D., Lahm, R.J., Little, H.T. and Seipel, S.J. (2005, June). Credit Cards as a Source of Start-Up Capital and Ongoing Capital Management. Paper presented at the 2005 International Council for Small Business World Conference, Washington, DC.

Dennis, W.J. (2004). Business Structure. *NFIB National Small Business Poll*, 4(7), 4.

Deceglie, P. (1998). A La Card. *Entrepreneur.com.* Retrieved November 5, 2004, from http://www.entrepreneur.com/article/0,4621,228667,00.html

Detamore-Rodman, C. (2003), "When the Money Tree Looks Dry, Sometimes You Just Have to Create Your Own Branch," *Entrepreneur.com.* Retrieved July 8, 2005 from http://www.entrepreneur.com/article/0,4621,306710-3,00.html

Freear, J., Sohl, J.E. and Wetzel, W.E. (1994). Angels and non-angels: Are there differences? *Journal of Business Venturing*, 9(2), 109-124.

Fried, V.H. and Hisrich, R.D. (1995). The venture capitalist: A relationship investor. *California Management Review*, 37(2), 101.

Hise, P. (1998). Don't start a business without one. *Inc.*, 20(2), 50-53.

Katz; J.A, Harshman; E.F. and Dean, K.L. (2000). Nondisclosure agreements in the classroom: A student entrepreneur's refuge or risk. *Journal of Management Education*, 24(2), 235.

Kon,Y. and Storey, D J. (2003). A theory of discouraged borrowers. *Small Business Economics*, 21(1), 37.

Lahm, R.J. (2005). Starting your business: It all boils down to making money and saving money. *EzineArticles.com*. Retrieved August 14, 2005, from http://www.ezinearticles.com/?Starting-Your-Business:-It-All-Boils-Down-To-Making-Money-and-Saving-Money&id=57605

Levinson, J. (2005). How Guerrillas Economize. *gmarketing.com*. Retrieved July 8, 2005, from http://www.gmarketing.com/articles/read/22/How_Guerrillas_Economize.html

Loftus, P. (2004). More firms make credit cards their financing tool of choice *Wall Street Journal (Eastern edition)*. July 6, 2004, p. A.20.

Longenecker, J., Moore, C. and Petty, J. (2002), Small business management: An entrepreneurial emphasis (12th ed.). Mason, OH: South-Western College Publishing.

Mamis, R.A., (1992). The Secrets of Bootstrapping: 18 ways to grow or survive by substituting imagination, know-how, or effort for capital. *Inc.* Retrieved July 10, 2005, from http://www.inc.com/magazine/19920901/4287.html

McCune, J.C. (1999). Bootstrapping: Cutting Corners and Pinching Pennies to Finance Your Business. *Bankrate.com*. http://www.bankrate.com/brm/news/biz/Cashflow_banking/19991101.asp

Pliagas, L. (2005). Financing Your Own Home-based Start up. *Ms.Money.com*, Internet, http://www.msmoney.com/mm/columnists/partners/financing_your_own_home_base_start_up.htm.

Prince, C. J. (2003). Plastic rap: The pros and cons of the latest trend – Using credit cards to finance your business. *Entrepreneur.com*. Retrieved November 18, 2004, from http://www.entrepreneur.com/article/ 0,4621,305365,00.html

Roberts, B. (2003) Bootstrapping is back: Entrepreneurs dig deep and make personal sacrifices for their businesses. *Electronic Business*, 29(4), 44-45.

Rosenfeld, E. (1999). Credit where credit is due: Using plastic to finance your start-up. *Inc.com*. Retrieved November 18, 2004, from http://pf.inc.com/articles/1999/08/16625.html

Scully, S. (2002). Finance with plastic? *NFIB.com*. Retrieved July 24, 2005, from http://www.nfib.com/object/2991832?templateId=315

Stevens, G.A., and Burley, J. (1997). 3,000 raw ideas equals 1 commercial success! *Research Technology Management*, 40(3), 16l.

Selz, M. (1994). Can't meet payroll? Businesses use plastic to get cash infusions. *Wall Street Journal*

(Eastern edition). New York: August 19, 1994, p. B 1

Van Auken (2005). Differences in the Usage of Bootstrap Financing Among Technology-Based versus Nontechnology-Based Firms. *Journal of Small Business Management*, 43(1), 93-103.

Van Auken, H. (2004). The Use of Bootstrap Financing Among Small Technology-Based Firms. *Journal of Developmental Entrepreneurship*, 9(2), 145-159.

Van Auken, H. and Neely, L. (2000), Pre-launch preparations and the acquisition of start-up capital by small firms. *Journal of Developmental Entrepreneurship*, 5(2), 169-182.

Van Auken, H. and Neely, L. (1999). Obstacles to business launch. *Journal of Developmental Entrepreneurship*, 4(2), 175-187.

Van Auken, H. and Neely, L. (1996). Evidence of Bootstrap Financing Among Small Start-up Firms. *Journal of Entrepreneurial and Small Business Finance*, 5(Fall) 235-250.

Van Auken, H. and Carter, R.B (1989). Acquisition of Capital by Small Business. *Journal of Small Business Management*; 27(2), 1-9.

Winborg, J. and Landstrom, H. (2001). Financial bootstrapping in small businesses: Examining small business managers' resource acquisition behaviors. *Journal of Business Venturing*, 16(3), 235.

Wirtz, R. A. (2001). Nurturing the light bulb economy: The new-found profile of entrepreneurs and venture capital has states eager to get more of both. *Fedgazette*, 13(4), 1.

Worrell, D. (2002). Bootstrapping Your Startup. *Entrepreneur.com.* Retrieved June 4, 2005, from http://www.entrepreneur.com/article/0,4621,303443,00.html

Objectives

- Reward bootstrappers.
- Promote entrepreneurial bootstrapping.
- Connect bootstrappers with one another, ideas, and resources to enhance the bootstrapping experience and improve its outcomes.
- Provide individuals with the power of entrepreneurial choice.
- Motivate those who have started, would like to start, or who are afraid to start a business.
- Change the world through supporting entrepreneurialism.
- Capture the wisdom embedded in Bootstrapping Stories (whether those stories have positive or negative outcomes).
- Publish and disseminate bootstrapping information.
- Entertain, provoke, enliven, and inspire vigorous discourse about entrepreneurial bootstrapping.
- Recognize those among us who are striving to create a better future.

Bootstrapping Stories.com™