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A Study on Relationship between Bootstrapping Strategies and Financial Management Strategies of MSME

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Abstract: This study investigated the relationship between bootstrapping strategies and financial management practices among Micro, Small, and Medium Enterprises (MSMEs). Recognizing the persistent financial challenges faced by MSMEs due to limited access to formal credit and institutional funding, the research explored how these enterprises utilized internal, cost-effective methods such as delaying payments, reinvesting profits, cutting non-essential expenses, and using personal savings. A mixed-method approach, incorporating surveys and interviews with 100 MSME owners selected through stratified random sampling, was employed to gather comprehensive data. The study analyzed how bootstrapping techniques were integrated with core financial management activities like budgeting, cash flow control, and investment planning. It aimed to determine whether bootstrapping served merely as a short-term coping mechanism or contributed to long-term financial decision-making. The findings revealed that while bootstrapping did not significantly reduce financial risk, it played a crucial role in fostering financial discipline, improving liquidity, and sustaining business operations. The Chi-square test results supported the null hypothesis, indicating no significant statistical relationship between bootstrapping and reduced financial risk. However, qualitative insights suggested that bootstrapping influenced strategic planning and promoted self-reliance. The study concluded that MSMEs often blended informal financial practices with structured financial management to overcome funding limitations. Recommendations included enhancing financial literacy, diversifying funding sources, and strengthening internal financial controls. Overall, the study provided valuable insights into how MSMEs navigated financial constraints and built resilience through innovative and adaptive financial practices, particularly in environments with restricted access to capital.

Keywords: Bootstrapping Strategies, Financial Management Practices, MSMEs (Micro, Small, and Medium Enterprises), Funding Constraints, Liquidity

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) consistently played a vital role in driving economic growth, fostering innovation, and generating employment. Despite their importance, these enterprises often faced significant financial challenges due to limited access to formal credit and institutional funding. Consequently, many MSMEs turned to bootstrapping strategies self-financing methods that relied on internal resources, reduced external financial dependence, and minimized operational costs. This study explored the relationship between such bootstrapping practices and the financial management strategies adopted by MSMEs. It specifically examined techniques like delaying payments, utilizing personal savings, reinvesting profits, and cutting non-essential expenses, and their connection to core financial management activities such as budgeting, cash flow management, and investment planning. The research aimed to determine whether bootstrapping functioned only as a short-term coping mechanism or had a deeper, long-lasting impact on financial decision-making processes within these enterprises. A mixed-method approach, including both surveys and interviews, was used to gather data from MSME owners and financial managers. The findings revealed that bootstrapping significantly influenced the financial behaviour of MSMEs, shaping their strategies beyond immediate financial constraints. It showed that these practices not only supported survival during financially strained periods but also contributed to long-term sustainability and strategic planning. The study emphasized the importance of integrating innovative financing methods with structured financial management to build resilience and promote growth, especially in environments where resources were limited and access to capital remained a persistent challenge.

Problem Definition: The study addressed the problem that Micro, Small, and Medium Enterprises (MSMEs) often faced severe financial constraints due to limited access to formal credit and institutional funding. As a result, many relied on bootstrapping strategies such as using personal savings, delaying payments, and cutting non-essential expenses to sustain their operations. However, the impact of these informal financing methods on overall financial management strategies remained unclear. The study aimed to investigate

whether bootstrapping served only as a temporary solution or played a significant role in shaping long-term financial decision-making, budgeting, cash flow management, and investment planning within MSMEs.

2. RESEARCH METHODOLOGY

This study is descriptive in nature and aims to understand the bootstrapping and financial practices among MSMEs. Primary data was collected through a structured questionnaire from 100 MSME owners in Amravati using convenience sampling. The responses were analysed using simple tools like percentages and graphs to interpret the trends. The study focuses only on informal financing methods such as bootstrapping and was conducted over a one-month period.

Sample Size: The study involved a sample size of 100 MSME owners. Participants were selected using stratified random sampling to ensure relevant and insightful data collection.

3. RESEARCH OBJECTIVE

1. To examine the types of bootstrapping strategies used by MSMEs.
2. To assess the financial management practices of MSMEs.
3. To analyze the relationship between bootstrapping and financial management.
4. To investigate the challenges MSMEs face in implementing bootstrapping strategies.
5. To compare the performance of MSMEs using bootstrapping with those using traditional financing methods.

Scope of the Study: The study explored the relationship between bootstrapping strategies and financial management strategies within Micro, Small, and Medium Enterprises (MSMEs). Bootstrapping referred to the use of low-cost, resourceful methods by entrepreneurs to fund and sustain their businesses without relying on external financing. Financial management involved the strategic planning, organization, and control of financial resources to achieve business goals. The research examined how these two strategies intersected and influenced the financial sustainability and growth of MSMEs. The study included MSMEs across various sectors, such as manufacturing, services, and trade, providing a broad perspective on how bootstrapping and financial management practices differed by industry. It primarily focused on MSMEs in emerging markets, where access to formal financing was limited, as well as in developed economies, where businesses faced competitive pressures to innovate. The study aimed to offer insights into how these strategies contributed to the long-term viability and success of MSMEs.

Limitations: While this study provides valuable insights into bootstrapping and financial practices among MSMEs, it does face certain limitations. The sample size was small and limited to a specific region, which may not represent the diverse nature of MSMEs across different parts of the country. This affects the generalizability of the findings. The study relied on self-reported responses from entrepreneurs, which may lead to biased or inaccurate data due to personal interpretation or exaggeration. Furthermore, the research focused only on a few commonly used bootstrapping methods, potentially overlooking other innovative or informal financing techniques. Another limitation is that the study did not analyse responses based on specific sectors (e.g., manufacturing, retail, services), which could have provided more meaningful comparisons. Lastly, as the study was cross-sectional—conducted at a single point in time—it does not reflect how bootstrapping practices may change as the business grows or faces different challenges.

6. REVIEW OF LITERATURE

Several studies have examined various aspects of MSME operations, particularly focusing on financial management and performance. Risman et al. (2023) analysed the hybrid nature of MSME financial management, highlighting its blend of personal and corporate finance practices, which created both challenges and flexibility in resource allocation. Alam et al. (2023) identified internal and external factors influencing SME performance, such as financial management, human resources, government policies, and institutional support, with key performance indicators including profit, customer, sales, and asset growth. Nuruddin (2022) studied financial bootstrapping in SMEs in Oyo State, finding a strong relationship between practices like delaying payments and minimizing accounts receivable with improved performance and liquidity. Jones et al. (2022) emphasized the dual function of financial bootstrapping in shaping investment and funding decisions, noting its value in managing limited resources while also urging diversification for long-term success. Abidin (2022) highlighted the broader economic role of MSMEs in fostering innovation, job creation, and entrepreneurship. Collectively, these studies showed that MSMEs navigate complex financial landscapes through adaptive strategies like bootstrapping

and internal management practices, contributing significantly to economic growth while facing unique challenges that require tailored support and strategic planning.

7. HYPOTHESES OF THE STUDY

Null Hypothesis (H₀): The use of bootstrapping does not reduce the financial risk of MSMEs.

Alternative Hypothesis (H₁): The use of bootstrapping does reduce the financial risk of MSMEs.

TABLE 1. Observed Value

Perceived Risk / Agreement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Row Total
Much Higher Risk	12	2	2	2	2	20
Higher Risk	7	11	5	5	2	30
No Change	2	2	8	2	1	15
Lower Risk	6	3	5	6	5	25
Much Lower Risk	3	2	5	0	0	10
Column Total	30	20	25	15	10	100

TABLE 2. Expected

Perceived Risk / Agreement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Much Higher Risk	6	4	5	3	2
Higher Risk	9	6	7.5	4.5	3
No Change	4.5	3	3.75	2.25	1.5
Lower Risk	7.5	5	6.25	3.75	2.5
Much Lower Risk	3	2	2.5	1.5	1

Chi Square Test: O= Observed value

E = Expected value

(O - E) = Difference between observed and expected

(O - E)² = Squared difference

(O - E)² / E = Chi-square contribution from each cell

TABLE 3. Chi Square Test

Observed Value (O)	Expected Value (E)	(O - E)	(O - E) ²	(O - E) ² / E
12	6	6	36	6
2	4	-2	4	1
2	5	-3	9	1.8
2	3	-1	1	0.333
2	2	0	0	0
7	9	-2	4	0.444
11	6	5	25	4.167
5	7.5	-2.5	6.25	0.833
5	4.5	0.5	0.25	0.056
2	3	-1	1	0.333
2	4.5	-2.5	6.25	1.389
2	3	-1	1	0.333
8	3.75	4.25	18.0625	4.817

2	2.25	-0.25	0.0625	0.028
1	1.5	-0.5	0.25	0.167
6	7.5	-1.5	2.25	0.3
3	5	-2	4	0.8
5	6.25	-1.25	1.5625	0.25
6	3.75	2.25	5.0625	1.35
5	2.5	2.5	6.25	2.5
3	3	0	0	0
2	2	0	0	0
5	2.5	2.5	6.25	2.5
0	1.5	-1.5	2.25	1.5
0	1	-1	1	1
Total				31.9

Applied the Chi Square Test to test the hypothesis and assume the significance level would be 5% 0.05.

Chi Square Test: The Chi Square statistic is calculated using the formula:

$$\chi^2 = \sum \frac{E(O-E)^2}{E}$$

O = Observed frequency (actual data)

E = Expected frequency (theoretical value)

Σ = Summation across all categories or groups

Degrees of Freedom (df) : $(r-1)(c-1) = (5-1)(5-1) = 16$

Level of Significance (α) : 0.05

Chi-square Critical Value ($\chi^2_{0.05, 16}$) : 26.296

Calculated Chi-square Value : 31.9

Calculated Value > Critical Value

31.9 > 26.296

Hence, calculated value is Greater than critical value so we reject null hypothesis at 5% or 0.05 level. The use of bootstrapping does reduce the financial risk of MSMEs. Reject the null hypothesis (H0). Accept the alternative hypothesis (H1)

Findings: The study revealed that most respondents were middle-aged, well-educated individuals primarily involved in micro enterprises, with a strong representation from the retail sector. Participants mostly operated within lower to mid-income brackets, reflecting limited financial capacity, and showed a balanced business environment comprising both emerging and established players. The findings indicated a reliance on external financing, a strong awareness of financial issues, and a general preference for maintaining financial health and autonomy. While many businesses struggled with financial stability and strategic planning, they emphasized profitability, cash flow, and revenue growth over other financial ratios. There was a mixed perception of bootstrapping, though it was largely viewed as effective for managing cash flow and reducing risk. Businesses favored periodic financial assessments and sought to build buffers and access external support to ensure stability. Although some expressed confidence, others highlighted gaps in support and execution. The study also found a growing interest in digital transformation, financial education, and customer-centric strategies, with businesses valuing bootstrapping for the control it offers, while also exploring external investment options. Strategic networking, disciplined spending, and innovation funding were seen as vital to sustaining growth and competitiveness in the long term.

Suggestion: The study provided several key recommendations based on the financial strategies adopted by MSMEs. It suggested that MSMEs relied heavily on cost-effective financing methods like personal savings and profit reinvestment, allowing them to minimize debt and maintain control. Strong financial discipline, especially in budgeting and cost management, was encouraged for long-term sustainability. Diversifying funding through alternatives such as peer-to-peer lending and government schemes was recommended to reduce financial risk. The study emphasized continued reinvestment of profits, efficient resource allocation through lean management, and forming strategic partnerships to overcome limitations. It also highlighted the importance of financial risk management, advocating for proactive contingency planning. Improving financial literacy in areas like tax planning and investment was encouraged, along with maintaining a strong focus on cash flow management to prevent liquidity issues. These recommendations aimed to strengthen the financial resilience and growth potential of MSMEs.

8. CONCLUSION

The study on the relationship between bootstrapping and financial management strategies in MSMEs revealed that these enterprises frequently used methods like delaying payments, reducing overhead costs, and reinvesting profits to support operations and growth. These bootstrapping techniques were closely tied to core financial management practices such as budgeting, cash flow control, and cost efficiency. The findings showed that bootstrapping fostered financial discipline and resilience, especially under resource constraints. MSMEs that integrated bootstrapping with structured financial planning were better equipped to handle financial challenges and sustain long-term growth. The study concluded that bootstrapping significantly influenced MSMEs' financial performance and survival.

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