

# Start-up company

Business



Perhaps the most predominant resemblance in the story of any start-up company is not its success or failure, thereafter, but some constraint at the starting stage.

Studies confirm that many awe-inspiring ideas face frustration of ever materializing into visible companies by the lack or inadequacy of start-up funds. This makes it imperative to explore the various methods of financing start-up companies, and the underlying reasons that define the preference patterns adopted by the entrepreneur(s) in question. Entrepreneurs face a number of factors that define their search, preference and consequent approval of the capital financing source and method. This scholarly paper will proactively review literature on the above topic, while keeping in mind all the realities surrounding the endeavor of rendering an insightful academic literature. This work will consider the realities and critical factors that characterize financing of start-up companies.

Among these critical matters defining the course taken by an entrepreneur, there are included new considerations of financial institutions, government policies encouraging lending and entrepreneurial preferences (Field, 2007). It is imperative to study the methods of financing start-up companies in the era when entrepreneurs receive idol treatment. They are the epitome of America and other nation's success. They are receiving treatment due to them as the embodiment of the nation's best ambassadors. It is a subject of increasing concern, considering the number of start-up businesses that America is witnessing per year. CNN notes that all age groups are demonstrating a vast appetite for starting businesses.

Individuals investing in start-up companies indicate fair demographic distribution from college students to those in age above 65 years of old. Immigrants to America are not an exemption to this phenomena being responsible of over 20% of business start-ups in 2005. Year 2005 was a boom period in starting up companies. The number of companies started in the same year surpassed the businesses that had started in 1996 or any of the previous years. According to the report by Small Businesses Administration, there were over 650, 000 new businesses in 2005; among them there were included a massive share of start-up companies.

Additionally, 2006's survey indicates that 66% of Americans intent to start a company during their lifetime with 37% of them projecting this to be in the next five years (Galbraith, 2009). A study by IndianaUniversity, in partnership with the Bank of America, indicates that entrepreneurs behind the start-up companies are topping the list of charity givers. This group is indeed praiseworthy and societal role models. Their contributions to charity are over twice as much as that given by rich individuals who inherit wealth. They are awake to the social calling, but obstacles of finance stand in the way of their kind.

Those aspiring to join them have daunting questions, which is the subject of this review. How does one reach scales of success in the face of low funds? How do the young entrepreneurs finance their start-up? This paper investigates the literature existence in the field of financing these start-up companies with a clear memory of the factors shaping the business landscape such as technology (Hosmer, 2009). Bootstrapping This method of funding Start-up Companies continues to be top ranks of methods that have <https://assignbuster.com/start-up-company/>

received minimal scholarly attention. This method is the product of entrepreneur's frustration with bankers and other providers of funds in case of which the entrepreneur turns on himself. The nature of bootstrapping involves personal sacrifice through extensive use of savings and employment of creative processes to make up the shortcomings. Some scholars have regarded it as being frustration arising in the process of financing start-up companies rather than a method in itself.

However, this paper and other scholarly articles consider it in the light of an alternative form of financing. In the context of small companies, it is getting a business of the ground and running without using any external capital. This implies that the entrepreneur neither borrows nor issues equity (Lahn, 2005). Bootstrapping gets its name from the upper strip of a shoe, which helps in putting on it. It is an entrepreneur's centered approach seen as the most sublime entrepreneur's form. Being a transformation of personal wealth into business capital; bootstrapping demands extensive use of well-conceived strategies.

Some of the options available to entrepreneurs include the use of credit cards as a non-business related borrowing. However, this option has apparent shortcomings; it may hoodwink the entrepreneurs into thinking that they have enough and easy time yet that their debt rating could experience adverse effects. Since it is reality in the business world of start-ups to experience capital drought, some innovative methods of bootstrapping employed include cost minimization and efficiency emphasis in resource control (Highlands Capital Partners, 2012). Studies argue that, while the most predominant reason for adaptation of this method is frustration and

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limitation of choice, an entrepreneur may drive it, from his desire to retain control of their new business. Another reason may be shielding it from factors predisposing it to debt financing claims. Bootstrapping is also favorable since some the importance factors pertaining to a source of finance and the amount therein are the stage of growth of a company.

Start-ups, at their initial stage may require less of massive capital since they are yet not on higher scale of ambition unlike in later stages (Highlands Capital Prtners, 2012). However, there is a common trend in financing start-ups using bootstrapping which involves extensive use of credit cards. The competitive edge of this method is its indirect connection to the business. Though it is pertinent to trend carefully on the use of cards, there may be a sham of abundance in the entrepreneurs mind, leading him/her into borrowing extensively. The consequence is the destruction of the entrepreneur's credit ratings. This is not only harmful on the individual's chances of securing credit in the future, but if this information is in the public domain, the performance of the business would also be adversely affected.

The success of many start-ups are dependent on the proprietors' reputation, since there is a enormous degree of skepticism on the part of the business's success, damage of individual reputation dampens chances of positive acceptance (Field, 2007). CNN offers vast examples of companies that were started through bootstrapping including Ebay, Google and Microsoft. The companies later on built a loyal clientele that becomes the launching pad of their success and power to source funds from other sources.

Studies indicate that a majority of entrepreneurs result to bootstrapping since they have unproven record of success as start-ups. Nonetheless, studies indicate that bootstrapping remains the purest of all opportunities in demonstrating the entrepreneur's ideas and skills; it also brings the purest of entrepreneur's innovativeness by pushing him to the limit of thinking. These advantages are evident from the confidence that institutions built later on the same people that they shunned. Bootstrapping is also advantageous in minimizing debt and maintaining control of the business. Therefore, even if other sources of finances are forthcoming, bootstrapping still has its place in start-up financing and survival of the business (Galbraith, 2009).