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# Effect Of Bootstrapping Dimensions On Profitability Of Selected Small And Medium Scale Enterprises (Smes) In South-West, Nigeria.

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***Abstract***
*In Nigeria, there have been high levels of unemployment among other social issues causing governments' instability, brain drain, low gross domestic product (GDP) per capita and low economic growth. The SMEs sector in Nigeria has not been spared in this crisis as there are high business failures, SME closures and many people losing jobs through retrenchments as a result of poor performance of the SMEs and one of the most challenging factors that have hindered the profitability growth of SMEs globally has been the inability to pool financial resources together, thus profitability of SMEs has been dwindling across continents over the years, leading to the high mortality rate of businesses in the sector, the consequence of this is that no business can survive for a significant amount of time without making a profit. The study on how bootstrapping affect SMEs profitability remain inconclusive, thus, this study investigated the effect of Bootstrapping on the profitability of Small and Medium Enterprises in South-West, Nigeria.*
*The study adopted survey research design with a sample size of 750 determined using Cochran's (1977) formula from a total population of14, 527 owner/managers of small and medium scale enterprises (SMEs) in Lagos and Oyo States.Multiple regression analysis was used to analysis the data and the findings revealed that bootstrapping dimensions had significant effect onprofitability (Adj. $R^2 = 0.188$; $F(5, 642) = 30.972$, $p < 0.05$)*
*The study concluded that bootstrapping improved profitability of SMEs in South-West, Nigeria. It was recommended that management of small and medium scale enterprises in South-West, Nigeria should pay more attention on subsidy financing, owners financing, social capital with less attention on joint utilization in order to improve their performance.*

***Keywords:*** *Delayed Payment, Joint Utilisation, Owner Financing, Profitability Social Capital, Subsidy Financing*

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## I. Introduction

Poor funding has been identified as one of the major critical dilemmas for SMEs growth and development in Nigeria and as such SMEs have been found unable to move with the trend in the dynamic business environment and as such have encountered loss of sales and invariably decline in profitability. This to greater extent has forced several SMEs shutdown before their fifth-year anniversary (Leithy,2017). The Nigerian Bureau of Statistics/Small and Medium Enterprise Development Agency of Nigeria (NBS/SMEDAN) 2017 report, in 2013 that there were 11,663 and 7,989 registered SMEs in Lagos and Oyo States respectively. However, the latest SMEDAN report revealed that there 11,044 and 7,468 registered SMEs in Lagos and Oyo States respectively, indicating a decline in the two States as a result of collapse of some SMEs (SMEDAN, 2017). The business collapse was attributed to loss of market share, low sales growth and loss of profitability the trend which invariably decline Nigeria economy growth and development.

SMEs in Nigeria face enormous pressures as the nation integrates more into the world economy. Taiwo, Falohun, and Agwu (2016) state that SMEs in Nigeria have not performed commendably well as they have not adequately played the expected significant role in the economic growth of the nation. Also, Muktar, Gambo, and Mukhtar (2015) posited that there is a high preference among consumers for imported goods and the country engages in more of importation than exportation. Imports to Nigeria rose 2.6% year-on-year to NGN 1002 billion in March 2019, boosted by purchases of energy goods (796.3%); manufactured goods (101.3%); solid mineral (70.8%); raw material (46.9%) and agricultural goods (61.3%). Imports in Nigeria averaged 227104.84 NGN Millions from 1981 until 2019, reaching an all-time high of 2209385.78 NGN

Millions in August of 2018 (Trading Economics, 2019). This has resulted into an increase in the rate of business failure andlow profitability of SMEs in Nigeria (Muktar *et al.,* 2015).

Bootstrapping has been identified as a panacea for entrepreneurs to remedy the constant struggle to find a capital strategy that will support their growth objective (Kamrul, 2019). Bootstrapping is a key dynamic capability that allows entrepreneurs to boost the value of their resources by extending and integrating these strategies together, for instance, improve cash flow by curbing expenses or curbing the necessity to pay while raising money internally (Tahir & Inuwa, 2019).

**Statement of the Problem**

Previous research work such as Nguyen et al., (2018); Nguyen and Nguyen (2020); Xia and Gan (2020); Turyakira et al., (2019) examined the impact of government support on firm net income margin, firm capability and access to finance on firm performance, SME financing with new credit guarantee contracts over the business cycle, formal and informal financing decisions of SMEs and implications of performance on the net income margin of SMEs. However, most of these research studies conducted on Bootstrapping related it to support system, firm capability, access to finance, business management cycles, methods of financing decisions and SMEs growth monitoring. The evidence that reputed scholars examined the effect of Bootstrapping dimensions on profitability is not established. The review of literature highlighted that the problem of Bootstrapping dimensions on profitability have not been properly addressed, hence the need to fill the gap on the effect of Bootstrapping dimensions on profitability of Nigerian SMEs. The study hypothesized that Bootstrapping dimensions have no significant effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. The study is limited to South West Nigeria with special reference to Oyo and Lagos State being the state with highest number of SMEs operators (owners/ managers) in the South West Nigeria. However, the study will be of immense benefit to government, policy makers, SMEs operators as well as academia.

## II. Literature Review

**Concept of Bootstrapping**

Bootstrapping is a method of gaining new or stretching current financial resources essential to the operation of the business (Neeley & Van Auken, 2012). Bootstrapping is the implementation of a variety of methods to fund a business and stresses internal financing methods, with minimal amounts of debt and equity financing, or from nontraditional sources (Osei-Assibey, Bokpin, and Twerefou, 2012). The use of bootstrapping allows an entrepreneur to continue operations at a time when attaining outside capital is not realistic (Ebben & Johnson, 2011). Knowledge associated with bootstrapping finance can play a vital role in protecting small businesses (Korunka, Kessler, Frank, & Lueger, 2010). During a time of recession, implementation of bootstrap methods can help an existing business to survive. Knowing methods for reducing and controlling expenses can aid an organization in building a culture of leanness and efficiency (Jones &Jayawarna, 2010). A lean business culture can better position a small business to contend with poor economic conditions. Additional information about bootstrapping can benefit small business entrepreneurs by providing bootstrapping solutions for survival (Van Caneghem& Van Campenhout, 2012).Bootstrapping are resourceful managerial practices that contribute to optimize resource exploitation within the business and reduce the overall cost and risk of operations, while avoiding reliance on external suppliers of finance (Carbo-Valverde, Rodriguez-Fernandez, & Udell, 2016). Furthermore, Pal, Sethi, Jena, Patra, and Pal (2020) suggest that Bootstrapping offers an ideal strategic pathway to escape the vicious cycle of resource constraints.

**Concept of Profitability**

Profitability is the business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. The ability of a firm to continue to exist as a going concern depends on its ability to generate profit or attract equity capital and additional investors (Hasan, Ahsan, Rahaman, &Alam, 2014). According to Uhuegbulem, Mejeha, Henri-Ukoha, Ukoha, and Uche (2020), profitability is the ability of a given investment to earn a return from its use. Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the banks management can make profit by using all the resources available in the market.

Profitability is critical to a company's survival in the long-term and it measures a firm’s past ability to generate returns (Santos & Brito, 2012). Yanti and Darmayanti (2019) indicated that profitability is the difference between the sales generated by a business and the expenses incurred during the business operations. The author also emphasised that it is important to maximise the sales amount of a business by significantly reducing the expenses incurred in the business. Otekunrin, Nwanji, Eluyela, Olowookere, and Fagboro (2020) stated that the definition of profitability is the difference between the revenue and the operational expenses incurred in the business. Yanti and Darmayanti (2019) added that all businesses should aim at significantly

reducing their operational expenses and aim at increasing their incomes to maintain a positive net income which is referred to as a profit.Profitability means ability to make return from all the business activities of an organization, company, firm, or an enterprise which shows how efficiently the management can make profit by using all the resources available in the market (Pribadi, 2018).

**Empirical Review**

The findings of Ishaya and Abduljeleel (2014) and Maina and Kondongo (2013) indicated that owner financing has a positive effect on profitability as against debt financing. In the same vein, Mwende, Muturi, and Njeru (2019) reported that owner financing has a positive and significant effect on profitability. In congruence to this, the findings of Zurigat (2009) using data from non-financial firms in Jordan for the years 1997-2005 indicated that owner financing positively affects profitability. Martinez-Sola, García-Teruel, and Martínez-Solano (2014) identified a positive linear relationship between delayed payment and firm profitability from their fixed, random and instrumental variable regression estimations. Dai et al. (2015) showed that the collaboration of internal and external social capital has a positive effect on the firm's financial performance. Rita (2019) revealed a positive and significant effect of financial Bootstrapping on profitability. In the same vein, Mwende, Muturi, and Njeru (2019) reported that owner financing has a positive and significant effect on profitability. In contrast to previous findings, Zurigat (2009) reported that the interaction between owner financing and profitability revealed that owner financing tracks the financing deficit relatively more closely. Also, Ebben (2009) demonstrated the existence of a negative association between the use of joint-utilization, customer-related and delaying payments Bootstrapping methods and the profitability of small firms

The studies of Katua (2014) and Emad, Suhail, and Jabbar (2014) showed that owner's finance has a significant effect on financial performance of SMEs. In the same vein, Musila (2015) sought to establish the influence of equity financing on financial performance and found that owner financing played a vital role in raising of funds for investment purpose was concerned. Also, Wesonga, Raude, and Wawire (2015) examined strategy of equity financing and its influence on the Kenyan SME performance. Salerno (2018) analyzed whether private equity financing influence performance of family-owned SMEs. The finding showed that there is a positive result caused by financing through owner to the profitability of the business.

Studies that have investigated a non-linear relationship between delayed payments and firm profitability include Lorenz (2014), Asimakopoulos, Fernandes and Karavias (2016), and Afrifa (2016). In a panel study of over 11,000 Spanish small and medium enterprises (SMEs), Martinez-Sola, García-Teruel, and Martínez-Solano (2014) identified a positive linear relationship between delayed payment and firm profitability from their fixed, random and instrumental variable regression estimations. Dai et al. (2015) showed that the collaboration of internal and external social capital has a positive effect on the firm's financial performance. Rita (2019) revealed a positive and significant effect of financial Bootstrapping dimensions on profitability. Likewise, Ebben (2009) revealed that delaying payment methods and customer-related methods are negatively related to return on sales (ROS)/return on assets (ROA) ratios. Vanacker, Manigart, Meuleman, and Sels (2011) reported a positive effect on value added of techniques related to the use of owners' own funds, the hiring of interim personnel, government subsidies, and the minimization of accounts receivable.

Likewise, Dai et al. (2015) reported that the collaboration of internal and external social capital has a positive effect on the firm's financial performance. In the same vein, the study of Mabonga (2020) reported that owner financing, joint utilization, had a significant positive effect on financial sustainability, and delayed payment had significant positive effect on financial sustainability observed through increased profitability. The previous findings are also in tandem with the studies of Ibanga (2015), Nguyen (2015), and Ibeleme (2017) who all found a positive interaction between social capital and financial performance in the aspect of profitability. A longitudinal study by Checherita et al (2015) found out that delayed payment to a bankruptcy and declined profits. Another study conducted by Abdul-Rahman (2009) on cash flow management with respect to delayed payments in projects reported that the major factor that contributed significantly to delayed projects was difficulties in managing cash flow, delayed payments, coupled with inadequate resources, and the instability of the financial markets, caused majorly by client's inability to manage finances as well as the entire business, similarly, the clients strained while struggling to acquire loans from financiers, altogether combined with the contractors instable financial background, all which contributed to delays.

## III.Methodology

**Research Design**

This study adopted Survey research design. This design was adopted as a result of the need to generate primary data through the use of structured questionnaire to achieve the research objective.

**Population of the Study**

The population of this study comprised fourteen thousand five hundred and twenty-seven (14,527) small and medium scale enterprises in Lagos and Oyo States (SMEDAN, 2017). The population of this study included small and medium scale enterprises in Lagos and Oyo States. Lagos and Oyo States were selected because the two States have the highest number of SMEs in Nigeria.

**Sample size determination**

The sample size for this study is 750 and it was determined using the Cochran's sample size formula (1977). The formula is shown below:

$$n = \frac{NZ2pq}{d2\ (N-1) + Z2pq} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots$$

Where:

n = Sample size N = Population size

Z = Standardized normal variable and its value that corresponds to 95 % confidence interval equals 1.96.

P = Degree of variability (0.5)

q = 1-p d= Degree of accuracy (0.05) α= level of significance (5%)

Applying the formula;

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

n = 13951.7308 / 24.202

576.47 n = 577 respondents

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

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

n= 577 + 173

n= **750 respondents**

**Method of Data Collection/ Research Instrument**

The study made use of primary data for this study and the data were collected through use of a well-structured questionnaire adapted by the researcher which reflected the study objectives and questions. The questionnaire was administered to 750 owner/managers of selected SMEs in Lagos and Oyo States, Nigeria.

**Methods of Data Analysis**

Data collected was analysed using Multiple linear regression analysis and was applied to test hypothesis to establish the effect of all the independent sub-variables (owner's financing, subsidy financing, delayed payment, joint utilization and social capital) ondependent variables profitability of selected small and medium scale enterprises in South-West, Nigeria.Analysis was carried out using Statistical Package for Social Science (SPSS) version 25 software.

**Model Specification**

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

$Y = f(X)$

Where: Y = Dependent Variable (Profitability of SME)

X = Independent Variable (Bootstrapping)

Where: Y = Profitability (PT)

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

Where: $x_1$ = Owner's Financing (OF), $x_2$ = Subsidy Financing (SF), $x_3$ = Delayed Payment (DP), $x_4$ = Joint Utilisation (JU) $x_5$ = Social Capital (SC)

PT = f (OF, SF, DP, JU, SC)

$PTi = \beta_0 + \beta_1 OFi + \beta_2 SFi + \beta_3 DPi + \beta_4 JUi + \beta_5 SCi + ei$

**Data Presentation and Analysis**

**Hypothesis Testing**

**Restatement of Research Objective, Research Question and Research Hypothesis**

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

**Research Question**: In what ways doesBootstrapping dimensions affect Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria?

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

To test hypothesis, multiple linear regression analysis was used. The independent sub-variables of Bootstrapping dimensions are (Owner's Financing, Subsidy Financing, Delayed Payment, Joint Utilisation, and Social Capital), while the dependent variable was Profitability. In the analysis, data for Bootstrapping dimensions were created by adding together responses of all the items under the various dimensions to generate independent scores for each dimension. Data for Profitability was generated by adding together responses of all items under the variable to create index of Profitability. The results of the analysis and parameter estimates obtained are presented below:

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

| N | Model | *B* | Sig. | T | ANOVA (Sig.) | R | Adjusted $R^2$ | F (5,642) |
|---|---|---|---|---|---|---|---|---|
| 648 | (Constant) | 14.833 | .000 | 9.803 | 0.000[b] | 0.441[a] | 0.188 | 30.972 |
| | Owner Financing | .071 | .185 | 1.326 | | | | |
| | Subsidy Financing | .375 | .000 | 6.906 | | | | |
| | Delayed Payment | -.050 | .058 | -1.898 | | | | |
| | Joint Utilisation | -.062 | .029 | -2.192 | | | | |
| | Social Capital | .067 | .095 | 1.674 | | | | |
| | a. Dependent Variable: Profitability | | | | | | | |
| | b. Predictors: (Constant), Social Capital, Delayed Payment, Subsidy Financing, Joint Utilisation, Owner Financing | | | | | | | |

***Source: Researchers' Findings 2022***

Table above shows the multiple regression analysis results for the bootstrapping dimensions on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. The results showed that Subsidy Financing ($\beta = 0.375$, $t = 6.906$, $p<0.05$) has positive and significant effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria while Joint Utilisation ($\beta = -0.062$, $t = -2.192$, $p<0.05$) showed negative significant effect Profitability of Small and Medium Scale Enterprises. The results also showed that Owner Financing ($\beta = 0.071$, $t = 1.326$, $p>0.05$) and Social Capital ($\beta = 0.067$, $t = 1.674$, $p>0.05$) all have positive and insignificant effect on Profitability while Delayed Payment Delayed Payment ($\beta = -0.050$, $t = -1.898$, $p>0.05$) has negative and insignificant effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. The results of the analysis showed that two of the bootstrapping dimensions (Subsidy Financing, and Joint Utilisation) all have significant positive and negative effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. This implies that Subsidy Financing and Joint Utilisation are important bootstrapping dimensions among the selected Small and Medium Scale Enterprises that yield an increase in growth in Profitability in the SMEs. The coefficient of multiple determination Adj. $R^2 = 0.188$ indicates that about 18.8% variation that occurs in the Profitability of Small and Medium Scale Enterprises (SMEs) in Nigeria can be accounted for by the dimensions of bootstrapping while the remaining 81.2% changes that occurs is accounted for by other variables not captured in the model. The predictive and prescriptive multiple regression models are thus expressed:

$P = 14.833 + 0.071OF + 0.375SF - 0.050DP - 0.062JU + 0.067SC + U_i$------(Predictive Model)

$P = 14.833 + 0.375SF - 0.062JU + U_i$---------- (Prescriptive Model)

Where:

OF = Owner FinancingSF = Subsidy FinancingDP = Delayed PaymentJU = Joint UtilisationSC = Social CapitalP = Profitability

The regression model shows that holding bootstrapping dimensions to a constant zero, Profitability would be 14.833 which is positive. In the predictive model it is seen that of all the variables, Owner Financing (positive), Delayed Payment (negative), and Social Capital all are not significantly related to Profitability, so the management of the firm can downplay on those variables which is the reason why they are not in the prescriptive model. This implies that the selected small and medium scale firms should pay more attention to the bootstrapping dimensions especially owner financing, subsidy financing and social capital. The results in the Prescriptive model further revealed that if Subsidy Financing is improved by one unit, Profitability would increase by 0.375 units. Also, a one-unit change in Joint Utilisation among selected SMEs will lead to a decrease in Profitability all things being equal. This implies that there is a positive and negative significant influence of Subsidy Financing and Joint Utilisation on Profitability level respectively among the selected Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. Also, the F-statistics ($df = 5, 646$)= 30.972 at $p = 0.000$ ($p<0.05$) indicates that the overall model is significant in predicting the effect of bootstrapping

dimensions on Profitability which implies that bootstrapping dimensions are important determinants in the Profitability of Small and Medium Scale Enterprises (SMEs) in Nigeria. The result suggests that Small and Medium Scale Enterprises (SMEs) should pay more attention towards developing the dimensions of the bootstrapping to increase the Profitability. Therefore, the null hypothesis which states that bootstrapping dimensions have no significant effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria was rejected.

## IV. Discussion

The results of multiple regression revealed that Bootstrapping dimensions of (owner's financing, subsidy financing, delayed payment, joint utilization, and social capital) have significant effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. The amalgamation of the independent sub variables was significant in predicting the Bootstrapping in Nigeria. In other words, Bootstrapping dimensions of (owner's financing, subsidy financing, delayed payment, joint utilization, and social capital) have significant effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria.

Conceptually, Yegon et al; (2014) claimed that the final goal of every productive or industrial activity is more profitability; and this involves the correct use of productive factors like resources and facilities and engagement in cost reduction schemes all of which will increase productivity. So, a firm has to emphasize the two cases of increasing productivity and price improvement to achieve as much profit as possible (Mujwahuzi& Mbogo. 2020). The consequence Mashavave and Tsaurai, (2015) maintained is that no business can survive for a significant amount of time without making a profit and therefore, the measurement of a company's profitability, both current and future, is critical in the evaluation of the company. The ability of a firm to continue to exist as a going concern depends on its ability to generate profit or attract equity capital and additional investors (Hasan et al; 2014). According to Uhuegbulem et al; (2020) upheld that profitability is the ability of a given investment to earn a return from its use.

Empirically, the studies of Katua (2014) and Emad et al; (2014) showed that owner's finance has a significant effect on financial performance of SMEs. In the same vein, Musila (2015) sought to establish the influence of equity financing on financial performance and found that owner financing played a vital role in raising of funds for investment purpose was concerned. Likewise, Wesonga et al; (2015) examined strategy of equity financing and its influence on the Kenyan SME performance. Salerno (2018) analyzed whether private equity financing influence performance of family-owned SMEs. The finding showed that there is a positive result caused by financing through owner to the profitability of the business.

Studies that have investigated a non-linear relationship between delayed payments and firm profitability include Lorenz (2014), Asimakopoulos et al; (2016), and Afrifa (2016). In a panel study of over 11,000 Spanish small and medium enterprises (SMEs), Martinez-Sola et al; (2014) identified a positive linear relationship between delayed payment and firm profitability from their fixed, random and instrumental variable regression estimations. Dai et al; (2015) showed that the collaboration of internal and external social capital has a positive effect on the firm's financial performance. Rita (2019) revealed a positive and significant effect of financial Bootstrapping on profitability.

Similarly, Ebben (2009) revealed that delaying payment methods and customer-related methods are negatively related to return on sales (ROS)/return on assets (ROA) ratios. Vanacker et al; (2011) reported a positive effect on value added of techniques related to the use of owners' own funds, the hiring of interim personnel, government subsidies, and the minimization of accounts receivable.

Similarly, Maina and Kondongo (2013), while evaluating the effect of leverage and the financial performance of listed firms in Kenya for the period 2002-2011, found that there was a significant negative effect of debt and profitability but no effect on firm value. The findings of Ishaya and Abduljeleel (2014) and Maina and Kondongo (2013) indicated that owner financing has a positive effect on profitability as against debt financing. In the same vein, Mwende et al; (2019) reported that owner financing has a positive and significant effect on profitability.

In congruence to this, the findings of Zurigat (2009) using data from non-financial firms in Jordan for the years 1997-2005 indicated that owner financing positively affects profitability. The evidence on the interaction between owner financing and profitability revealed that owner financing tracks the financing deficit relatively more closely.

Nevertheless, Ebben (2009) demonstrates the existence of a negative association between the use of joint-utilization, customer-related and delaying payments Bootstrapping methods and the profitability of small firms. The effect on productivity was mixed: most papers do not find an effect of subsidy on productivity (Cerqua & Pellegrini, 2014; Criscuolo et al., 2012; Bergstrom, 2000) with some exceptions who found a positive (Harris & Robinson, 2005) or negative effect (Bernini & Pellegrini, 2011). Ishaya and Abduljeleel (2014) observed that debt is negatively related with profitability but equity is directly related with profitability.

In summary, from the field findings,on Bootstrapping dimensions of owner's financing, subsidy financing, delayed payment, joint utilization, and social capital have significant effect on Profitability of Small and Medium Scale Enterprises (SMEs) in South-West, Nigeria. The study is in agreement with the findings of Czarnitzki and Lopes-Bento (2013) used matching on observables to mitigate endogeneity issues in the context of Flemish R&D subsidies; took a distinct approach, estimating a model of firms' decisions about performing R&D when government subsidy can be expected and used Spanish survey data in the 1990s to explore the effects of R&D subsidies. The paper by Cerqua and Pellegrini (2014) and Bronzini and Iachini (2014) investigated the effect of subsidy in Italy, while Jacob and Lefgren (2011) focused on the impact of National Institutes of Health (NIH) grants in the US. The results show a remarkable resemblance: the papers that take firm size heterogeneity into account, found an effect of subsidy on return on investment positive and significant only for small firms (Criscuolo et al; 2012; Bronzini & Iachini, 2014) or a positive effect across all firm sizes but higher for small firms (Cerqua & Pellegrini, 2014; Bernini & Pellegrini, 2011; Czarnitzki& Lopes-Bento, 2013; Gonzalez et al., 2005).

The Pecking Order Model indicates that entrepreneurs use internal financing methods prior to external methods of debt or equity financing (Degryse, de Goeij, & Kappert, 2012; Zha & Zhang, 2010). Due to issues such as information asymmetries, financier demands, costs associated with attaining debt or equity, and loss of control, entrepreneurs tend to follow the pecking order (Minola & Cassia, 2013). Morugesan et al., (2016) added to the pecking order for capital structure theory, stating that the characteristics of the business may lead potential financiers to have differing demands for company performance. Unavailable information regarding the company, or information asymmetries, causes difficulties in measuring differing demands of financiers (Colombo et al; 2013). Information asymmetries play a role in the ability to attain financing, as well as the cost of attaining debt (Colombo et al., 2013; Guariglia et al; 2011). Information asymmetries occur when one party has more information than the other does, or the information is more obvious to one party over the other (Irwin & Scott, 2010).

## V. Conclusion and Recommendation

**Conclusion**

Bootstrapping is a key dynamic capability that allows entrepreneurs to boost the value of their resources by extending and integrating these strategies together, for instance, improve cash flow by curbing expenses or curbing the necessity to pay while raising money internally. Thus, Bootstrapping has been identified as a panacea for entrepreneurs to remedy the constant struggle to find a capital strategy that will support their growth objective. Therefore, this study investigated the effect of Bootstrapping on profitability of small and medium scale enterprises in South-West, Nigeria. The study concluded that Bootstrapping dimensions have significant effect on profitability of small and medium scale enterprises (SMEs) in South-West, Nigeria.

**Recommendation**

Based on the finding, the study recommended that management of small and medium scale enterprises in South-West, Nigeria should concentrate more on subsidy financing, owners financing and social capital with little or no attention towards delayed payment and joint utilization in order to improve their profitability.

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