

Resource Bootstrapping and Bricolage as Resource Management Strategies in Informal Enterprises: A Case of Indian Informal Grocery Retailers

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Abstract - Informal enterprises have a vital role in developing countries in generating employment for unskilled and as an extension of supply chain of resources where formal enterprises cannot operate viably. They are unable to access formal financial resources due to the liability of smallness and information asymmetry. Yet, they sustain in the highly competitive market and co-exist with large retailers. There is a literature gap exists to explain how informal enterprises use Resource Bootstrapping and Bricolage to overcome resource constrains and to meld available resources to a unique set competencies . The two parameters used to compare the performance of the retail shops are 'Revenue-Expense Ratio (RER) and 'Return on Investment (ROI)'. It is found that informal shops perform at par with large shops though the RBB strategies used by them are different. The informal enterprises will become formal once they gain competencies to grow beyond the set limits for registration.

JEL Classification: C83, E26, O17, O18, L25, L26, L81, P25

Key words - Grocery retailers, , informal enterprises, Resource bootstrapping, revenue to expense ratio, return on investment

INTRODUCTION

The concept of 'Informal economy, informal enterprises, and informal employment' are taken in unlike ways by different economies. In developed economies, informal economy stands for 'unrecorded activities or employment to evade tax or illegal activities that hamper the interests of both citizens and country'. But, in developing countries, informal economy is regarded as a self-sustaining process of developing employment and livelihood for many unprivileged, unskilled, and untrained strata of population even if it's contribution to national economy in terms of taxes is insignificant. Informal economy has two portions- informal enterprises and informal employment. Informal enterprises are small non-agricultural household enterprises with number of labours less than ten while informal employment is casual and inconsistent jobs. Informal enterprises must be analysed from the perspective of firm theories. The role of informal enterprises, in economies like India with mammoth population, in generating self-employment and informal employment is exemplary. It is an occupation to millions while abating parallel unhealthy, antisocial, and destructive

trades for livelihood. It is highly prevalent in many Asian and African economies where formal employment is inadequate comparing to the population size and unemployment level.

There are many nations in Eastern and Central Europe those limited informality to a very low level using constructive strategies. As per official records, unreported GDP of Estonia was calculated as just 4% of the true GDP in 2012. Innovative strategies in Estonian economy like flat rates for income tax, three pillar pension schemes, easy norms for enterprise registration, transparent administrative policies, stringent measures to prevent evasion of tax and restrictive measures to restrict informal employment are proved to be effective in limiting informal economy. However, informal employment cannot be zeroed down due to inconsistency in casual employment (Meriküll, Staehr, 2013).

Definition of 'Informal economy' was universally accepted in the 15th ICLS (International Conference of Labour Statisticians) (adopted as a part of 'national economy' by International Labour Organization in its 17th Conference of 'International Conference of Labour Statisticians' in 2003. The system of National Accounts (SNA) defined the informal sector as a part of household sector in 1992 (Meagher,2013). The enterprise approach of defining informal sector as a part of household enterprises engaged in self-employment to earn livelihood or as a group of individuals to engage in small trades. Retailing is one of the trades prominent in informal economy and second largest employment provider next to agriculture sector.

The entrepreneurs are grouped into three - factor driven, efficiency driven and innovation driven (Global Entrepreneur Monitor, 2015). Due to the high percentage of informal entrepreneurs in the industry, Indian entrepreneurial profile falls into 'factor driven'. Informal retailers are necessity entrepreneurs who chose trading as a career of last resort to earn livelihood and they lack innovations or enthusiasm to flourish (Coud and Tamvada , 2008).

INDIAN FOOD AND GROCERY RETAILING – A SNAPSHOT

Retail industry is one of the fast-growing industries in India accounting for 10% of Gross Domestic Product and 8% of the employment. It is predicted to reach US\$ 1.3 trillion in 2020 from US\$ 600 billion in 2015 registering a compound Annual Growth Rate (CAGR) of 16.7% during 2015-20. The fast growth of e-commerce sale accounted for US\$ 30 billion in 2016. The increase in foreign direct investment (FDI) and increase in online trading fuelled the growth of Indian retail sector. Indian retail segment is expected to grow at 12 % per annum while organised and traditional retailing are expected to grow at 20% and 10% respectively. India is positioned second in the GRDI index in 2016 next to China (AT Kerney,2016). It comprises of 15% organised retailing, 6% online retailing and 79% informal (unorganised) retailing. India is positioned third in the BRIC countries in the size of food and grocery retailing accounting for US\$ 320 billion and 57% of the total Indian retail market. Approximate number of retail outlets is estimated as 8 to 9 million including informal food and grocery retail formats in India. The penetration of modern retailing is still limited to 10%, focussing more on cities and towns in India (India Food Report,2015).

Indian retail sector is a unique model for the co-existence of three extremes in retailing – organised, e-commerce and informal retailing. In the Indian context, retail sector falls under the portfolio of States and Union territories. As per the mandates of Government of India on Foreign Direct Investment in retail, setting up of organised (formal) retail formats is restricted to cities having population more than ten lakhs.

Literature review

Survival of any enterprise depends on the entrepreneurial acumen of its promoter in acquiring scarce and generic resources for melding a unique competitive advantage (Porter, 2008; Lawler and Yoon, 1996; Barney, 1991; Pfeffer and Salancik, 1978). The transaction cost to acquire rare resources to blend unique competencies and the rent (profit) gained from these competencies define the success and prospects (Douglas and Shepherd, 2002, Donaldson 1995, Barney, 1991, Williamson 1981;). The Resource dependence theory define the power of enterprises over distribution of resources while resource based view (RBV) explained the guidelines for developing competencies from available resources (Barney, 1991). Finance, space, and skills are the limited resources, but inevitable, for structuring economical capabilities for the existence of enterprises. Peck Order of Resource Management prefers internal sources to external sources in managing resources (Myers,1984). But for informal firms, only internal funds (savings, retained earnings or borrowing from kith and kin) and insecure informal money lenders are the asylum for fund while for registered enterprise can access formal financial sources such as banks, angel funds etc. (; Brealey, et al, 2006). But strategies like resource bootstrapping or bricolage improve firm's performance as well as growth (Routherford, et al

,2012; Baker & Nelson, 2005). Resource bootstrapping is a strategy to substitute an expensive or a scarce resource with a cheap one while bricolage is a strategy to manage a resource scarcity with what is readily available in hand at that time without compromising quantity and quality (Winborg & Landstrom, 2001; Van Auken & Neeley, 1996; Brush, 2008 ; Fitzsimmons, 2007, Baker & Nelson, 2005). It includes owner-related finance, minimization of accounts receivable, sharing and borrowing of resources, delaying payments, minimization of capital invested and using subsidy finance (Winborg and Landstrom, 2001). Barringer and Ireland (2010) explained resource bootstrapping creative strategies to avoid the use of external finance through creativity, ingenuity, thriftiness, and cost-cutting. The basic forms of bootstrapping strategies are, gaining control over resources, utilizing effectively and minimizing expenses (Cornwall, 2010 ; Fatoki, 2013) Seven motives for seeking bootstrap financing are cost reduction, minimising reliance on long-term external finance, minimise capital need, risk reduction, gaining freedom of action, saving time, and enjoyment in helping others (Winborg ,2009). The Degree of Resource Bootstrapping is an individual drive and is measured as percentage change (decrease) in need of resource when a particular RB strategy is used (Grichnik and Singh, 2010).

Literature reviews available on resource bootstrapping as a strategy are based on the researches carried out in registered small and medium industries where all data are available (Ebben, 2009; Winborg, 2009; Ebben & Johnson, 2006; Winborg & Landström, 2001). Padachi, et al. (2012) explained the use of resource bootstrapping by Mauritian small and medium scale industries in bridging fund requirement (Fatoki,2013). Choice of RBB strategies and effectiveness of their implementation solely depend on the individual potential of the entrepreneur and the chosen RB strategies must match with the needs of the industry he belongs to(Lahm Jr. and Little Jr., 2005). Fatoki (2013) identified twenty bootstrapping methods to either minimise or delay resource outflow or to substitute expensive resources with cheap ones.

The financial ratios will be the right tool to compare the performance of two enterprises when their profiles are different (Delen, et, al, 2013).

Hence there is a research gap exists to analyse how resource bootstrapping and bricolage are used as resource management strategies to overcome resource constrain by informal enterprises.

Objective

- To examine the effectiveness of resource bootstrapping and bricolage as resource management strategy in controlling cost of operation among informal grocery retailers

Research methodology

Grocery retailing is one of the prominent trade in the inform enterprises where a large disparity exists in investment, size of the firm, cost of operation and

profitability. The grocery retailers are spread over a large geographical area with wide a dispersion in population density. Hence the results can be distinguished within the same sample with the changes in grouping variables like size of the firm, location, and strategies. This research was carried out in Coimbatore District of Tamilnadu State in India where there is a high degree of heterogeneity in population density and distribution of informal enterprises in size, investment, and sales (Peponis et.al,2007). Coimbatore district comprises of six taluks, 12 blocks and 237 villages. Total population is 34,58,045 (District Census Handbook ,2011) and the total number of non-agricultural enterprises is estimated as 3,19, 642 (Coimbatore District Profile , 2015). As informal enterprises are exempted from registration till a turnover of INR 1 million (US\$ 14176) it is difficult to estimate the correct population size. It is perceived that at least 40% of non-agricultural enterprises are engaged in grocery retailing. The density of retail shops vary in proportion with the population density which varies extremely from place to place. When mean and standard deviation are uncertain and the population vary at a high rate, sample size is calculated using the formula $n = \frac{Z^2 * P(1-P)}{d^2}$ where n= sample size, P= 0.5 (50% variance) and d is the significance level (5%) and Z= 1.96 for 5 % significance level of precision. As per the calculation using this formula, size of sample must be more than 384 (Naing, et. al,2006).

The respondents were selected from 171 villages spread over 9 blocks in proportion to the populations density of each block in such a way that representation from all villages can be ensured (District Census Handbook, 2011). The demographic factors of customers as well as the shop features vary significantly among the geographical areas, identified as rural, semi-urban and urban. Number of responses collected and accepted was 392.

Data collection

The big challenge in this data collection is to overcome information asymmetry and response biasing. Hence, three specific questionnaires are used to overcome errors due to bias in response and information asymmetry.

Data was collected using three different questionnaires

- i. A questionnaire to collect the socio-economic of the business, and capital structure of business and business strategies used
- ii. A Tabular format for the shop owners who do not keep any data of the business. This comprised of daily sale, purchase, approximate foot fall, wastage, carriage-in and carriage-out, average credit sale per day, receivables, labour expenses and miscellaneous expenses, in a worksheet. This data was recoded daily by the retailers and collected from the respondents in every month. It was done continuously for two months in every four months in 2013. Then average is taken to reduce seasonal effect in demand
- iii. Approximate sales, stock in each product, assortment range, and inventory details were collected. This data was recoded daily and collected from the respondents in every month. It was done continuously for two

months in every four months in 2013. Then average is taken to reduce seasonal effect in demand

Data Analysis

In this research, data analysis comprises of two levels – qualitative and quantitative. In qualitative analysis, we are grouping the firms based on the resource bootstrapping or bricolage strategies used to control cost. In quantitative analysis, effect of each strategy on daily sales, total cost and disposable income is analysed by comparing Revenue to Expense Ratio (RER) of the retail shops of different divisions. In this ratio, revenue will be 'Earning After Interest and Tax (EAIT) and the expense will be the operating expense. The EAIT will increase when sales increases and operating expense decreases. All resource bootstrapping strategies are intended to decrease the cost and the increase in this ratio reveals the benefit from implementing RB strategies. The $RER = 1$ shows zero profitability, $RER < 1$, expense exceeds income and $RER > 1$, income exceeds expenses or profitability. Since both revenue and operating cost are dynamic in nature RER can be calculated for any point of time. In the case of informal enterprises, it is easy to measure income and expenses using special tools based on daily business but it is difficult to assess the true investment or capital structure due to information asymmetry. Investment comprises of rental advance (if the premises is rented), inventory and cost of facilities in the shop. Return on Investment (ROI) also give an insight how RB strategies help them to use the investment to generate profit.

Analysis and discussion

From the response of the retailers, it is observed that small firms are using resource bootstrapping in six cases- dip rent per square feet, borrow from relatives or friends to avoid high cost of funds, reduce transportation cost either by using own vehicle or sharing with other retailers or using public transport, retain customers by credit sales and door delivery, avail discounts for cash purchases and minimize wastages in perishable products. The resource bricolage is used in seven cases- unused residential space for storage, own cash savings for emergency, interpersonal skills to retain customers and suppliers, self-labour, avail credit and promotional schemes from suppliers, engage family members or friends in work, use personal assets to reduce rent, and to optimise inventory in-tune with demand. All these strategies reduce cost of operation, improve working capital level and profitability of the retailer. Exemption from income tax if annual profits is less than INR 0.25 million (US\$ 3544) ,is a relief for small firms.

The resource bootstrapping strategies adopted by the large shops include interest free credits, low interest loan, overdrafts, spatial charges for vendor supplied products, large margin from bulk purchase, supplier borne delivery schedules, promotion plans, discounts and equipment, high margined private labels and negative or small net trading cycle. But high rent for premises, investment on facilities and ambience, discounts, wastage due to shrinkage, spill over, phantom products, labour cost, cost of funds and stock clearing sales, pull down

profitability. Taxes and levies as well as cost of funds also cause increase in operational expense affecting EAIT adversely. Hence, operational profit of large shops depends on their sales and average cost.

The table 1 relates shop size in floor area, footfalls per day and number of shops within half kilometre radius of the respondent (Walters 1990 ; Kumar and Leone 1988). The retailers opt for locations where the competition is less and foot fall as well as average bill are high (Öner,2015). Retailers prefer residential areas and traffic intense areas to city centres or town centres or village centres. In traffic-intense area, intensity of commuters will be high near bus stands, local administrative areas, common market places etc.(Fisher and Raman, 2010). At least one traffic intense area will exist near to any residential area as a common place to access transport facility or market place. Flexibility in working hours, focussed merchandise, customised service, proximity to customers and personal relationship are a few strategies that give small retailers some upper hand over medium and large retailers. The distance from the city has both favourable and adverse effect on the retail performance (Holmes,2005). Favourable effect is the avoidance of travel by customers to city while the adverse effect is high carriage-in. 43.5% of the retailers in the city are situated within 10 kilometres radius while remaining are in the circle of radius from 10 to 20 kilometres. 70% of the small shops within 10 kilometres have owned shops. Similarly, large, and medium shops are located near to residential areas, within a 5 to 10 kilometres, to cater high income strata of customers with high levels in quality of service and product (Lodish, 2004). The small shops also co exists within the circle of 10 to 20 kilometres from city where the middle-income families and migrants are concentrated. Beyond 20 kilometres, only small and medium shops are functioning where large firms cannot be economically viable.

44.8% respondents have shops near to residential areas while 19.1% respondents are near to traffic intense areas and 36.1% are near to the central locations in city or own or village. This reveals that the retailers choose locations considering two factors- convenience of the customers to access the location and rent in that location. The shops near to residential areas and traffic intense places near to residential areas are convenient for the customers for casual visits as they are open for long hours and even late nights. From table 3, it is observed that 19.8 % retailers have an RER less than 1 and even a RER in between 1 to 2 is not substantial enough due to uncertainty in demand, customer response and local market competition. Interest of loan, bad debt, high rent, and low inventory turnover ratio are a few factors that pull-down RER. 24.8% respondents who have availed loan have RER less than 1 while 24% have more than 2. But only 11 % of the respondents who are using own fund or borrowed from kith and kin have RER less than 1 while 57.3% have RER greater than 2. This clearly explains the effect of resource bootstrapping in fund management. In the case of door delivery, this strategy is not seemed to be adding value to their business. Moreover, 28.5% retailers who provide door delivery face loss due to the carriage outward. In the case of credit facility, 77.3% (304) retailers are providing credit to promote sale. 19.4% (59) of the retailers who offer credit facility, 13.6% (36) of respondents who use 'self-labour' and 32.3% (42) of those who use external labour have an RER less than 1. Similarly, 9.1% of the retailers having own premises and 32.3% of the grocery retailers having rented premises have RER less than 1. This also explain the effect of RB on profitability.

Inventory Turnover ratio (ITR) is ratio of cost of goods sold in year and average inventory and it explains how many times average inventory is cycled in a year. Inventory Conversion Period (ICP) is the duration in days in consuming one cycle of average inventory and it is the ratio of number of days in year and ITR. 72.2% of the retailers are maintaining an ITR in the range of 4 to 8 (ICP in between 45 and 90 days) while 21.1% have in between 8 and 12 (ICP in between 30 and 45 days).

Table 1: Comparison of location of shop size, footfall and number of shops in half kilometre radius

Location	Shop size in Square meters			Distance from city in kilo meters							Number of shops in 0.5 km radius						
	< 30	30-60	> 60	2 to 5	5 to 10	10-15	15-20	20-25	25-30	>30 km	0	1 to 2	3 to 4	5 to 6	7 to 8	>8	Active Margin
City commercial area	34	8	20	6	21	26	9	0	0	0	7	19	13	9	11	3	62
village centre	22	18	0	0	0	0	2	19	18	1	9	14	9	5	3	0	40
town centre	20	6	14	0	0	18	19	4	0	0	18	15	6	1	0	0	40
residential area	153	9	14	53	0	14	11	13	9	76	62	27	47	20	17	3	176
traffic intense junctions	44	16	15	6	15	23	11	9	9	2	21	12	26	13	2	1	75
Active Margin	273	57	63	65	36	81	52	43	37	79	117	87	101	48	33	7	393

Table 2: Comparison of effect of resource bootstrapping on profitability based Revenue- Expense ratio

RERN	Fund		Door delivery		Credit facility		Self-labour		ownership		Inventory Turn over Ratio					Active Margin
	Loan	No Loan	no	yes	no	Yes	yes	no	yes	no	4-8	8-12	12-16	16-20	20-24	
0-1	62	16	48	30	19	59	36	42	21	57	68	8	2	0	0	78
1-2	128	45	130	43	45	128	111	62	79	94	137	31	5	0	0	173
2-4	54	65	91	28	19	100	96	23	96	23	70	35	11	1	2	119
4-6	4	13	15	2	4	13	15	2	15	2	8	6	1	0	2	17
6-8	1	2	2	1	0	3	2	1	3	0	0	2	0	0	1	3
8-10	1	2	2	1	2	1	3	0	3	0	1	1	0	0	1	3
Active Margin	250	143	288	105	89	304	263	130	217	176	284	83	19	1	6	393

Only 9.8% respondents with ITR in between 8 and 12 and 23.94 % in respondents with ITR in between 4 and 8, have RER less than 1. 9.8% (15) shops that replenishes their stock within a week have an RER less than 1. The short replenishing period is good for short life products like milk and its derivatives, vegetables, fruits, bread etc. and this category of retailers are maintaining a good RER due to lower trading cycle time. While 33.33% (35)

and 23.2% (27) of the retailers who take 1-2 weeks and 3-4 weeks to replenish their stock are having RER less than 1. The slow movement may swell the inventory in stock while slow replenishment will end up in loss due to stock out.

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category of retailers are maintaining a good RER due to lower trading cycle time. While 33.33% (35) and 23.2% (27) of the retailers who take 1-2 weeks and 3-4 weeks to replenish their stock are having RER less than 1. The slow movement may swell the inventory in stock while slow replenishment will end up in loss due to stock out.

Maintaining adequate inventory level without both stock out and excess stock itself is a resource bootstrapping strategy. From the comparison of retail shops based on floor size and RER, 20.5% of small shops (< 30 square meters) and 36.8% medium shops (30-60 square meters) have RER less than 1 while only 1.5% large shop (>60 square meters) has RER less than 1. Similarly, 35.8% of small shops and 66.6% large shops have RER more than 2 (revenue is more than double of the operational expenses). But only 5.2% medium shops have RER more than 2. This itself reveals the variation in degree of resource bootstrapping with variation in firm size.

Table 3: Revenue – expense ratio verses procurement gap per Stock Kit Units

RER	Procurement gap per Stock Kit Units					Size of the shop			
	< 1 week	1-2 weeks	2-3 weeks	3-4 weeks	more than 4 weeks	< 30 Square Meter	30-60 Square meter	Larger than 60 Square meter	Active Margin
0-1	15	35	27	1	0	56	21	1	78
1-2	62	50	57	2	2	119	33	21	173
2-4	65	16	29	4	5	83	2	34	119
4-6	9	4	1	1	2	13	0	4	17
6-8	1	0	1	0	1	1	1	1	3
8-10	1	0	1	1	0	1	0	2	3
Active Margin	153	105	116	9	10	273	57	63	393

The return on investment is a tool used to assess the effective use of investment. In table 5, 72% (42) of the medium have an ROI more than 0.3 . In the main constituent of the investment in small firms will be

investment on inventory and rental advance. 90% of the shops having daily sales below INR 5000 (US\$ 73) have ROI in between 0.15 and 0.6.

Table 4\ : Return on Investment verses daily sales

Return on Investment	Daily sales in INR1000s					Size of the firm in Square meters			Active Margin
	<5	5 to 10	10 to 20	20-30	30-40	< 30	30-60	>60	
0-0.15	6	21	21	3	2	35	15	4	54
0.15-0.3	54	68	61	11	2	156	24	16	196
0.3-0.6	28	34	31	14	4	76	17	18	111
0.6-0.9	3	3	4	5	4	6	1	12	19
0.9-1.2	0	2	1	7	3	0	0	12	13
Active Margin	91	128	118	40	16	273	58	62	393

This may be due to the use of own premises and limited investment in facilities. In the rural areas, the shops are either a part of residence or own separate premises but highly unorganised. 20% (12) of large shops have ROI more than 0.9. 63% of shops having ROI in between 0.6 and 0.9 fall in large shops strata and 32% in small shops. This result supports the assumption of this paper that small and large shops are benefitted from the resource bootstrapping and bricolage. Similarly, 32% (18) of the shops having daily sales above INR 20000 (US\$ 300) have ROI less than 0.3 while the other 32% (18) of this class have ROI more than 0.3. It may be the difference between own premises and rented premises. For rented premises, the retailers in urban areas must pay high rent advance based on the significance of location.

CONCLUSION

Resource bootstrapping and bricolage strategies used by different divisions retailers based on size of the firm in terms of floor area are not uniform. In this paper, financial performance of informal retailers is compared with large registered retailers. The small retail shops having are informal and the medium large shops are registered (formal) shops. In the India context, any business having turnover more than INR 1 million (US\$14176) must be registered as per indirect tax rules and pay income tax if the annual income is more than INR 0.25 million (US\$ 3544) . This remain as the bifurcation between informal and formal enterprises. In this survey, 69.4 % respondents are informal retailers and 30.6% are formal enterprises.

The effect of resource bootstrapping can be measured only if any strategy is effective in reducing the operational expenses. The prime constituents common for all sort of retail formats are rent, labour, wastage, carriage in, carriage out, interest, tax, bad debt miscellaneous expenses like electricity bill and nonrecurring expenses like maintenance. The rent and rent advance are prime constituents of operating expense and initial investment. The two distinct approaches observed among the respondents in adopting strategies- trade-off and transform to yield. Small firms trade-off convenience and efficiency by reducing floor area to limit the rent and rent advance while large firms transform the incumbent into yield by widening merchandise range and depth, facilities to give a feel of shopping or supports to enhance customer satisfaction to attract customers.

The Revenue- expense ratio shows that 79.5% of the small shops have revenue- expense ratio more than 1 and 35.5% shops have RER more than 2. This clearly explain the effective use of resource bootstrapping by substituting expensive resources with inexpensive resources or by-pass the use. Door delivery is not found as an effective strategy to bring down operating cost. But self-labour, owned shop, credit facility and borrowing from relatives or own fund reduce the operating cost and reduce for the working capital.

The reduction in operating expense will reduce the working capital in use also. In small firms, they are substituting the resource requirements with what they have in hand (bricolage) or inexpensive ways. The large firms reduce the cycle time by cash sale, long payables period, lower ICP and supplier borne strategies in replenishment, display and promotion. Medium firms adopt a hybrid of the strategies of both small and big firms

The results of this results conform the findings of earlier studies done in small and medium manufacturing firms by Fatoki (2013), Lahr jr. and Little jr. (2003), Padachi et.al.(2012), Ebben and Johnson (2006), Grichnik and Singh (2010).

Further research is needed to analyse how the informal enterprises can be transformed to formal by enhancing their productivity by providing low cost capital, training, and promotional support. The results show that informal retailers are efficient and they are given suitable environment, they grow to the level of formal business.

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