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Article

Letter from the editor-in-chief

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Letter from the Editor-in-Chief

This issue of *The Journal of Entrepreneurial Finance and Business Ventures* is devoted exclusively to research on venture capital. As such, the issue seeks to develop and analyze research concerns relevant to an area which has come to be recognized as perhaps the singly most important lifeblood concern with respect to entrepreneurship. The financing of business ventures at the germination of idea, start-up, early growth, and public financing stages are all vital to the success of an entrepreneurial venture. Since venture capital participation is almost always essential in each of these phases of entrepreneurial development, work studying the operations of venture capitalists themselves and their interface with nascent and early developing business ventures is at the hallmark of research in the general area of entrepreneurial finance. This issue of the journal seeks to present a selection of such current research.

In the initial article, **Dubil** finds that for venture capital firms facing undiversifiable risk, multi-stage financing is an optimal contract with significant risk reduction possibilities and only slightly lower potential returns. Dubil uses option pricing theory to come to optimality decisions. In the next offering, **Booth, Dalgic** and **Young**, also operating largely on the theoretical model building plane, look at entrepreneurs using debt contracts for project financing in an adverse selection setting with different quality venture capitalists. The paper finds that the existence of a separating equilibrium with bad quality venture capitalists results in a situation wherein less reputable venture capitalists can survive in the market place. In the third article, the same authors examine the relationship of the staging of venture equity capital and venture capitalist bargaining power. They show that a wealth-constrained venture capitalist will improve his bargaining power through a two-stage financing and therefore prefers to provide equity financing to a two-stage rather than to a similar single-stage project. In the next article, **Shachmurove** and **Shachmurove** move to the empirical level in order to present annualized and cumulative returns for venture-backed public companies. They categorize their returns by industry for venture-backed IPOs from 1968 through 1998. They find that the total returns of these venture-backed firms are reasonable, given the level of risk. Continuing at the empirical plane, **Xu** offers a comparative study of venture capital performance in the US and Europe. The author notes that, while venture capital activity in the US has been an integral element of innovative entrepreneurial financing, the European venture capital industry has only emerged somewhat recently. Xu looks at venture capital fund performance from 1993 to 2003 and finds the US returns to be far superior. In our last article, **Hibara** and **Mathew** look at the Japanese IPO market to investigate the grandstanding theory. They find that young-lead venture capital backed firms tend to go public sooner than in the case of mature-lead venture capital backed undertakings, and are under-priced to a greater extent.

The past year has resulted in continued growth for our journal and increasing measures of success. In addition to the many periodical references we have achieved, we now have a Library of Congress ISSN, located on the back of the title page, which can be used to access the journal. Continued increasing success of the journal we expect to be attributable to the on-going activities of the Academy of Entrepreneurial Finance, of which this journal is the official research organ. The last meeting of our association was hosted by George Washington University in April 2004 in Washington, D.C., and the prior issue of the journal represented a selection of the best papers presented at this meeting. Our next meeting will be held in Laredo, Texas, and will be hosted by Texas A&M International University, College of Business Administration. We encourage you to attend this meeting and present the best of your research in the field of entrepreneurial finance.

It is also most noteworthy that the current issue of our journal is sponsored by the Global Panel Foundation and The Prague Society for International Cooperation. We wish to extend our greatest appreciation to these excellent worldwide organizations, and hope that we can find continued ways of cooperating in the future.

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