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Letter from the Guest Editor

Arthur Wilson

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Dear Readers,

This year's Academy of Entrepreneurial Finance Conference at George Washington University last April was well attended and well worth attending. We were treated to a variety of good papers along numerous lines of enquiry, of which the following are examples. If there is a consistent theme to these selections (perhaps by accident?) it is in innovative explorations of new and interesting databases.

This issue begins with "Which Loans are Relationship Loans? Evidence from the 1998 Survey of Small Business Finance", by Karlyn Mitchell and Douglas K. Pearce. The authors review the conventional wisdom on small business lending that divides small business loans into "transaction" loans and line-of-credit "relationship" loans, and argue that the latter may be as indicative of the strength and role of lender-borrower relationships. Then, using the 1998 Survey of Small Business Finance, they show that credit availability rates, collateral requirements and interest rates for "transaction" loans are at least as sensitive to measures of relationships as they are for line-of-credit "relationship" loans. This looks to be a neat study of an under-exposed research topic.

A second paper using the same survey is "The 'Liability of Newness' and Small Firm Access to Debt Capital: Is there a Link?" by Susan Coleman. Here, Professor Coleman explores small firm access to credit as a function of firm age. Predictably, younger firms have less access to credit. One might hope that compensatory measures, such as requiring collateral or offering personal guarantees, might neutralize this disadvantage. Professor Coleman finds that they do not, and suggests measures that might be taken to ease younger firm access to credit.

"Does Ownership Structure Influence Firm Value? Evidence from India", by Jayesh Kumar is also nice study. The author makes use of a large and detailed emerging market database, which surely deserves more attention from future researchers. Here Professor Kumar explores ownership structure, and firm performance and firm value from an agency perspective, using an improved empirical specification, and applying it to more than 2000 publicly traded Indian firms. He finds that ownership structure does matter, particularly when institutional or other investors reach a certain size. Firm performance as proxied by ROA or ROE are positively associated with higher levels of institutional or director ownership, at least beyond around 15% ownership. On the other hand, firm performance as proxied by ROA and ROE is not strongly associated with foreign ownership.

The last two papers focus on venture capital, in India, and in the U.S. In "Venture Backed IPO's in India: Issues of Certification and Underpricing", by A. Vinay Kumar, we have a well done study of the Indian venture capital industry and its use of IPOs using a small manually gathered database. The author finds that the presence of venture capitalists has a significant role in affecting the degree of underpricing of Indian IPOs.

Finally, although it is a late substitution, we have a special treat in "Annualized Returns of Venture-Backed Public Companies Stratified by Decades and by Stages of Financing", by Emanuel Shachmurove and Yochanan Shachmurove. Here the authors explore an extensive database on IPOs over 3 decades (1969-2002), and show that returns were both highly skewed, and surprisingly poor for these very risky investments, particularly for the 1980's but also for the 1990's. This study represents a breath of fresh air, and a valuable correction to some of the overly optimistic reports of venture capital IPO returns.

I would like to take this opportunity to thank the authors of these papers for allowing me to include their articles in this issue and congratulate them for their interesting works. I also thank the other authors who allowed me to consider their papers for inclusion. I hope that you enjoy these offerings. We hope that you will find this issue both informative and thought provoking.

Sincerely,

Arthur Wilson