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An Introduction to the Special Issue
Research in International Entrepreneurial Finance and Business Ventures in the Turn of the Third Millennium

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At the heart of entrepreneurship is small business creation. Small business ownership is an accessible means for economic independence and self-fulfillment of one's expectations. Small business entrepreneurs capitalize on their human capital and willingness to work long and hard to improve their quality of life. They often struggle to establish sustainable businesses that may one day become legacies for them and for their children.

Entrepreneurship plays an international role as well. Successful entrepreneurs expand a nation's economy. Countries compete for entrepreneurs by creating an inviting atmosphere and using beneficial laws and plentiful opportunities, such as emerging markets. Countries used to have an advantage if they had natural resources, transportation, and plentiful physical labor. Today, economic advantage depends on having a climate where creative people can develop innovative ideas. Knowledge is infinitely portable; smart workers and entrepreneurs go where they want to live. Jobs and entrepreneurship will follow lifestyle amenities, the presence of like-minded people, and an abundance of opportunities in their field.

Capitalism provides this environment of innovation. This issue's lead article touches on this idea. Will Baumol, a 1942 alumnus of The City College of The City University of New York, writes about the free-market innovation machine. Building on Schmpterian insight, Baumol reasons that the ability to produce a continuous stream of successful innovations is the main source of growth and what makes capitalism the best economic system.

There are two engines that drive the capitalist machine. One, innovative activity, is mandatory, a matter of life and death for the firm. Second, new technology is implemented faster because of its ability to reward innovators and entrepreneurs for their inventions. The protection of property rights and the enforceability of contracts provide the lubricant for moving inventions into practical innovations by firms. And if another firm can profit by using your innovation more effectively, they must be willing to pay you more than you could make on your own in order to use your idea. In this way, innovations have positive externalities to the nation, improving productivity and increasing growth rates.

After substantial losses in the burst of the dotcom bubble, everyone is anxious to know more about bubbles and how to avoid getting hurt. Haim Levy models bubbles before they pop. He uses accelerations or decelerations of the expected stock performance resulting in positive or negative mispricings post-IPO. The post-IPO stock performance of a newly public company is an integral part of entrepreneurial success, or at least helps attract interest. But newly public companies, especially new technology firms, are highly subjected to price bubbles and negative mispricing. Unlike other theories, which relax assumptions of rationality and/or homogenous information, Levy leaves these intact and focuses on differences in risk aversion to explain mispricings.

Entrepreneurship can take unconventional forms outside the business world. Michael A. Leeds constructs an innovative model to study collegiate athletic directors as entrepreneurs. Leeds proposes that sports programs are entrepreneurially ran and budgeted according to a zero-profit budget constraint to maximize the prestige it brings to the university. The prestige of a particular sports program is measured as a combination of the success and the "market size" of the sport, based on the size of the sports division and its audience size. Market size is an important factor, because everyone wants to win the Rose Bowl, but few care about the national badminton championship. Leeds rationalizes why certain sports, such as big money makers like football, are funded and other more marginal sports are denied funding.

Alicia Robb's contribution to the journal is an essential topic for entrepreneurship: small business financing. She focuses on the differences in financing patterns and borrowing experience between new and old firms. Her data and multivariate analysis suggests that with a lack of external equity opportunities newer firms depend more on external debt than older, more established firms. Furthermore, newer firms have a harder time securing debt, especially from commercial banks.

In today's economy, sometimes its best to get out of an investment while you still can. Robert Dubil tackles this issue by modeling an optimal trading strategy for liquidating a large and concentrated security holding. This model is useful for venture capital firms or for non-diversified asset management firms trying to cut their losses or trying to realize all those gains that were merely on paper. Large sales can lead to temporary price depressions, by flooding the market with excess supply, and permanent price depressions by signaling other investors to stay away. Accordingly, a firm must balance the impact of its own sales on the realized return against the exposure to market return variance. This model provides an optimal liquidity interval to minimize the difference between the marked-to-market prices and the realizable value of the asset.

Whether or not to grant company-wide Employee Stock Options (ESOs) is an important decision for both entrepreneurial start-up companies and established firms. Elli Kraizberg and Vassilios Gargalas investigate the motivations behind this question. ESOs are often touted to align the interests of management, employees and shareholders, as well as to ease cash flow strains; but none of this may be true. Using empirical evidence Kraizberg and Gargalas claim that manager's grant ESOs to serve their own agendas. The important variables are the degree of managerial ownership, the riskiness of equity, and the debt ratio of the firm. In addition, they disprove that ESOs are meant to ease cash flow strains for growing firms. In the midst of a wide spread accounting crisis, these conclusions add more doubts about the integrity of corporate management.

When developing and marketing a new product, an entrepreneur will encounter calculated decisions over and over asking should I go on or should I just quit? Richard E. Ottoo presents an intriguing model of a series of financing and investment decisions that affect the growth options of a new business venture. With constrained internally available equity, an entrepreneur must find external financing to tap into the value of the business venture, which depends upon the required investment costs and the expected volatility of the growth option. Otto discovers that equity financing is preferred whenever investments are low or whenever volatility is very high. However, debt financing is preferred when investments are high but volatility is low because the entrepreneur knows they can pay back the debt without having to share any of the gains. Otto also examines the combined effects of competitive advantage and project volatility on real options.

The Journal of Entrepreneurial Finance and Business Ventures is now indexed by EconLit and I personally invite all of our readers to offer their finest submissions to ***The Journal***.

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