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Letter from Guest Editor Yochanan Shachmurove

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An Introduction to this Issue

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Whereas the last issue of the journal concentrated more on entrepreneurial finance, this issue presents a few studies concentrating on business ventures in the United States, the emerging Polish economy and the developed economy of Italy. Small firms are a powerful economic force in the economies of the United States, Italy and Poland. According to the United States Small Business Administration (SBA), small firms are defined as those having 500 or fewer employees. Firms of this size represent 99 percent of all firms in the U.S. These business ventures generate the majority of net new jobs and are a major source of innovation in the form of newly developed products and services.

In the lead article, Benjamin Franklin Professor of Economics and the 1980 Nobel Prize laureate for his contributions to economic theory and econometric modeling, Lawrence R. Klein, joins with Suleyman Ozmucur to study one of the most important issues which entrepreneurs and small business ventures were facing in 2002, i.e., the influence of terrorism within the United States. This most timely question is answered in an original way by observing consumer behavior and investor optimism in order to forecast the subjective feelings of participants in the economy. Klein and Ozmucur find that in order to tackle this issue, the use of survey data, long used in practice and too often ignored in economic estimation, are useful tools in measuring the responses of consumers, producers and managers to the September 11, 2001, surprise attack on U.S.'s soil. The inclusion of survey data, in addition to more traditional measures of performance of the U.S. economy, enables the inclusion of a complicated mixture of psychological and economic reactions that deserve careful investigation of its dynamic characteristics.

Jacob Weisberg and Mieczyslaw Waclaw Socha ask an intriguing question: what is the earning premium in the private versus the public sectors in Poland as it transfer itself to a market economy with increased insecurity, risk and uncertainty? The effects of the transition and the increase in the size of the private sector, which promoted entrepreneurship activities, increased joint ventures, foreign direct investment and enlarged the self-employment sector, are studied. Some of the questions tackled are: what are the premiums for stricter supervision of employees' effort, non-standard employment contracts, longer working hours, and lower job security, which is subject to fluctuations in product demand? What are the premiums for university educated male and female employees in the two sectors? What are the returns differential for experience and martial status? Does the premium vary with the size of the firm?

In a theoretical article with many potential significant financial applications for risk reduction, "Some Potential Means for Venture Valuation," Wolfgang Stummer suggests the use of option pricing theory in order to price business ventures. The paper thus further generalizes the Samuelson-Black-Scholes option model in a significant way. Stummer observes that the value of the underlying financial assets in ventures-concerning options is typically subject to a non-constant-volatile dynamics. Hence, one reasonable step of generalization is to model the evolution of the underlying value by the generalized geometric Brownian motion described by the stochastic differential equation with some deterministic nonnegative volatility function. The consequence of this assumption is that now we have typically a non-lognormally distributed process, with underlying values which evolve in time with a non-linear trend and non-constant volatility functions. This contrasts with the standard methods discussed in the financial engineering literature, which is characterized by the geometric Brownian motion model with a linear trend and constant volatility functions.

In an interesting piece, Steven Craig and Polly Hardee study the effect of the Small Business Job Protection Act of 1996 when, unintentionally, small banks throughout the United States became eligible to reorganize as Subchapter S corporations. As of June 2000, over 18 percent of small banks were reorganized under this tax loophole. The sample includes approximately 5,000 banks, over half of the total banking population across the U.S. The authors demonstrate the importance of the governance structure of the bank to its strategy of survival and to its owners' well being.

Robert DeYoung studies the issue of new bank start-ups as entrepreneurs which finance other small businesses and entrepreneurs. He finds that as a result of liberalizing the structure of U.S. banks through deregulation, small business borrowers have become less reliant on small banks for their credit needs. However, small and new banks, due to their capital structure, continue to relay on small business borrowing in the early stage of their operation. This asymmetry increased the investment opportunities of the borrowing entrepreneurs, increasing the number of small ventures.

Susan Coleman explores the borrowing patterns for small-business ventures by race and ethnicity for the year 1998 utilizing the Survey of Small Business Finances, conducted every five years by the Federal Reserve Board. She finds differences exist in terms of access to debt capital between white- and minority-owned firms. Her study opens the door for future research required to identify the economic and finance determinants for those differences. Since minority-owned small businesses are the economic engines for many inner city communities, such future research would serve to provide valuable insights and direction.

Pellegrino Manfra extends our understanding of business ventures to Italy. Examining the structure of the Italian economy, Manfra finds that small and medium-size firms, most of them family-owned, have been the dynamic force behind the country's extraordinary economic performance since World War II.

I would like to thank the authors, the referees, the Managing Editor, Ms. Susan Dean, and the Editor-in-Chief, Professor Allan Young, for their work. I hope that the current issue will enhance our understating of entrepreneurial finance, business ventures, and the symbiotic interrelations between them. Furthermore, I believe the papers presented in this issue will stimulate further research in this newly developing area of entrepreneurial economics.