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Editor's Note

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Editor's Note

The emerging and highly promising field of small business finance has recently occupied center stage in many academic and professional circles both in the United States and around the world. A quick look at the available literature in this area reveals this fact.¹ Moreover, as far as the teaching of the subject is concerned, the number of universities and colleges offering courses in entrepreneurial finance or small business finance are steadily increasing.

There are at least five major reasons that the field of small business finance is gaining more recognition and acceptance among scholars and professionals worldwide.

1. The introduction of two major theories in the area of financial management—the agency paradigm and information asymmetry.²
2. The prevalence of a trend that has become known as the “defirming” of the public corporation. According to Kensinger and Martin,³ over the 1985-1989 period, 143 corporations have disappeared from the Fortune 500 list and many others have downsized significantly.
3. The creation of new financial markets such as the \$33 billion American formal venture capital market,⁴ the \$56-billion-a-year informal risk capital market,⁵ and the recently created “144a market” as well as new financing methods and instruments like Employee Stock Ownership Plans (ESOPs).
4. The availability of new financial data bases at the micro level.⁶
5. The recent revelations that small businesses have been a major contributor to many of the economies in the world. For example, at the end of 1987, 47% of all U.S. assets were under management by smaller companies⁷ and small firms' share of the U.S. output was 50% in 1982, the most recent year for which data is available.⁸ Furthermore, half of the total domestic sales receipts are generated by small businesses and the majority of new jobs, as well as almost all of the new innovations and inventions, are created by such companies.

In addition to the factors mentioned above, there is an increasing demand for providing analyses and recommendations concerning various aspects of the operations of small businesses. Such demand comes mainly from policy makers and government officials as well as from managers of different financial institutions.

However, up until now, there has not been any academic publication which has dealt exclusively with the financial aspects and financial operations of smaller firms. Previous academic works have been published as fragmented pieces in many different publications. As a result, the area has received very little attention and visibility among scholars and researchers worldwide.

The function of *JSBF* is to serve as an academic and professional outlet for dissemination of knowledge in the fast growing field of small business finance. Given the embryonic nature of the field, opportunities for conducting scholarly and professional research are unbelievably great and result in greater potential rewards for researchers who are interested in this exciting area of financial economics.

Rassoul Yazdipour
Editor

NOTES and REFERENCES

1. For example, look at *Advances in Small Business Finance*, Rassoul Yazdipour, editor, Kluwer Academic Publishers, Boston, MA, forthcoming 1991, and Rassoul Yazdipour and Richard L. Constand, "The State of Research in the Field of Small Business Finance," working paper, California State University, Fresno, 1991. Also, R. Richardson Pettit and Ronald F. Singer, "Small Business Finance: A Research Agenda, *Financial Management*, Autumn 1985, pp. 47-60.
2. See M. C. Jensen and W. H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, Volume 11, 1976, pp. 5-50; and H. E. Leland and D. H. Pyle, "Information Asymmetries, Financial Structure and Financial Intermediation," *Journal of Finance*, May 1977, pp. 371-387.
3. J. W. Kensinger and J. D. Martin, "The Decline of Public Equity: The Return to Private Enterprise?" *Business Horizons*, November/December 1989, pp. 14-19.
4. See *Venture Capital Journal*, April 1990, p. 11. This trade journal is published by Venture Economics, Inc., Needham, MA.
5. Robert Gaston, "The Scale of Informal Capital Markets," *Small Business Economics*, 1989, pp. 223-230.
6. Examples include the following:
 - (i) B. G. Cox, G. E. Elliehausen and J. D. Wolken, "The National Survey of Small Business Finances," 1989, Division of Research and Statistics, Federal Reserve Board, Washington, DC.
 - (ii) "Characteristics of Business Owners," Government Printing Office, Bureau of Census, Washington, DC.

- (iii) "Credits, Banks and Small Business," 1980-1984 and "Small Business and Banks: The U.S.," 1988, both compiled by National Federation of Independent Business (NFIB), Washington, DC.

For a brief description of major data bases, see Charles Ou, "Available Financial Data Bases for Research on Small Business," Office of Economic Research, Small Business Administration, Washington, DC (also to appear in *Advances in Small Business Finance*).

- 7. See *The State of Small Business: A Report of the President*, Small Business Administration, Washington, DC, 1989, p. 126.
- 8. *Ibid*, p. xiii.