Letter from the Editor

J. William Petty
Several of the articles in this issue of the *Journal* examine the use of credit as a source of financing for small firms. In addition, one of the articles looks at the ability of the markets to value high-growth equity securities. We conclude with a brief look at the increasing possibilities of using the Internet by those of us in small firm finance.

In the first article, James Kolari, Robert Berney, and Charles Ou, in their study on small business lending and bank profitability, note the dependence of small firms on banks for external financing needs. They correctly argue, however, that little is known either in academic literature or banking practice about the profitability of small business credit and related services. Their study examines the relationship between bank profits and small business credit for five different bank asset-size categories.

In the second article, “Finance Companies and Small Business Borrowers: An Empirical Investigation,” George Haynes and Myles Watts compare finance companies as a source of credit with other lenders, bringing into question the popular notion that finance companies are not mainstream lenders.

The last four articles were selected as the best paper awards at the 1996 meetings of the Academy of Entrepreneurial and Small Firm Finance. To begin, Benoit F. Leleux, Veronique M. Matthys, and Julian E. Lange, in their article “Pricing High Growth Firms: Arbitrage Opportunities in the Inc. 100,” study the ability of the markets to price high growth stocks. Their results suggest that significant abnormal returns are generated by these firm’s IPOs, even after adjusting for risk. Correspondingly, they found significant arbitrage opportunities in these stocks.

The next article, “Family Businesses: Can the Family and the Business Finances be Separated—Preliminary Results,” is presented by George W. Haynes and Rosemary J. Avery. The authors highlight the significant linkage in the finances of a family-owned firm and the family itself. They then examine the impact of small business ownership on the household’s debt structure.

In the next article, “Women Owned Businesses and Bank Switching: The Role of Customer Service,” Susan Coleman and Mary Carsky inform us of the very real possibility that half of the businesses in the U.S. will be owned and operated by women by the year 2000. Given this trend, the authors present their findings on women owned small businesses and the nature of their banking relationships. Their results suggest the need and opportunities for bank managers to improve the quality of their interactions with women business owners—that is, if they want to participate in this growing segment of the market.

Finally, we offer the reader a note on the use of the Web, as seen from a finance perspective. In “A Note on Internet Resources for the Entrepreneur: A
Small Firm Finance Perspective,” James C. Brau identifies Internet resources that are available not only to the researcher and teacher, but to practitioners and government alike.

We hope you enjoy this issue of the Journal.

J. William Petty, II
Editor