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12-2005

## Letter from the Editor

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### Recommended Citation

Young, Allan (2005) "Letter from the Editor," *Journal of Entrepreneurial Finance and Business Ventures*: Vol. 10: Iss. 1, pp. ii-iii.  
Available at: <https://digitalcommons.pepperdine.edu/jef/vol10/iss1/2>

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## Letter from the Editor

The decade of the 1990s proved that venture capital is the life-blood of entrepreneurship as more entrepreneurial deals were financed in mechanisms akin to the world of the venture capitalist during that time than had been undertaken in this manner during any previous decade in US financial history. Moreover, not only did the venture capital industry grow and redefine/rediscover itself during this time, procedures of financing and governance which outline the relationship between the venture capitalist and the entrepreneur were developed and refined in such a manner in that decade as to provide arrangements suitable to each of these entities. As a result of these activities venture capitalists have been able to develop in their contractual arrangement with entrepreneurs returns, risk features and exit mechanisms which are required for a burgeoning and flourishing venture capital industry. At the same time these arrangements have been found to embody proper incentives for entrepreneurial progress and growth. In fact, recent research has demonstrated that not only are the contractual relationships which have been developed to embody the rights and obligations of entrepreneurs and venture capitalists fair to each of these parties, contracts of this nature which have been developed in the United States (the recognized world leader in both entrepreneurship and venture capital activity), have now become the model for similar relationships elsewhere in the world. Accordingly, adaptations of basic US models have been found in both highly developed banking-centered economies such as those of Central Europe (Germany and Austria) and transitional economies such as those recently granted ascension status within the European Union.

Apart from the professional and practical levels of venture capital concern, academic research in this area has now become one of the more fruitful areas for scholarly enquiry. Along these lines, the current issue of **The Journal of Entrepreneurial Finance and Business Ventures** seeks to make a valued contribution.

In our first article Velamuri and Venkataraman explore the transition from paid work to self-employment and find that for income and ability (the strongest relationship which they found) there is a u-shaped curve such that very low ability and very high ability individuals are more likely to take up self-employment. This finding has implications for venture capitalists seeking to gauge the likely degree of success of a prospective entrepreneurial venture. Our next offering by Bessler and Kurth analyzes the exit behaviours of venture capitalists in the German Neuer Market, the market for young growth companies in that country. Demonstrating that exit mechanisms are a very significant aspect of entrepreneurial concern, they find through empirical evidence that venture capitalists are able to successfully time their exit mechanisms in the primary market and, to a lesser extent, in the secondary market. They also explore the extent to which lock-up arrangements are significant aspects of the exit activity in Germany. Then, Laine and Torstila continue the concern with exit mechanisms by evaluating and benchmarking the performance of venture capital funds through this parameter. Using US data they find different exit rates for funds employing IPOs, sale of listed equity and mergers and acquisitions. This is as opposed to the more common use of trade sales in Central and Eastern European transition economies. Continuing the concern with trade activity Susan Coleman

finds that trade credit is a major source of financing for small firms. In our last article in this issue Kalayci, Karataş, Coşkun and Kirtaş look at trading on the Istanbul Stock Exchange for 160 manufacturing firms. They develop financial ratios and use factor analysis in order to isolate the independent patterns of these ratios and determine differences in solvency/leverage, liquidity, and other parameters among these firms. An extension of these findings to other countries could well provide useful guidance to venture capital activity.

It has been a pleasure to collect these offerings and I recommend them to you in seeking to study, understand and guide the activities of venture capitalists and their relationship to entrepreneurs.

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September 05