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Letter from the Guest Editor

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Letter From the Guest Editor

Dear Reader, and Friend of the Journal and the Academy,

The 17th Annual Meeting of the Academy of Entrepreneurial Finance (AEF) was successfully held at the Sheraton Pasadena Hotel, in Pasadena, California. In addition to the many quality papers presented at the regular sessions at the conference, and the lively discussions at the General Session, we were able to attract a Silicon Valley Bank senior executive as the luncheon speaker; and listen to the presentations made at a power panel- featuring Mr. Larry Gilbert from the world-renowned Caltech and its Office of Technology Transfer. Right here, let me take this opportunity and sincerely thank our always great AEF co-founders, associates, and other colleagues who generously helped in all the planning and execution stages of this event.

We also very much succeeded again in only accepting those quality papers which directly addressed any of the 10 topic areas that have come to define our academic niche over so many years. As you have seen them in our annual Call for Papers, our interest areas are:

1. Corporate Finance issues relevant to Small/Entrepreneurial Firms;
2. Behavioral Finance, especially issues related to Risk-taking and Startups;
3. Business Valuation and Evaluation;
4. Initial Public Offerings;
5. The Market for Formal and Informal Venture Capital;
6. Financial Institutions and Small Business Financing;
7. Innovations in Capital Markets for Small Firms and Startups;
8. Economics and Accounting of Small Business;
9. Models for Predicting Small Firm Success and/or Failure; and
10. Other related issues, including Globalization and Technological factors affecting Capital Access and Startup Process.

Now, to the papers lined up for this special issue of the journal. The first writing - a very short note indeed - is a first attempt by this author to create a lasting linkage between two fast-growing fields of non-traditional finance; i.e., Behavioral Finance and Entrepreneurial Finance. The motivation for the piece was one of necessity. We need to go well beyond the traditional finance and economic theory in order to better understand some of the still unresolved issues in our field. And what better than the rather fast-developing field of Behavioral Finance?

The paper by Jaemin Kim and Kuntara Pukthuanthong, entitled, "IPO Firm Executives, Compensation, and Selling", addresses the founding manager's/ entrepreneur's dream of diversifying the wealth portfolio upon taking a company public. The authors use a decade's worth of relevant data to conduct their empirical analysis. They contribute to the extant literature by providing new insights on the determinants of selling activities of IPO executives and founding managers.

The next paper is by Timo Korkeamaki and Matthew Rutherford, who examine capital structure decisions in smaller firms. The paper provides us with more insight as to how bankers view their smaller clients and what their expectations are regarding the leverage ratios of such businesses. As far as the leverage criterion is concerned, it turns out that bankers/lenders hold the smaller companies to the same standards expected from the larger companies. That is, such firms also need to be in line with the prevailing industry-level leverage norms. Furthermore, maintaining close relationships with some banks does not translate into higher than normal borrowing capacities for such firms.

Valuing employee stock option plans - especially when the originating company is private, and when there exists a minimum requisite service period - is the task taken on by the next author, Thomas Rhee. After going through the model building process and the needed simplifications, along with some numerical examples, the author also links a firm's value to its asset beta; and the determinants of such beta. Related FASB rules are also addressed in the analysis.

Finally, Oskari Lehtonen's writing on the "Power Between Entrepreneurs and Investors" is an interesting case, as it describes the author's own experience as an investor in a new venture and his dealings with the involved entrepreneur. This writing also introduces us to some "soft" literature that we have rarely used in our research endeavors. However, given what was said at the beginning regarding the need to tap into the extant knowledge in other areas of social science, this work has its own place in this issue of the journal.

Regards,

Rassoul Yazdipour