Editorial: An overview of current challenges and research areas

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Entrepreneurship, i.e., the process of value creation through the identification and exploitation of opportunities, e.g. by developing new products or by seeking new markets, or both (Shane and Venkataraman, 2000; McCline et al., 2000), is increasingly considered as *the* instrument to cope with the new competitive landscape and its enormous speed of change (Brock and Evans, 1989; Hitt and Reed, 2000). Entrepreneurship focuses on innovation by identifying market opportunities which competitors have not yet identified or exploited and on creating a unique set of resources to exploit these opportunities (Davidsson et al., 2002). One of the major goals of entrepreneurship is *growth*.

In order to achieve this growth, new (and small) ventures need to be financed. Entrepreneurial ventures e.g., often need to acquire risk capital (Dushnitsky and Shapira, 2008). However, for this to happen investors have to be able to assess the risks realistically and manage them well, the nature and behaviour of financial markets and financial intermediaries that allocate capital to new ventures need to be understood in more detail (Häckner and Hisrich, 2001b; Wessner, 2002). This is where the two scholarly fields of entrepreneurship and corporate finance intersect.

Accordingly, the interest in entrepreneurship and entrepreneurial finance has significantly increased – especially since the 1990s – on a worldwide basis. Over the past two decades research in entrepreneurial finance has burgeoned from a handful of contributions to a substantial field of study. Unfortunately, however, "contemporary entrepreneurial finance research is characterised by a huge variety of terms, scientific perspectives, different methodological approaches, and a broadening of the problem area addressed in the research studies" [Häckner and Hisrich, (2001a), p.183]. Furthermore historically, finance scholars have tended to view entrepreneurship as entirely separate from the field of corporate finance (Denis, 2004). Despite attempts to structure and synthesise the body of knowledge (Denis, 2004), entrepreneurial finance literature is still an eclectic commingling of numerous contributions, each of which attempts to shed light on some small piece of the overall puzzle.

This special issue of the *International Journal of Entrepreneurship and Innovation Management* (IJEIM) aims at providing a deeper understanding of and insights into entrepreneurial finance by reviewing, structuring and interlinking theoretical models and empirical findings. Moreover, it attempts to focus on upcoming and less researched study fields, this way building new avenues for further investigation.

The first paper entitled 'Entrepreneurial finance – issues and evidence, revisited' by Mitter and Kraus tries to follow previous attempts to structure and synthesise the body of knowledge on entrepreneurial finance. In particular, it focuses on the relation between the entrepreneur and investors, sources of entrepreneurial funding, the returns of entrepreneurial investments to the parties involved (investors, entrepreneurs) and the drivers of entrepreneurial performance as well as implications for public policy. Based on a thorough review of extant literature and current empirical studies, it also highlights areas that still remain unclear and provide challenges and fertile ground for future research.

Current research is still characterised by a strong focus on the USA. Cross-country comparisons, however, revealed that US findings could not be adopted without any qualification. Consequently, all empirical papers in this special issue focus on countries other than the USA.

Using data from a survey of small- and medium-sized enterprises in Kosovo, Mustafa and Krasniqi investigate the impact of financial constraints on firms' investment behaviour. Their findings indicate an excess of demand over supply of credit and identify not only the access to external finance but the terms and conditions of bank loans as important barriers for SME growth. Following Fazzari et al. (1988), they test the investment cash flow sensitivity hypothesis, which states that investments for firms facing information problems are constrained by the availability of cash. Their empirical evidence, however, does not support the hypothesis, even after using various methodologies and controlling for different sub-samples. Therefore, their study suggests that firms' investments are not financially constrained – or not at least to a degree found in other studies. This might be explained by the 'excessive conservatism' of small business owners (Kaplan and Zingales, 2000) and their resulting preference of internal funds. Consequently, policy measures for promoting investment opportunities should not only focus on facilitating access to external (bank) finance but should take into account other entrepreneurial stimuli as well.

Similarities and differences in public policies to stimulate innovation in the information and communications technology (ICT) sector are the topic of Mastroeni's paper 'Finance for high-tech sectors: state led support for start-ups and spin-offs' in this special issue. Using interview data, Mastroeni investigates the main sources of finance from the perspective of entrepreneurs, investors, and public servants involved in the ICT sectors of Ireland, Sweden and Quebec. The interview data provides evidence that government capital plays a predominant role in order to establish a competitive ICT sector. Consequently, the similarity in the funding practices of these three economies is a result of political actors' belief that ICT is a strategic economic sector and of their subsequent interventions in the market. The main difference across the three economies was not the source of capital but a variance in the coordination between the public and private sector in the provision of finance to start-ups and spin-offs. The coordination between participating organisations is linked to their experience, indicating the importance of institutional experience.

The essential criterion of the financing structure of young enterprises is their opacity (Hyytinen and Pajarinen, 2008), resulting in an entrepreneur-investor relationship which is characterised by a large information asymmetry. Outside financiers of a start-up usually have no relevant data about production facilities, processes, or product markets to use as benchmarks in evaluating a proposed business plan and they encounter difficulties in assessing the personal qualities and capabilities of the entrepreneur. Therefore, the value of a start-up project is difficult to judge. To overcome the initial problem of asymmetric information, investors have to find indicators that the founder will run his new venture successfully (see e.g., Binks and Ennew, 1996; Egeln et al., 1997). The objective of Werner's paper entitled 'Do credit constraints matter more for college dropout entrepreneurs?' is to determine whether specific characteristics of the educational history of the founder can help creditors to solve or reduce the problem of information asymmetry. Using a dataset of 189 start-ups in the Cologne area (Germany) from 1992 to 1997 that apply for bank finance, his study provides evidence that screening the educational biography of the founder is one plausible way of banks to deal with the information asymmetry. Consequently, he finds college dropouts to have more problems obtaining the credit they initially need to start their venture.

The article by Schultz investigates the 'Financing stages of technology-based firms in Germany'. The author uses a capital life stage model to characterise the capital structure of technology-based firms for designing an integrated capital life stage model for technology-based firms. This model is tested on data of a sample of technology-based firms of the two sectors of leading-edge engineering and high-technology engineering founded between 1990 and 2005 in Germany. It is found that the technological complexity has no observable influence on the level of equity and debt, but different levels of equity and debt could be observed. While the firms mature, equity is substituted by debt. Furthermore, differences in the mixture of short and long-term debt are found in the growth stage of the sectors' companies.

Research on entrepreneurial finance has so far focused primarily on venture capital (VC), especially in the USA (Denis, 2004; Welpe and Grichnik, 2006). However, VC accounts only for a very small fraction (less than 1%) of the private equity market (Moskowitz and Vissing-Jørgensen, 2002) and bank loans are a more common source of finance for entrepreneurial firms (Keasey and Watson, 1992; Werner, 2007; Winton and Yerramilli, 2008). Furthermore, VC is concentrated on high-growth industries such as telecommunication, biotechnology and software and innovator firms (de Bettignies and Brander, 2007). This way, the majority of firms are not supported by VC but by other sources of capital. This raises the questions what drives the decision to seek external financing, what factors influence the choice of the different sources of external financing and what influences the rank ordering of applying to these different sources. The paper 'External capital for NTBFs: the role of bank and venture capital' by Minola and Giorgino tries to answer these questions by using a sample of new technology based firms (NTBFs) in the UK. The empirical evidence confirms the existence of a hierarchy between internal and external finance, namely a preference for banks over VC financing, this way verifying the pecking order theory (Myers and Majluf, 1984). The paper concludes with the development of a framework based on the empirical evidence collected that should help technology based entrepreneurs to find the most appropriate financial strategy.

In their article 'Theory and evidence on mergers and acquisitions by small and medium enterprises', Weitzel and McCarthy finally revisit established M&A theories, and develop a theoretical framework and several testable hypotheses, regarding the distinctive features of M&As specifically for SMEs. In corporate finance, M&A is traditionally considered to be the domain of multinationals and other large companies. However, from a perspective of firm dynamics, M&As are a versatile instrument to react to high-growth opportunities with fast and comprehensive business expansion. Especially in a more globalised market place with increasingly professionally financed ventures, entrepreneurial firms do not only have the capabilities, but also feel the pressure to merge with or acquire other firms in order to capture the returns of new opportunities as comprehensively and quickly as possible. Indeed, the empirical results of Weitzel and McCarthy support the expectation that, compared to large firms, acquiring SMEs rely more intensively on external growth via M&As and are more likely to be withdrawn, suggesting that SMEs are more flexible and more able to avoid deals that turn sour and finally, SME M&As are more likely to be financed with equity rather than debt, indicating that the influential financial pecking order theory is of less relevance to SMEs. Accordingly, behaviour and success of M&As by SMEs seem to be significantly different.

All in all, we do believe that the seven articles by 11 different authors from eight countries included in this special issue provide some solid impressions of the key areas of the topic entrepreneurial finance and build new avenues for investigation into the intersection of their two mother research fields. These articles not only attempt to synthesise the body of knowledge on entrepreneurial finance, they furthermore point out several directions for future research. Different origins, educational backgrounds and affiliations of the authors ensured that different approaches and methodologies are applied from various perspectives. This creates increased opportunities for dialogue and communication among scholars as well as practitioners and between these groups helping the conceptualisation and development of future research agendas on entrepreneurial finance.

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