Editorial

Emerging Trends in Entrepreneurial Finance

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In the aftermath of the financial crisis, new sources of financing have substantially pushed the envelope of funding sources available to new ventures. Technology parks, startup incubators and accelerators, business angels and angel investment organizations, equity crowdfunding platforms, venture capital funds, corporate seed funds and institutional investors directly investing in new ventures, have massively widened the menu of funding channels, also leveraging on the disrupting advent of Fintech companies and internet-based segments of capital markets. As a consequence, a new financing eco-system for new ventures has emerged in the last few years, with deep implications for both investors and entrepreneurs, ultimately impacting growth paths and creating new challenges at the domestic as well at the global level. While the substantially larger set of funding channels has been instrumental to an unprecedented growth of early stage companies it has also raised new questions that have challenged scholars as well as practitioners and policymakers. Idiosyncratic risk-return profiles and investment philosophies, unorthodox investment practices, innovative value-adding contributions to portfolio companies ventures and structurally different exit options are some of the areas that called for urgent investigation.

The first "Emerging Trends in Entrepreneurial Finance" Conference, 1-2 June 2017 organized by the Stevens School of Business, the University of Piemonte Orientale and the Editor of *Venture Capital: an International Journal of Entreprenurial Finance* at the Stevens Institute of Technology (Hoboken, NJ, USA) with the sponsorship of Hanlon Financial Systems Center and the Stevens Venture Center, aimed at gathering world-class scholars in the field of entrepreneurial finance spurring a debate on the evolution of the financing ecosystem for new ventures.

Out of close to 75 submissions and 16 accepted and presented papers, the Guest Editors of this special Issue have selected 6 outstanding papers addressing crucial topics and recent developments.

In the first paper, (Bonini and Capizzi, 2018) "The Role of Venture Capital in the Emerging Entrepreneurial Finance Ecosystem: Future Threats and Opportunities", the authors, following the insightful keynote lecture given by Josh Lerner the Jacob H. Schiff Professor of Finance at Harvard Business School, provide a curated analysis of the growing debate on the future possible role of traditional venture capital, whose function and relative importance in the light of dramatic growth of alternative financing channels appears reduced or, worse, close to demise. The pressure coming from alternative source of financing on both the seed stage (business angels, angel groups, equity crowdfunding platforms) and late stage investing side (open-end mutual funds, funds of funds and other institutional investors directly or co-investing in private ventures) appears to have shrunk the role of traditional Venture Capital financing that is now forced to compete with more informal or distributed capital providers. After critically reviewing the main features, strengths and weaknesses of the emerging alternatives, the authors conclude that traditional closed-end venture capital funds are certainly experiencing a shift but are yet to become obsolete, considering their unique production process and distinctive competences. In fact, successful investment selection on the part of investor still heavily relies on skills and capabilities, such as screening, negotiating and monitoring, that appear to stratify over time and through the incremental improvement of investment management knowledge, thus leaving experienced, structured investors with an important role in what is however a wider and more complex financing ecosystem.

The second paper, "The Changing Nature of Angel Investing: Some Research Implications", (Mason, Harrison and Botelho, 2018) extends and consolidates the distinguished lecture given by Colin Mason, Professor of Entrepreneurship at the Adam Smith Business School, Glasgow. The authors focus on a major transformation driver in the angel investing industry: the emergence of angel groups, developing a rich set of implications for new research on business angels. In particular, by explaining how the rising of angel groups has changed the angel investing industry, the authors identify five research priorities, dealing with (i) the need to identify new and more effective sampling strategies for the angel population, (ii) the need to understand the relationship between the institutionalization of angel investing and the true essence of business angels as individual investors, (iii) the need to capture the heterogeneity of angel groups and their differential impact on the performance of the funded ventures, (iv) the need to understand the different nature of the investment decision-making process and criteria of angel groups, and (v) the need to design new public policies, focused on new typologies of government interventions, aimed at further stimulating angel investment across countries.

In Pasquini, Robiolo and Sarria Allende (2018) "Matching in Entrepreneurial Finance Networks", the authors examine the role played by internet-based networks in alleviating the impact of information-related frictions in the capital markets – particularly in the early stage segment of the equity financing industry – and inducing the matching between startups and angel investors. By using a massive online marketplace (AngelList), the authors were able to reconstruct a dynamic network of the connections of the entrepreneurial ecosystem of California, allowing them to estimate a matching model based on network distance as a key determinant of the value of a prospective match. According to the findings of an empirical analysis over a sample of Series A financing rounds, the authors find strong evidence that a closer network distance increases the value of a match and moderates the value of observable attributes such as experience and education. Moreover, preferences for observed complementarity – in education or experience – might easily be outweighed by network distance, thus confirming professional connections do play a major role in determining matching outcomes within the entrepreneurial finance ecosystem.

The fourth paper, "Success Factors in Title II Equity Crowdfunding in the United States", (Mamonov and Malaga, 2018), investigates the factors that affect the success of fundraising via online equity crowdfunding platforms. Since Title II of the Jumpstart Our Business Startups Acts (JOBS Act) came into force in the US many equity crowdfunding platforms flourished and began to connect entrepreneurial ventures with accredited investors. The authors draw on research in traditional offline early stage equity investments and evaluate the effects of four factors – market, execution and agency risk as well as computer-mediated challenges – on equity crowdfunding success by examining 337 ventures that engaged in a leading Title II equity crowdfunding platform in the US. The results show that all four factors can affect the success of fundraising by startups. Furthermore, the authors also find that investors in equity crowdfunding platforms are particularly responsive to the startups' ability to attract traditional venture capital funding prior to engaging in equity crowdfunding. These results may suggest that online equity crowdfunding platforms are supplementing rather than replacing traditional venture funding sources.

The fifth paper, “On Equity Crowdfunding: Investor Rationality and success Factors”, Nitani and Riding (2018), focuses on four European equity crowdfunding platforms with the aim of investigating crowdinvestors’ ability to interpret signals associated with firm and owner attributes, financial statements, and social networking activity when selecting investment opportunities. The authors find that the success of fundraising campaigns is positively related to investors’ capability to select projects with the following attributes: firm size, founders’ experience and education, founders’ post-offering equity stake, projects with perceived high growth opportunities. A further major result coming from the empirical analysis deals with the impact of the firms’ and entrepreneurs’ social networks on crowdfunding success: consistent with the findings of the paper of Pasquini et al. in this special issue, professional connections do moderate the role of some of the previously mentioned success factors, providing investors with an opportunity to validate otherwise less credible information disclosed on crowdfunding platforms.

Johannes Wallmeroth (Wallmeroth, 2018) in “Investing Behavior in Equity Crowdfunding” aims at exploring the roles of new, alternative investor categories such as business angel-like investors. The author analyzes and tracks the behavior of individual investors across multiple campaigns on one of Europe’s largest equity-based crowdfunding platforms. The empirical analysis shows that within the crowd there are significant behavioral differences among different investor categories. More in detail, the author find as a major result that large-amount investors – seemingly business angels or professional investors – invest less frequently than other categories of crowdinvestors; this has implications for the marketing strategies of the online crowdfunding platforms, the marketing strategies of startups during the equity offering campaigns and, also, for policymakers when setting regulatory limits to the maximum amount private individuals may invest in an equity crowdfunding campaign. As an additional contribution of the paper, the Author shows there is a certain degree of homogeneity in the investors’ behaviors across countries in term, giving support to the rising debate about the opportunity to reach a regulatory convergence over equity crowdfunding on a worldwide basis.

While not included in this Special Issue, we have the pleasure to highlight that the recipient of the Best Paper Award was Jaisun Li, Georgetown University with his paper: "Profit Sharing: A Contracting Solution to Harness the Wisdom of the Crowd". The paper investigates a critical problem in early-stage companies financing: when a group of investors with dispersed private information jointly invest in a risky project, how should they divide the project payoff? The classical solution entails rewarding investors in a proportion to their initial investment through equity contracts. Is this structure really optimal? This paper first studies as a general contracting problem the role of profit sharing in best harnessing the wisdom of the crowd, then investigates specific FinTech applications including the security design of investment crowdfunding. The extraordinary quality of the paper has led to its acceptance on the Journal of Finance thus providing further evidence of the quality of the conference papers and, consequently, of the contributions selected for this Special Issue. In this respect, we are deeply grateful to the founding Editors of the Journal: Colin Mason and Richard Harrison for accepting to make *Venture Capital: An international Journal of Entrepreneurial Finance* a prestigious venue for the selected papers, giving the opportunity to share with a truly international audience of scholars in the field of entrepreneurial finance the major results stemming from these extraordinary intellectual contributions.