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EDITORIAL

Emerging trends in entrepreneurial finance

The emergence of new sources of financing in the aftermath of the financial crisis has substantially increased the funding options available to new entrepreneurial 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 significantly increased the menu of funding channels, in many cases by leveraging the disrupting effects of Fintech companies and the emergence of internet-based segments of the capital market. As a consequence, a new financing eco-system for new ventures has emerged in recent years that has significant implications for both investors and entrepreneurs, impacting on entrepreneurial growth paths and creating new policy challenges at both the national and global scales. The substantially larger set of funding channels has not only been instrumental in the unprecedented growth in the number of early stage companies but has also raised new questions that have challenged scholars and practitioners and policymakers alike. 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 require 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 Editors of *Venture Capital: an International Journal of Entrepreneurial 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 to stimulate a debate on the evolution of the financing ecosystem for new ventures. From the close to 75 submissions, of which 16 were accepted for presentation. the Guest Editors of this special Issue have selected six outstanding papers that address crucial topics and recent developments.

In the first paper by Bonini and Capizzi, the authors further develop the insightful keynote lecture given by Josh Lerner, the Jacob H. Schiff Professor of Finance at Harvard Business School, to provide a curated analysis of the growing debate on the possible future role of traditional venture capital, whose function and relative importance appears reduced or, worse, close to demise in the light of the growth of alternative funding channels. The pressure coming from alternative source of financing at both the seed stage (business angels, angel groups, equity crowdfunding platforms) and later stages of investing (open-end mutual funds, funds of funds and other institutional investors directly or co-investing in private ventures) appears to have reduced the role of traditional venture capital 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 alternative sources of finance, the authors conclude that traditional closed-end venture capital funds are certainly experiencing challenges but are yet to become obsolete on account of their unique investment process and distinctive competences. Successful investment selection by investors still relies heavily on skills and capabilities, such as screening, negotiating and monitoring, that increase incrementally over time through the accumulation of experience, which ensures that venture capitalists continue to play an important role in what is now a wider and more complex financing ecosystem.

The second paper by Mason, Harrison and Botelho, extends and consolidates the distinguished lecture given by Colin Mason, Professor of Entrepreneurship at the Adam Smith Business School, University of Glasgow. The authors focus on a major transformation driver in the angel market arising from the emergence of angel groups, developing a rich set of implications for future research on business angels. In particular, by explaining how the growth 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.

The third paper by Pasquini, Robiolo and Sarria Allende examines the role played by internet-based networks in alleviating the impact of information-related frictions in the capital market – particularly in the early stage segment of the equity financing industry – facilitating 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 in 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 – are outweighed by network distance, thereby confirming that professional connections do play a major role in determining matching outcomes within the entrepreneurial finance ecosystem.

The fourth paper by Mamonov and Malaga 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 USA many equity crowdfunding platforms have emerged to connect entrepreneurial ventures with accredited investors. Drawing on research on traditional offline early stage equity investments the authors evaluate the effects of four factors – market, execution, agency risk and computer-mediated challenges – on equity crowdfunding success by examining 337 ventures that engaged with a leading Title II equity crowdfunding platform in the USA. The results show that all four factors can affect the success of fundraising by startups. The authors also find that investors in equity crowdfunding platforms are particularly responsive to a startup's ability to attract traditional venture capital funding prior to engaging in equity crowdfunding. These results suggest that online equity crowdfunding platforms are supplementing rather than replacing traditional venture funding sources.

In the fifth paper, Nitani and Riding focus on four European equity crowdfunding platforms with the aim of investigating the ability of crowdinvestors 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 the capability of investors to select projects with the following attributes: firm size, founders' experience and education, founders' post-offering equity stake, and projects with perceived high growth opportunities. A further important finding from the empirical analysis concerns 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 success factors identified earlier, providing investors with an opportunity to validate otherwise less credible information disclosed on crowdfunding platforms.

In his paper, Wallmeroth explores 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 there are significant behavioral differences among investor categories in the crowd. Specifically, the author finds that investors who commit large amounts – seemingly business angels or professional investors – invest less frequently than other categories of crowdinvestors. This has implications for the marketing strategies of online crowdfunding platforms, the marketing strategies of startups during the equity offering campaigns and for policymakers when setting regulatory limits to the maximum amount that private individuals may invest in an equity crowdfunding campaign. A further contribution of the paper is to show that there is a certain degree of homogeneity in the behavior of investors across countries. This provides support to the emerging debate about the scope for reaching 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 company 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 proportion to their initial investment through equity contracts. But is this structure really optimal? This paper first addresses the general contracting problem whether the role of profit sharing in best way in which to exploit the wisdom of the crowd. It then investigates specific FinTech applications including the security design of investment crowdfunding

We are deeply grateful to the founding Editors of the Journal, Colin Mason and Richard Harrison, for making *Venture Capital: An international Journal of Entrepreneurial*

Finance the prestigious outlet for the selected papers, and thereby enabling the significant results stemming from these extraordinary intellectual contributions to be shared with an international audience of scholars in the field of entrepreneurial finance.

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