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Special Issue of *Small Business Economics: An Entrepreneurship Journal*

New trends in entrepreneurial finance

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Overview

Young innovative firms play a key role in modern knowledge-based economies because they are an important source of new jobs, radical innovations, and productivity growth, as well as a disciplining device for the behavior of established firms. Unfortunately, these firms often suffer from financing constraints, which limit their growth and threaten their survival. As a consequence, a wide literature has addressed the theme of financial constraints for young innovative firms. Lack of internal cash flows and collateral, as well as asymmetric information and agency problems are the main reasons for the difficulties in raising external funding (Carpenter and Petersen, 2002).

Venture capital (VC) and business angel (BA) financing has traditionally been advocated as a source of financing for young innovative firms that find it difficult to access capital markets. VC and BA financing represents more than a financial source for these firms because it provides them with many value added services, such as monitoring, advice and reputation (Alexy et al., 2012; Engel and Stiebale, 2014; Hsu, 2004). Prior research has examined the impact of VC financing on firm's growth, confirming a positive effect on employment, sales, innovation, and productivity (Achleitner, in press; Bertoni et al., 2013; Croce et al., 2012; Kortum and Lerner, 2000).

However, the private VC and BA market is not able to entirely solve the equity gap that young innovative firms face. In response, many governments have set up programs that seek to foster VC financing, through the establishment of Governmental Venture Capital (GVC) funds (Cumming and Johan, 2013; Lerner, 2002). Besides addressing the financial gap problem, GVC funds can also pursue investments that will ultimately yield social payoffs and positive externalities to society as a whole (Cumming et al., in press). The drawback of these instruments, however, is that they may crowd out rather than stimulate private investments (Khanna and Sandler, 2000). The rationale and the appropriateness of these programs have led to a controversial academic debate.

Policy makers address the financing gap for young innovative firms in several ways. A recent legislative initiative in the United States, Jumpstart Our Business Startups (JOBS) Act in 2012, was passed to stimulate economic growth by improving access to the public capital markets. Among others (with the CROWDFUND Act), the JOBS Act defines the framework for crowdfunding in the US. Crowdfunding is concerned with raising funds (and advice) from a large pool of backers (crowd) collected online by means of a web platform. Crowdfunding has started making its way into entrepreneurial finance. Reward-based crowdfunding allows proponents of innovative projects to raise money from a crowd of backers in return for delivering a product or service. Equity crowdfunding allows crowd-investors to invest in young innovative firms. This means that crowdfunding platforms will need to cope with collective-action problems, since crowd-investors have neither the ability nor the incentive, due to small investment sizes, to devote substantial resources to due diligence. The crowdfunding phenomenon is now spreading across the world, but academic research in this area, although rapidly growing, is still in its infancy (Agrawal et al., 2013; Belleflamme et al., in press; Mollick, 2014; Colombo et al., in press). Several research questions remain unaddressed, for example: What is the scope of crowdfunding activity and which are the different business models? Who is using such instruments and who is investing in it? Which types of regulatory framework are more conducive to success? What kind of ecosystem is required in order to make crowdfunding flourish? What kinds of investments are most effective? What is the impact of crowdfunding on innovation, entrepreneurship, and employment? What exit possibilities exist for crowdfunding investors?

In addition to crowdfunding, a whole set of innovative financial instruments have recently emerged in order to support the creation and growth of science and technology based start-ups, such as start-up accelerators, proof-of-concept centers, university-based seed funds, and IP-backed financial instruments (Gulbranson and Audretsch, 2008). In many cases, these instruments were created with the support of public authorities in order to address the so-called funding gap, a lack of private funding sources to support the transition of early stage university technology from the lab to the market. Although the diffusion of such types of gap funding schemes has increased in the United States and in Europe over the last decade, we still do not have a comprehensive empirical assessment of the nature and output of such programs, as well as policy evaluation exercises adopting rigorous empirical methods.

Research topics

The special issue intends to increase our understanding of recent trends in entrepreneurial finance, including different forms of crowdfunding (i.e., equity-based, donation-based, reward-based, peer-to-peer lending) and other financial instruments in support of science and technology-based start-ups (e.g., start-up accelerators, proof-of-concept centers, IP-backed financial instruments). These new trends in entrepreneurial finance emerged largely because of the difficulties faced by entrepreneurs and early-stage new ventures in raising funds, especially in the wake of the 2008 financial crisis (Block and Sandner, 2009). In less than a decade, they have spread across developed and emerging countries, helping many innovative businesses in raising capital. In addition to that, governments around the world are increasingly considering them as an important mechanism to address relevant socioeconomic challenges. Despite this rapid growth, however, the scientific literature on most of the recent trends in entrepreneurial finance is still in its infancy; hence, there is ample room for further inquiring.

In particular, we aim at collecting both empirical and theoretical contributions that, building on the available evidence on the complex relationship between financial markets and young innovative firms, provide robust analyses and new insights. Papers that embrace different approaches or levels of analysis and adopt an international perspective are especially welcomed. Papers could focus on (but are not limited to) the following topics:

- Innovative policies supporting the financing of young innovative firms
- Government Venture Capital: experiences and impact
- Financial markets regulation and the provision of finance for young innovative firms
- The decision between raising private vs. public equity for young innovative firms
- Crowdfunding as a source of financing for innovation: opportunities and challenges
- Crowdfunding vs. business angel and venture capital financing: complements or substitutes?
- Exit strategies for investors in young innovative firms (e.g., IPOs, M&As, trade sales)
- Microfinance and its contribution to entrepreneurship and innovation

- The role of later stage private equity funds in the entrepreneurial ecosystem
- Mini-bonds and their contribution to innovation finance
- Recent trends in business angel financing (e.g., superangels, angel lists).
- Start-up accelerators: business models and critical success factors
- Finance and technology transfer: IPR-based financing, proof of concept funds, university-managed funds, and the financing of academic start-ups

Key dates

The deadline for submission of papers to the special issue is June 30, 2015. The publication of the special issue is expected by 2017.

To aid in the development of papers, the editorial team will be available at the "Economics of Entrepreneurship and Innovation Workshop" organized at the University of Trier (for further information see www.entrepreneurship2015.uni-trier.de). The workshop will take place June 2nd and June 3rd, 2015. Acceptance for the workshop does not guarantee acceptance for the special issue.

Paper submission procedure

Submissions to the special issue should be sent electronically to Joern Block (block@uni-trier.de) or Silvio Vismara (silvio.vismara@unibg.it) before June 30, 2015. All submissions will be subject to the standard review process followed by *Small Business Economics: An Entrepreneurship Journal*. All manuscripts must be original, unpublished works that are not concurrently under review for publication elsewhere. All submissions should conform to the SBEJ manuscript submission guidelines available at http://www.springer.com/business+%26+management/business+for+professionals/journal/11187.

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