Journal of Corporate Finance 50 (2018) 538–555

Contents lists available at ScienceDirect

Journal of Corporate Finance

journal homepage: www.elsevier.com/locate/jcorpfin

Review

Entrepreneurial finance: Unifying themes and future directions☆

Douglas Cumming[a,⁎], Alexander Peter Groh[b]

[a] York University - Schulich School of Business, 4700 Keele Street, Toronto, Ontario M3J 1P3, Canada
[b] EMLYON Business School, EMLYON Research Centre for Entrepreneurial Finance, 23 Avenue Guy de Collongue, Ecully, 69132, France

ARTICLE INFO

Article history:
Received 15 January 2018
Accepted 15 January 2018

JEL codes:
G20
G23
G24

Keywords:
Entrepreneurial finance
Equity crowdfunding
Angel Investors
Venture capital
Private equity
IPOs

ABSTRACT

We overview the papers of this special issue of the Journal of Corporate Finance and explain how they fit within the different segments of the entrepreneurial finance literature, including equity crowdfunding, angel investors, debt, venture capital, and private equity. We point to the growing importance of different sources of capital for entrepreneurs and emerging research trends pertinent to academics, practitioners, and policymakers. We explain common questions and suggest scope in future work for combining segments.

Contents

☆ We owe thanks to the Editors, Stuart Gillan and Jeff Netter, an anonymous referee, and the seminar participants at the 2016 MAELYSE Research Federation Conference on Entrepreneurial Finance, co-organized by the University of Lyon and EMLYON Business School for helpful comments and suggestions. Douglas Cumming owes thanks to the Social Sciences and Humanities Research Council of Canada (435-2012-1725) for financial support.

⁎ Corresponding author.
E-mail addresses: dcumming@schulich.yorku.ca, http://ssrn.com/author=75390 (D. Cumming), GROH@em-lyon.com, http://ssrn.com/author=330804 (A.P. Groh).

https://doi.org/10.1016/j.jcorpfin.2018.01.011
0929-1199/

1. Introduction

This special issue of the *Journal of Corporate Finance* comprises papers that each deal with different sources of capital, including equity crowdfunding, angel investors, debt, venture capital, and private equity. While the entrepreneurial finance literature tends to be segmented by different types of finance, the themes and questions addressed across different segments are similar: (1) What factors affect investment rates and possible gaps in capital for entrepreneurs? (2) Is the source of capital 'value added' in terms of facilitating advice, monitoring, and/or growth? (3) Are there governance problems, such as misreporting information? (4) What factors affect investment success including successful exits from illiquid investments?

Although the sources of capital studied differ across the papers, each of these papers addresses at least one of these four research questions. Hornuf and Schwienbacher (this issue) examine the determinants of investment in equity crowdfunding. Signori and Vismara (this issue) examine exit success in equity crowdfunding. Capizzi, Bonini, Valletta, and Zocchi (this issue) examine factors that affect business angel investment. Cole and Sokolyk (this issue) examine the role of debt in facilitating entrepreneurial firm growth. Wilson, Wright, and Kaceer (this issue) provide large sample evidence on entrepreneurial capital gaps and the role of venture capital. Jeppsson (this issue) studies the effect of VCs on IPO performance. Goktan and Muslu (this issue) analyze governance and misreporting among private equity funds and compare listed to non-listed private equity funds. All of these papers are at the forefront of their research areas and have significantly extended what is known about these topics. As well, the papers in this special issue examine large datasets that are very hard to assemble. A notable hurdle in doing work on the financing of private entrepreneurial firms is that data are often not publicly available; hence, there is a disproportionate focus on the analysis of publicly traded firms. The efforts of the authors here break new ground and provide significant new insights into the understanding of how financial markets operate in the financing of entrepreneurs.

Most of the papers in this special issue of the *Journal of Corporate Finance* were originally presented at the Entrepreneurial Finance Conference, 8–9 July 2016, organized by Aurelie Sannajust, Peter Wirtz, and Alexander Groh and sponsored by MAELYSE; the management, economics, and finance research federation of the University of Lyon (UdL) and EMLYON Business School, France. The motivation for the conference was twofold. First, there is a growing interest in research on entrepreneurial finance and in the massive differences in the landscape of entrepreneurial finance in different countries. However, there was a lack of high quality academic conferences on entrepreneurial finance topics and, therefore the venue brought together academics from around the world and from different disciplines to showcase, discuss, and obtain feedback on their latest work.

Second, there is a substantial private and public-sector interest in entrepreneurial finance, and many countries have a desire to replicate the success of Silicon Valley (Armour and Cumming, 2006). For example, the European Commission established a European Strategic Investments Fund in June 2016, which was expected to trigger € 315 billion investments in hopes of creating over 1.3 million new jobs in young ventures and SMEs. The decision to implement this fund was based on the goal to mimic the success of the North American capital market for start-ups and SMEs which has proven to help build the currently-most-important multinational corporations. Policy makers acknowledge that investment shortfalls (in Europe) are caused by both supply and demand factors and that some European Union countries might not be sufficiently competitive. However, these countries also cut public spending, and this requires action at the European level to increase the supply of risk capital in Europe. As such, the conference brought together academics, practitioners, and policymakers to learn and gain insights from one another.

The first conference among a strongly growing entrepreneurial finance scholars network was initiated in 2016 in Lyon. Its success and wide appreciation yielded a second entrepreneurial finance conference in 2017 in Ghent, Belgium. A third conference will be hosted in Milan, Italy, in 2018, and there is hope additional initiatives and locations will follow.

This introduction proceeds as follows. We begin with Section 2, describing Google Scholar trends on research in different areas of entrepreneurial finance. The papers in this special issue, as well as related work, are discussed in Section 3. Section 4 presents suggestions for future research. Concluding remarks follow in Section 5.

2. Google scholar trends in entrepreneurial finance

Fig. 1 presents Google Scholar trends for different search terms in entrepreneurial finance for the number of documents that also refer to specific journals. A notable feature of Fig. 1 is that entrepreneurial finance is an interdisciplinary field that covers work in finance and entrepreneurship (including entrepreneurship and management journals). The data in Fig. 1 does not reveal that entrepreneurial finance topics are more likely to appear in specific journals; but, instead, papers that refer to specific topics also refer to specific journals, with the three most common being the *Journal of Finance*, the *Journal of Financial Economics*, and *Management Science*. These references, in part, reflect the age of the journal, with more hits to older journals. Also, as documented by Cumming and Johan (2017), these references also reflect a notable pattern in entrepreneurial finance research: management and entrepreneurship journals tend to also reference work in finance, while work in finance journals tends not to reference work in management or entrepreneurship journals. Cumming and Johan (2017) discuss some of the unfortunate consequences of this type of research segmentation, which includes but is not limited to nontrivial mistakes in prior research that might have been avoided with a broader reading and understanding of the related literature.[1]

Fig. 2 presents trends in the interest in different topics in entrepreneurial finance by year. The trends clearly show that IPOs and venture capital have been the most popular research areas from 2000 to 2016, but interest in these topics has dropped

[1] For a blog post on this point and a discussion of the problems in the literature with the relevant references, see https://corpgov.law.harvard.edu/2013/04/11/measuring-the-effectiveness-of-public-policy-towards-venture-capital/.