Value Adding in Venture Capital: A Practice-theory Perspective

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School of Management
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ABSTRACT

The value-adding role of venture capitalists (VCs) in their involvement with their portfolio companies (PCs) has remained a “black box”, removed from its social, cultural and institutional context. It is posited that, if VCs operating in different contexts engage in different value-adding activities, such activities need to be studied in context. In this thesis, I do precisely this by adopting a practice-theory perspective informed by Schatzki’s ‘site ontology’. Taking this perspective enables me to articulate the social premises of value, represent VCs’ post-investment involvement as a set of value-adding practices, and explore their constitutive elements and continuous enactment.

Thus, the thesis presents a conceptual and empirical investigation to advance an understanding of what constitutes value and what VCs do to add this value to their PCs. This thesis establishes this by investigating: (1) the social site, (2) the practices that constitute the site and how they fit together, (3) practices associated with VC value adding, and (4) variations in investment practices across organizations in which they operate. To facilitate this investigation, two case studies, based on qualitative data, were chosen. For the first case study, data was collected from a VCF in Dubai over five weeks, and includes that gained from observations, interviews, and an extensive archive. For the second case study, data was collected from two VCFs in Jordan over a week and is based primarily on interviews and a one-day observation in each firm.

Schatzki’s site ontology framework was drawn on to identify VCs’ value-adding practices as organized by understandings, rules, and teleoaffective structure. The findings show value adding to be a profoundly socially-embedded process connected to (or forming a net with) various people (e.g. VCs, investors, advisors), other practices (e.g. fundraising, deal originating, and pre-investment), and other entities or organizations. This demonstrates that, in these case studies at least, VCs’ value adding is not an isolated activity but one entwined with relational practices and is aligned with the preferences of different stakeholders. Nevertheless, I show that while the nature and content of practice vary across contexts, they share a common structure in terms of resting on specific understanding, rules, and teleoaffective structures.

This thesis contributes to a broader understanding of venture capital (VC) by opening the “black box” of VCs’ value-adding practices by investigating everyday VC value-adding
activities in the wider social context. Also, it takes a distinct view, through a practice-based lens, to understand the situated nature of VC practices. I believe that this paper is among the first to introduce practice theory to the VC context. The thesis outlines theoretical contributions, implications for practice, and avenues for future exploration.
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>ARD</td>
<td>American Research and Development Corporation</td>
</tr>
<tr>
<td>BSc</td>
<td>Bachelor of Science</td>
</tr>
<tr>
<td>C-suite</td>
<td>Executive-level managers within a company</td>
</tr>
<tr>
<td>C2C</td>
<td>Customer to Customer</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CMO</td>
<td>Chief Marketing Officer</td>
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<tr>
<td>CMS</td>
<td>Content Management System</td>
</tr>
<tr>
<td>COO</td>
<td>Chief Operation Officer</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>CTO</td>
<td>Chief Technology Officer</td>
</tr>
<tr>
<td>DCF</td>
<td>Discounted Cash Flow</td>
</tr>
<tr>
<td>DFIs</td>
<td>Development Finance Institutions</td>
</tr>
<tr>
<td>e-commerce</td>
<td>Electronic Commerce</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before Interest, Taxes, Depreciation, and Amortization</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EIR</td>
<td>Entrepreneur in Residence</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings Per Share</td>
</tr>
<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, Social and Governance</td>
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<td>ESOP</td>
<td>Employee Stock Ownership Plan</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>Fintech</td>
<td>Financial Technology</td>
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<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GP</td>
<td>General Partner</td>
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<tr>
<td>HR</td>
<td>Human Resources</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ILPA</td>
<td>Institutional Limited Partners Association</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IoT</td>
<td>Internet of Things</td>
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<td>IPO</td>
<td>Initial Public Offering</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>KAEC</td>
<td>King Abdullah Economic City</td>
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<td>KAUST</td>
<td>King Abdullah University of Science and Technology</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
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<td>LP</td>
<td>Limited Partner</td>
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<tr>
<td>M&amp;A</td>
<td>Merger and Acquisition</td>
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<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
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<tr>
<td>MBCS</td>
<td>Mohammad bin Salman College of Business and Entrepreneurship</td>
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<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>Abbr</td>
<td>Full Form</td>
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<tr>
<td>MIT</td>
<td>Massachusetts Institute of Technology</td>
</tr>
<tr>
<td>MOC</td>
<td>Multiple of Capital Contributed</td>
</tr>
<tr>
<td>MSc</td>
<td>Master of Science</td>
</tr>
<tr>
<td>NPO</td>
<td>Non-profit Organization</td>
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<tr>
<td>NPV</td>
<td>Net Present Value</td>
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<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
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<td>PDF</td>
<td>Portable Document Format</td>
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<td>PPT</td>
<td>Power Point</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>ROI</td>
<td>Return on Investment</td>
</tr>
<tr>
<td>SaaS</td>
<td>Software as a Service</td>
</tr>
<tr>
<td>SLA</td>
<td>Service Led Agreement</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprises</td>
</tr>
<tr>
<td>SOP</td>
<td>Standard Operating Procedure</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities, and Threats</td>
</tr>
<tr>
<td>TVPI</td>
<td>Total Value to Paid-in</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>VC</td>
<td>Venture Capital</td>
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<tr>
<td>VCF</td>
<td>Venture Capital Firm</td>
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<tr>
<td>VCs</td>
<td>Venture Capitalists</td>
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<tr>
<td>VCT</td>
<td>Value Creation Team</td>
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<tr>
<td>WC</td>
<td>Working Capital</td>
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Chapter 1: INTRODUCTION

Venture capitalists (VCs, henceforth) are investors who invest in early-stage companies that have growth potential, with the aim to boost their growth and reach their potential. In simple terms, VCs are groups of people, raising funds from investors and using that finance to provide funding and managerial support to companies that have no access to capital markets.

One of the intriguing features of VCs is the sense that they try to increase the value of their portfolio companies (PCs, henceforth) by engaging in value-adding activities. But if one were to review research on venture capital (VC, henceforth) value-adding activity, one would not get a clear sense of what that involves and what exactly VCs do. This is because the majority of value-adding research has tried, for instance, to explain or predict the relationship between VCs and entrepreneurs or to examine the determinants and consequences of the VC’s involvement. Hence, VC research so far has been conducted by a detached scholarly stance aiming for context-free understanding of this phenomenon.

VCs are part of the entrepreneurial ecosystem¹ and have interaction with different entities (e.g. governments, industry bodies), people (e.g. investors, entrepreneurs) and artefacts (e.g. computers, projectors). My aim in this thesis is, therefore, to understand a VC’s value adding activity by becoming immersed in its context² instead of detaching from it. This chapter provides an overview of the study. It introduces the thesis topic, highlights existing literature on VCs value adding, describes the research gap and sets forth the research questions. It also briefly describes the research methods employed and outlines the structure of the thesis.

1.1. OVERVIEW OF VENTURE CAPITAL

Growth-oriented entrepreneurial ventures are an important component of economic growth (Landström, 2007). They play key roles in innovation and industrial renewal alongside the creation of jobs, income, and wealth (ibid.). The main hurdle entrepreneurs have traditionally faced is the need to fundraise for new ventures while having no access to capital markets,

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¹ Entrepreneurial ecosystem is defined by Spigel (2017, p.50) as a “combination of social, political and cultural elements within a region that support the development and growth of innovative startups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding, and otherwise assisting high-risk ventures.”
² Context is defined by Welter (2011, p.167) as “circumstances, conditions, situations, or environments that are external to the phenomenon and enable or constrain it.”
expertise or industry connections (Brophy, 1997). VC plays a crucial role in the entrepreneurial process by providing a significant source of funding and, often, providing managerial assistance for PCs, with the aim of boosting their growth and developing them into significant global companies. It is also known to be a significant channel for converting exceptional ideas into rapid company growth. VC investors are assumed to intervene in areas in which they believe that they can enhance and protect their investee companies, and, along with funding, normally impart their knowledge, experience, and networks to their investee companies. In general, VC represents a specific form of private-equity market in which investment is made by institutional investors and wealthy people in early-stage or expanding businesses (not quoted on a stock market) with high growth potential and high risk (Sahlman, 1990; Brophy, 1997; Mason and Harrison, 1999). Hence, VC firms (hereafter, VCFs) invest in business by purchasing equity or equity-linked minority stakes. Their intention in each case is to obtain a high return on their investment (in the form of capital gain), and appropriately exit the venture after five to seven years of initial investment through strategic sale (by re-selling the VCFs shares to an acquiring firm) or via an initial public offering (IPO). Apple, Facebook, Amazon and more recently Spotify, Airbnb, and Uber are notable examples of high-profile firms backed by VC.

The VC market has three main participants: entrepreneurs, who have ideas but need funding; investors, who seek high returns on the capital they allocate; and VCs, who act as intermediaries between the latter two, raising money from investors for entrepreneurs’ companies. VCFs are usually structured in the form of a limited partnership and raise capital from investors by means of VC funds (Landström, 2007). The contract underlying such a fund is traditionally a limited partnership: general partners (GPs) – VCFs – administer the fund, while limited partners (LPs) – institutional investors and wealthy individuals – provide the capital without interfering in the fund’s operation (ibid.). The life span of a VC fund is usually about ten years, but this may be extended by a few years. Figure 1.1 illustrates the VC structure which is inspired by (Landström, 2007, p.6)’s VC process figure and Rin, Hellmann and Puri (2013, p.575)’s graphical model of a VC figure.

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3 Institutional investors include pensions funds, insurance companies, family offices, funds of funds, sovereign wealth funds, endowments, and mutual funds.
There are three forms of VC, namely institutional VC, corporate VC (CVC), and informal VC (business angels), which vary in their characteristics and operation. The first of these, institutional (formal)\textsuperscript{4}, was defined by Rin, Hellmann and Puri (2013) as professional asset management, wherein funds are raised from institutional investors or wealthy families to invest in promising entrepreneurial ventures. The second significant form, CVC, was defined by Maula (2001, p.9) as “equity or equity-linked investments in young, privately held companies, where the investor is a financial intermediary of a non-financial corporation”. The fund sponsor is the main distinction between these two forms of VC: in institutional VC, the LPs are institutional investors or wealthy families, whereas in CVC the LP is a company or a subsidiary of a company (Landström, 2007). The third form, business angels, are non-professional investors and wealthy individuals investing their own money, rather than that of institutions or other individuals, into promising new ventures with a high growth potential (Lerner, Hardymon and Leamon, 2012).

\textsuperscript{4} The institutional VC is the dominant type of VCFs (Manigart and Wright, 2013).
During the fund’s life span, the responsibility of the GPs is captured by Tyebjee and Bruno (1984), who introduced the VC investment process model. The model is comprised of five sequential stages that are undergone by each new investment: (1) searching for potential investments, (2) locating and screening investment opportunities, (3) carefully evaluating proposals, (4) establishing and negotiating the type of investment agreement, and (5) monitoring, mentoring and assisting the entrepreneurial firms. The final responsibility of the GPs is to liquidate investments by guiding companies towards the best option for an exit route (via an IPO or through merger and acquisition (M&A)) after five to seven years of the initial investment and distributing returns to their LPs.

The roots of VC can be traced back as far as the Babylonian era, and to the early Middle Ages in Europe (Landström, 2007). The decision by Queen Isabella of Spain to fund Christopher Columbus’ voyage of discovery is an example of a VC investment (ibid.). The first publicly traded VCF was the American Research and Development Corporation (ARD), founded in 1946. A decade after ARD’s creation, further VCFs were established. The VC industry in the US has grown rapidly in size and importance over the past four decades. According to PwC and CB (2020), U.S. VC investment increased from $610 million in 1980 to $8 billion in 1995, invested in 1,897 deals. By 2019, the total investment made by VCs had reached $112 billion, invested in 6183 deals (see Figure 1.2).

Figure 1.2: US VC Investments and Deals from First Quarter of 2000 to First Quarter of 2020
Source: (PwC, 2020).
This dramatic growth was due to changes in U.S. regulations, namely a reduction in capital gains tax rates and permission to invest pension funds in risky assets, as well as to the appearance of new technologies (Bygrave and Timmons, 1992; Gompers and Lerner, 1996, 2010). During the dot-com era, total investment spending in the U.S. reached a peak, exceeding $100 billion. This figure subsequently decreased as a result of the dot-com crash (Megginson, Smart and Lucey, 2008).

Whilst the U.S. still dominates global VC investment, with a share of 51% (NVCA, 2019), VC has become a worldwide phenomenon, especially in Europe and Asia. Other geographical areas, such as the Middle East and North Africa (MENA)\(^5\) region, have been experiencing an increase in VC activity, in line with the global VC trend. This is due to the development of VC funds, significance of SME investment and exit success stories in the region. Examples include the acquisition of Maktoob (a Jordan-based email service company) by Yahoo for $164 million in 2009; the acquisition of Zawya (a UAE-based business intelligence and news company that focuses on the MENA region) by Thomson Reuters in 2012\(^6\); and the acquisition of Souq (a UAE-based e-commerce platform) by Amazon in 2017 for $589 million. More recently, the region saw one of its biggest exit success stories to date: the acquisition of Careem (a UAE-based ride-hailing startup) by Uber for $3.1 billion in 2019. This acquisition marked the first unicorn exit in the MENA region. These acquisitions reflect the abundance of opportunities in the MENA region, which attracts entry and investment from international investors and enterprises.

The series of successful acquisitions in the MENA region demonstrates the region’s great potential in terms of startup investment. Whilst the VC industry in the MENA region is relatively young, it has shown a steady increase in the number and importance of VC investments in the last few years, especially with increased investments in SMEs (see Figure 1.3). According to MAGNiTT (2019), the VC industry in the MENA region expanded from $232 million (invested in 204 deals) in 2015 to $704 million (invested in 564 deals) in 2019. The UAE accounted for 60% of the region’s total funding in 2019 (ibid.). Furthermore, the

\(^5\) The MENA region comprises the following jurisdictions: Algeria, Bahrain, Djibouti, Egypt, Iraq, Iran, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, the UAE, and Yemen.

\(^6\) Transaction data is not available.
number of regional and international investors in the region increased by 202% between 2015 and 2019, rising from 70 to 212 investors, respectively (ibid). The number of exits of MENA startups has also increased substantially, rising from 7 exits (with an exit value of $42 million) in 2012 to 27 exits (with an exit value of $3610 million) in 2019 (ibid).

![Figure 1.3: MENA VC Investment and Deals from 2015 to 2019](image)

*Source: MAGnIT (2019, p.8)*

### 1.2. RESEARCH GAP AND RESEARCH QUESTIONS

The literature has substantially increased our understanding of VCs’ value-adding activity in some respects. Research has helpfully defined VC activity and level of involvement, determinants and consequences of VCs involvement with PCs, as well as the mechanism underlying the adding of value by a VC to an entrepreneur. To illustrate, some VC studies focus mainly on determining what VC investors do by defining their roles and level of involvement (Gorman and Sahlman, 1989; Macmillan, Kulow and Khoylian, 1989; Sapienza, Amason and Manigart, 1994; Lerner, 1995; Sapienza, Manigart and Vermeir, 1996; Hellmann and Puri, 2002; Proksch et al., 2017; Gompers et al., 2020).
Other studies have examined the factors that influence VCs’ level of involvement in entrepreneurial companies, paying particular attention to the characteristics of those companies. They consider agency risk (e.g. Sapienza and Gupta, 1994; Barney et al., 1996; Sapienza, Manigart and Vermeir, 1996), business risk (e.g. Barney et al., 1989), and development stage (e.g. Sapienza, Amason and Manigart, 1994; Elango et al., 1995). Another stream of literature has addressed the influence of VC characteristics, such as reputation, on the intensity of VC involvement (e.g. Timmons and Bygrave, 1986; Gompers, 1996) and VCs’ selection behaviour (e.g. Knockaert and Vanacker, 2013). Researchers have also acknowledged that VCs’ level of involvement is contingent not only on PC characteristics and VC characteristics, but also on the institutional context in which they operate (e.g. Sapienza, Manigart and Vermeir, 1996; Bruton, Fried and Manigart, 2005; Bonini, 2012; Devigne et al., 2013).

A further stream of literature investigates the consequences of VC involvement on the PC, such as access to financial resources (e.g. Vanacker, Manigart and Meuleman, 2014), innovation (e.g. Hellmann and Puri, 2000), and growth (e.g. Bertoni, Colombo and Grilli, 2011; Quas, Martí and Reverte, 2020). Attention has also been paid to the mechanism underlying value adding in the VC-entrepreneur relationship by highlighting its content and process-related perspectives (e.g. De Clercq and Sapienza, 2006) and (e.g. De Clercq and Dimov, 2003, 2008). Broader coverage of research in these areas is provided in the Literature Review chapter (section 2.3).

However, while the literature provides a clear sense that there is involvement and it matters, it says little about what it entails. It has not comprehensively examined how VCs engage in adding value. As result, this unexamined territory is referred to by Manigart and Wright (2013) as the “black box” of value adding. This has led De Clercq and Manigart (2007) and Manigart and Wright (2013) to call for more specific attention to this area, to prise open the “black box” of how VCs add value to their PCs. An example would be that, while the role of institutional context has begun to be recognized, only the relationships between institutional factors (e.g. social, cultural, environmental) are used to help identify or explain variations in VC activity across different geographical contexts. Our understanding of the roles of the social, cultural and institutional contexts themselves on VCs value adding activity remains incomplete.
In this research area, the majority of work relies on the ‘homo economicus model’ (Reckwitz, 2002) or ‘individualistic approach’ (Schatzki, 2005) to gain insights into, for instance, the value-adding roles as well as the drivers and outcomes of VC investment. The homo economicus model is based on the premise that the social consists of single actions and, in particular, situates the social in “the level of the intended or unintended product of subjective interests – a common will or distribution of values on ‘markets’” (Reckwitz, 2002, p.246). A major weakness of this model is that it fails to take into account other aspects, such as the actual VCs’ doings, the norms and values that underpin them, the artefacts at play in these doings (e.g. computer software, meeting rooms) as well as the social, cultural and institutional contexts in which these doings are immersed. In other words, the drawback of the homo economics approach its limited ability to understand the continuous nature of day-to-day VC activity.

Furthermore, a review of VC research exposes a reliance on management and finance theory to explain and predict relationships between variables through statistical analyses. Most of these theories rely on the framework of scientific rationality which fails to capture the logic of practice (Sandberg and Tsoukas, 2011). In particular, Sandberg and Tsoukas (2011) identified three problems with the scientific rationality lens. First, it conceptualises VC activity as distinct entities with objective properties and, therefore, it ignores what they call, the “meaningful relational totality” that VCs are immersed in. Second, it provides broad-brush propositions and ignores or, at least underestimates, the situational uniqueness of what VCs do. Third, it excludes from its analysis the practitioner’s experience of time.

As the purpose of this thesis is to better understand what constitutes a VC’s value-adding activity and not to explain the phenomena or predict relationships (i.e. study the phenomena in an objective way), the particular approach taken in past VC research (i.e. homo economicus model and scientific rationality lens) is not suitable for the aim of this research. Therefore, I propose the need for an alternative paradigm to the individualistic approach, and I find, that social theories of practice (Sandberg and Tsoukas, 2011), offer innovative ways of managing more recent challenges in VC research.

Overall, the aim of this study is to investigate the underpinning mechanisms of VCs value-adding activities which VCs engage with to add value to their PCs. They will be examined as
collections of practices (identifying the everyday and socially-situated nature of VCs’ value adding), by adopting a practice-based approach (informed by Schatzki’s site ontology) to capture the VCs value-adding practices as organized by understandings, rules, and teleoaffective structure.

Inspired by the research gap identified, this thesis asks the following two research questions relating to VC:

1. What do VCs actually do in practice to add value to their PCs?
2. What is value and how is it manifested in value-adding practices?

To address the main questions, and since I am adopting the practice-based approach, the following four sub-questions are posited:

RQ1: What is the social site of VC?
RQ2: What are the practices that constitute the site and how do they fit together?
RQ3: What are the practices associated with VCs value adding?
RQ4: How investment practices vary across organizations in which they operate?

Here I am posing the questions that I will revisit later in the Discussion chapter. There I will seek to answer these questions based on what I have described in the findings.

Given these research questions, the overall objective of this study is to identify VCs’ value-adding practices and explain how a VCF actually adds value. The detailed objectives of the study are as follows:

- To review and analyse existing research on VCs in the post-investment stage, and to review potential theoretical approaches to investigating the link between value-adding activity and venture value
- To gain practical insights by bringing the researcher closer to the phenomena under study and establishing an adequate methodology to capture VCs’ value-adding activities in practice
- To advance understanding of how VCs add value by adopting a practice-based perspective
To discuss the study’s findings and compare them with extant research and theoretical approaches

To discuss any limitations of the study, the implications of the findings and avenues for future research

To enlarge the existing body of knowledge of VC financing

In doing so, I answer recent calls to open the “black box” (De Clercq and Manigart, 2007) and (Manigart and Wright, 2013) and disclose how VCs add value to their PCs. This study seeks to make two important contributions. First, it provides an alternative perspective that sheds light on the importance of analysing the VCs actions in their social, cultural and institutional context. To the best of the researcher’s knowledge, the study is one of the first to extend practice theory to the VC context. Second, it contributes to the growing literature on VCs in the post-investment stage by opening the “black box” of value-adding practices (i.e. to reveal the process of how VCs’ value-adding activities are performed or achieved). In addition to these contributions, hopefully the study will benefit the VCFs, by helping them to obtain an in-depth understanding and knowledge of their own value-adding practices.

1.3. RESEARCH METHODS

To answer the research question, I conducted a five-week ethnography-inspired study of a leading VCF in Dubai, focusing on what VCs do in practice to add value to their PCs. Studying practices through ethnographic-inspired research allowed me to engage with the details of the value-adding activity. In particular, it allowed me to observe what the participants were doing, interact with them (e.g. by asking questions) and attempt to learn the actual value-adding practices (Schatzki, 2005). The MENA context was chosen due to the conspicuous scarcity of VC research related to Europe and Asia as most VC studies tended to focus on the U.S. (Parhankangas, 2007). A further influential reason was my familiarity with the context, language, and culture which I felt confident would help me better understand the site and recognize the participants’ implicit meanings and feelings.

As the study takes a practice perspective and practices are socially shared, it is important to study the phenomena from multiple angles and with reference to multiple data sources. Therefore, the data combined participant observation, semi-structured interviews, firm-related
documents and informal talks. Twelve interviews were conducted, and twelve meetings attended. The collected data covers 176 pages of transcription, 70 pages of field and meeting notes, 27 pages of other primary data, as well as an extensive collection of VCF’s related documents. To organize the collected data, I used the NVivo data-management tool.

I followed Schatzki (1996, 2002) practice theory framework in the interpretation of my data, as I found it particularly suitable, given its prior application in the context of NASDAQ securities dealers. I began the analysis by identifying and labeling the VC value-adding activities. Subsequently, I explored how these activities are held together by four elements, outlined by Schatzki, namely: practical understanding, rules, teleoaffective structure and general understanding. I did so in two rounds of coding, moving from specific, first-order categories to broader, second-order categories.

Because VCFs are inter-connected organizations, it seemed both logical and necessary to examine the practices that other VCs in the region conduct. Consequently, I embarked on a second, smaller study based on two VCFs in Jordan (for rationale: see Chapter 3). This was designed to reveal points of comparison with the findings of Case One. To gain insights into the activities and practices of the two Jordan-based VCFs, interviews were conducted with VCs and some entrepreneurs in the two VCFs. Overall, seven interviews were conducted, yielding around 97 pages of transcription. These were supplemented with one day observations in each VCF.

1.4. STRUCTURE OF THE THESIS

This chapter has broadly introduced the thesis topic and highlighted existing areas of literature on value adding by VCs (to be extended in the Literature Review chapter). Most importantly, it has described the research gap and set forth the specific research questions that will be investigated in this study. It has also identified the research methods. This thesis is organized as follows.

Chapter 2 first reviews the traditional approach for studying VC value adding, focusing on four streams of research: (1) the studies on the VCs value-adding activities, (2) the research that focuses on the drivers of VCs’ involvement, (3) the studies that focus on the consequences of
VCs’ involvement, and (4) the research on ways of adding value, with a focus on the content and processes involved in the VC-entrepreneur dyad. Then it presents and discusses an alternative approach by which to examine the VC value adding activity (a practice-based approach). It later describes and explains the research context, that is, the MENA region and the contemporary local context of Dubai.

Chapter 3 explores the key decisions made in relation to the research design utilised for this thesis. First, it presents the research philosophy informing this study. Next, it explains the case selection. This is followed by a detailed discussion of the method used for both case studies, including data collection and analysis. Finally, the research quality, ethical consideration and research reflection are discussed.

Chapters 4, 5 and 6 present the findings of this thesis. Chapter 4 and Chapter 5 present the VC investment level practices (fundraising, deal originating, pre-investment, value adding) in a leading VCF in the MENA region, while Chapter 6 discusses the organizational level practices of the same VCF (onboarding and continuous improvements) and sets the value adding practices in a broader context by comparing it to two other VCFs in Jordan.

Finally, Chapter 7 presents the discussion and conclusion of the study. First, it reviews the theoretical framework, then it outlines the key findings related to each of the five research questions before, finally, acknowledging the limitations of the research and suggesting avenues for future research.
Chapter 2: LITERATURE REVIEW

2.1. INTRODUCTION

VC research has grown rapidly resulting in a substantial body of research that explores key aspects of the VC investment process (for comprehensive review of VC literature, see Landström, 2007; Landström and Mason, 2012; Rin, Hellmann and Puri, 2013; Drover et al., 2017). As outlined in the Introduction chapter, Tyebjee and Bruno (1984) introduced a model of the VC process with five sequential stages undergone by each new venture: (1) deal origination – searching for potential ventures, (2) deal screening – examining proposals, (3) deal evaluation – making a detailed evaluation of proposals that pass the screening stage, (4) deal structuring – establishing and negotiating the type of investment agreement, and (5) post-investment – providing monitoring, mentoring, value-added services and liquidating investments after five to ten years of the initial investment.

Studies have shown that a significant proportion of the VC cycle is devoted to post-investment activities (e.g. Gorman and Sahlman, 1989; Sapienza, Amason and Manigart, 1994; Gompers et al., 2020), as this step is instrumental to venture performance and PCs’ probability of survival, which is the focus area of this thesis. Figure 2.1 illustrates the Tyebjee and Bruno (1984) investment process model and spotlights the post-investment stage, specifically the value adding services and what goes around them.

![Figure 2.1: Tyebjee and Bruno (1984) Investment Process Model](image-url)
VC is a social activity and to approach and explain it, researchers need to have a basic theory of the social. An analysis of VCs value adding literature from early in 1980s revealed that the majority of studies used the ‘homo economicus model’ of the social (Reckwitz, 2002) or ‘individualistic ontology’ (Schatzki, 2005). Although this model/ontology helps to determine and explain the consequences of the VCs involvement and generalize the results, as well as providing representative descriptions of the VCs value adding role, it provides little understanding of VCs’ actual behaviour and removes the VC social, cultural and institutional context from the analysis. Most notably, the ways in which VCs carry out mundane activities are missing from the literature. Therefore, it is necessary to expand and deepen knowledge of the complex phenomena of VC value-adding activities by conducting a comprehensive study of what VCs actually do in practice within their organizational and institutional contexts. Thus, a practice-based perspective on the study of VC opens up an opportunity to develop our understanding of VCs’ value-adding activities as a whole.

Therefore, this chapter has three purposes, the first of which is to review the literature that examines the VC value adding from the individualist approach (the traditional approach to studying VC). The second purpose of this chapter is to propose and explain the alternative approach to the study of VC value adding, which can significantly further our understanding of VC activity. The third purpose is to provide an overview of the research context. The chapter is structured as follows. Section 2.2 discusses the approaches to valuation in finance. Section 2.3 presents the traditional approach and provides an overview of the studies on the VCs value adding activities. Section 2.4 introduces the alternative approach and presents the practice theoretical approach as an appropriate framework to examine the VC value adding activity. Section 2.5 discusses and describes the MENA region and the contemporary local context of Dubai. Section 2.6 draws the conclusion of the chapter.

2.2. APPROACHES TO VALUATION WITH FINANCE

Understanding what VCs do to add value to their PCs invites us to take an interpretative stance towards the world of VC. It is hard to talk about value adding without articulating what I mean by value. The value definition is used here as reference guide. As the data is gathered, the definition might need to be refined.
Value has specific meaning within finance theory, where the aim is to compare different assets on the basis of their earning potential. People attribute value differently in private companies and, as a result, valuation can become complicated, especially with companies that have negative earnings, with no or low revenues, with little or no history, and with few or no comparable businesses. Therefore, VCFs look for different approaches that help them to assess a company’s future potential. They use finance theory methods, such as discounted cash flow (DCF) or net present value (NPV), to analyse an investment opportunity and determine its value.

Current value is normally a function of expected future cash flows and the systematic risk of the opportunity. Returns and risks are the two most important factors that impact the value of the company (value in financial economics is always the price of an asset). A VC tries to increase the value of its PC by providing a complex bundle of value adding services that aim to increase the company’s returns or mitigate its risks. In other words, value adding in the VC setting is either something that increases the earning potential of a company or something that decreases its risk in the eyes of the prospective investor.

Typically, startups have a series of different investors across their financing cycle (from family and friends to public and institutional investors). VC investors are part of the investor series, normally coming after the founders but before the public and institutional investors. They provide a series of financing to startups (called Series A, Series B, Series C, and Series D), depending on the company stage, through multiple investment rounds (called Round 1, Round 2, Round 3 and Round 4). When VC investors exit from their PCs, this means that they are selling their shares to other investors at the post-money valuation.

The main assumption in the VC context is that VCs involvement increases the venture value through value adding activities. Like the classic way of evaluating private companies that seek additional financing, venture value added is typically measured by the difference between pre-money valuation ($t_2$) and post-money valuation ($t_1$). Pre-money valuation ($t_2$) refers to the value of the company before an investment has been made, whereas the post-money valuation ($t_1$) refers to the company’s value after the investment has been made at time $t_1$. Therefore, post-
money valuation equals pre-money valuation plus investment from VCs. Figure 2.2 illustrates how the shareholders’ value increases over time.

**SHAREHOLDERS VALUE**

![Diagram showing shareholders value increase over time](image)

*Figure 2.2: Shareholders Value in Start-up*

To explain, a company raises capital over time from investors; when the first VC investor comes in and invests in the company, they pay the pre-money valuation price in Round 1. For example, if the VC investor and the entrepreneur agreed on one million shares at the price of $1 per share, the pre-money valuation in Round 1 then equals $1 million. Therefore, the post-money valuation for the company in Round 1 is $2 million, which is calculated by multiplying the number of shares held by both the founder and VC1 (2 million) by the share price at time 1 ($1).

When the company enters a second round of funding, one of the things that happens is that the share price increases (in this example the share price is now $3). Therefore, the stakes of the founder and the first VC investor increase by $2 per share. When the second VC investor comes in and wants to invest in the company, they acquire shares at that higher price ($3). Hence, the pre-money valuation in Round 2 equals $6 million, which is calculated by multiplying the number of shares before the investment transaction (2 million) by the purchase price per share in the investment transaction ($3). The value added is then $4 million (i.e. the difference
between the pre-money valuation \((t_2)\) and the post-money valuation \((t_1)\)). From the first VC investor’s perspective, the value added is reflected in the increase of the share price in Round 2. In other words, the first VC investor paid $1 per share and, because they have been providing value adding services, this has led to the second investor paying $3 per share.

2.3. TRADITIONAL APPROACH FOR STUDY VCs VALUE ADDING
Post-investment VC activity is a well-researched area, with some very comprehensive and systematic reviews of the literature in this field (e.g. De Clercq and Manigart, 2007; Manigart and Wright, 2013). These reviews identify the key findings and point to several areas for future research on VC value adding, such as the impact of institutional and social environment on VC behaviour and how VCs commit their time across their PCs. The main difference between VC financing and the activities of traditional financial intermediaries, such as banks and insurance companies, is that VCs’ managerial support plays an important and ongoing role in improving the risk-return mix of companies in which they invest (Gupta and Sapienza, 1992; Amit, Brander and Zott, 1998). Therefore, the predominant assumption in the literature on VC post-investment activities is that VC investors add value to their investee companies which is other than financial value but which may, ultimately, affect venture value (De Clercq and Manigart, 2007; Manigart and Wright, 2013).

It is important to note that extensive research has been produced on the post-investment activities of VCs; however, as the focus of this research is management and entrepreneurship literature, finance and economic literature is not discussed in detail (i.e. it is merely referred to as ‘appropriate’). This subsection brings into focus four major research streams that have been identified in the value adding VC investment literature. A first research stream studies the forms of VC value added (section 2.3.1), a second assesses the determinants of VCs’ level of involvement (section 2.3.2) and a third examines the consequences of VC investment (section 2.3.3). A fourth and final research stream focuses on the studies that try to open the “black box” of how value is added (section 2.3.4).

2.3.1. Value-adding Roles
One early, significant study that shed light on the nature of VCs value-added activities was the Gorman and Sahlman (1989) study. Looking at 49 VCs, the research found that a sizable
amount of time was devoted to monitoring and assisting their PCs. The authors ranked forms of VC support from ‘one’ (denoting high importance) to ‘six’ (denoting low importance), as follows: (1) providing assistance with financing, (2) helping to plan strategies, (3) providing assistance with management recruitment, (4) helping with operational planning, (5) securing access to prospective customers and suppliers, and (6) finding resolution to issues regarding compensation. In the same vein, Macmillan, Kulow and Khoylian (1989) analysed 65 VC investors and documented the activities in which they were most heavily involved. With ‘one’ being the area of heaviest involvement, their main activities were found to be these: (1) acting as a sounding board, (2) helping to bring in alternative equity financing, (3) interacting with the investing partners, (4) monitoring and controlling company financial performance, (5) monitoring and controlling company operating performance, and (6) helping to bring in alternative debt financing. The aim of these descriptive studies was to offer a foundation for VC work and reach an understanding of what VCs do. The studies treated VC as homogeneous and showed no obvious interest in the consequences of VC involvement. Thus, these studies throw no light on the conditions under which VCs engage with their PCs and the outcomes of their engagement.

From the PC perspective, Rosenstein et al. (1993) conducted a survey based on chief executive officers’ (CEOs’) own assessment of board members’ most helpful activities, which were found to broadly concur with those reported by Macmillan, Kulow and Khoylian (1989). The results revealed the five most highly rated activities: serving as a sounding board for the management team, interacting with the investor team, overseeing financial performance, overseeing operating performance, and recruiting management and/or replacing the CEO. The CEOs surveyed valued the advice given by top-20 VCFs more highly than that of other outside investors. In addition, VCs’ assistance was rated more highly for early-stage than later-stage investee companies. Sapienza, Amason and Manigart (1994) and later Sapienza, Manigart and Vermeir (1996) examined the roles of VCs across four major VC markets, namely the U.S., the U.K., the Netherlands and France. They documented three essential roles played by VCs in increasing the value of investee ventures: (1) a strategic role as a sounding board, business consultant, or financier, (2) an operational (network) role in recruiting management, providing potential customers, or helping to obtain additional financing, and (3) a personal (interpersonal)
role as mentors and confidants to CEOs. In all four markets, VCs’ most important role was strategic, followed by interpersonal; operational involvement was their least important role.

As most attention has been paid to VCs’ strategic and operational roles (Manigart and Wright, 2013), in the following paragraphs I will provide an overview of studies focusing on those two aspects of VC involvement.

One of the ways in which VCs exert their strategic role is through their presence on a PC’s board of directors. The presence of VCs on a firm’s board of directors assures investors that the firm’s construction and achievement of financial goals will be monitored. Lerner (1995) examined the strategic role of VCs on the board of their PCs; this research is considered to be the first to provide “systematic company-level evidence” on value adding activities (Rin, Hellmann and Puri, 2013, p.595). In particular, Lerner investigated the effect of VCs representation at the point of replacing a CEO and the geographic proximity with the PCs. He found that once companies had changed their CEO, the representation of VCs increased by an average of 1.75, and that PCs located close to VCs were more likely to have these VCs on their boards of directors. Overall, Lerner (1995) found that VCs play important roles as directors of PCs and he identified two important determinants of board membership: proximity and CEO turnover. Similarly, Baker and Gompers (2003) found that VCs play a vital role in shaping the PC board of directors.

Moving on to the operational role, some studies have examined the impact of VC involvement on the development of PCs by analysing the professionalization function. For instance, Hellmann and Puri (2002) examined novel hand-collected data on 170 high technology start-up companies in the Silicon Valley area, some of which obtained VCs between 1994 and 1997. They found statistically significant evidence that VCs play a greater role in facilitating and accelerating the development of human-resources (HR) functions in new firms compared with firms that are not backed by VCs. They used recruitment practices, HR policies, stock-option plans, and the recruitment of sales and marketing vice presidents as measures of professionalism. Likewise, a study by Gledson De Carvalho, Calomiris and de Matos (2008) confirmed that the presence of VC investors in entrepreneurial firms accelerates the professionalization of their HR activities. They found the intensity of VC involvement in HR activities to be higher in riskier ventures and firms encountering difficulties with management.
recruitment. Furthermore, Gledson de Carvalho and his colleagues showed that HR networking functions as a conduit in recruiting managers. The above studies support the notion that VCs add value to PCs by aiding the professionalization of start-up firms (Hellmann and Puri, 2002) and attracting excellent management executives (Gledson De Carvalho, Calomiris and de Matos, 2008).

Other studies have examined the effect of VCs’ involvement on the top levels of the hierarchy of PCs, especially the VC role in replacing the founder of the company with an outside professional CEO (e.g. Bruton, Fried and Hisrich, 2000; Hellmann and Puri, 2002; Florin, 2005). By way of illustration, Hellmann and Puri (2002) discovered that VC-backed companies are twice as likely to replace their founders with external CEOs than non-VC-backed companies. They also differentiated between “friendly” turnovers, wherein the founder continues to be involved with the company after the arrival of the outside CEO, and “unfriendly” turnovers, wherein the founder leaves the company after the arrival of the outside CEO. They provided evidence that VCs play an equal role in the two events. Fiet et al. (1997) and Bruton, Fried and Hisrich (2000) also claimed that VC-backed companies are more likely to exchange their founders for outside CEOs, and to do so more rapidly. Baker and Gompers (2003) found that, at the time of IPOs, two-third of VC-backed companies did replace the founder of the PCs with an outside CEO.

There is a higher probability of founder replacements in the following array of circumstances: when the PC is at early stage (Fiet et al., 1997; Hellmann and Puri, 2002), when the performance of a venture is poor and when VCs take up most of the venture board seats (Fiet et al., 1997). It can also occur when VCs have more bargaining power (Hellmann, 1998), when the CEO lacks ability (Hellmann, 1998; Bruton, Fried and Hisrich, 2000), when the founder has strong disagreement with VC investors (Bruton, Fried and Hisrich, 2000), when there is significant goal incongruence between the VCs and the CEO (Hellmann, 1998), and/or when high tech companies raise a further funding round (Wasserman, 2003). Kaplan, Klebanov and Sorensen (2012) studied further the characteristics and abilities that matter in choosing the CEO. They found that both general ability and execution skills have a positive impact on subsequent corporate performance.
Proksch et al. (2017) argue that context is important in understanding VCs value-adding activities because each VC market has different characteristics (i.e. legal and tax systems, deal sizes, entrepreneurial cultures, risk aversion, and degrees of professionalization). Therefore, they conducted a qualitative study in Germany, drawing on a unique longitudinal dataset of 95 VC-backed ventures obtained from nine VCFs to analyse VCs value adding activities. By doing so they continued the research theme initiated by Gorman and Sahlman (1989) and Sapienza, Manigart and Vermeir (1996). The unique feature of this work is that it attempts to provide in-depth knowledge on the different VCs value-adding activities in Germany by looking at activities from the VC investors original documents (e.g. business plans, investment committee documents, investment reports and annual statements). To illustrate, they use content analysis to assess the various VCs value adding activities and to create a holistic typology of the German value-adding activities. Consistent with prior studies, the results showed that VCFs are more involved in supporting their PCs in financial, strategic, human capital improvements and governance areas whereas they are less involved in supporting their investee companies in operational issues. Although the aim of this study was to discover the extent to which VCs value adding varies across countries, no theory was used to explain the VCs’ behaviour.

Recently, Gompers et al. (2020) conducted the most comprehensive study so far to investigate what VCs actually do in all aspects of VC involvement (from deal originating to exit) by surveying 885 VCs, representing 681 different VCFs. All VCs were asked to describe how they add value to their PCs. The findings suggested that VCs are highly engaged in supporting their PCs with respect to “strategic guidance (87%), connecting investors (72%), connecting customers (69%), operational guidance (65%), hiring board members (58%), and hiring employees (46%)” (ibid., p. 171). When asked to indicate which aspect of VC involvement contributed most to creating value, the VCs rated the post-investment value added as the second most important activity. While the Gompers et al. (2020) study provides in-depth insight into VCs’ investment practices for both academics and practitioners, highlights gaps in knowledge and provides avenues for future research, the study, like that of Gorman and Sahlman (1989), did not use any theory to understand the VCs practices.
2.3.2. Factors Influencing the VCs’ Involvement

Moving away from the assumption that VCFs are homogeneous, researchers over the last three decades have begun to reveal the variation in the VC value adding behaviour (De Clercq and Manigart, 2007; Manigart and Wright, 2013). Below, I discuss the three factors (PCs’ characteristics, VCs’ characteristics and external conditions) that drive the involvement of VCs, and their ability to add value that have been advanced in the literature.

2.3.2.1. The role of PC’s characteristics

Extant research highlights several PC (and/or their management team) characteristics that impact the VC’s level of involvement. Such characteristics include, agency risk (e.g. Barney et al., 1989; Sapienza and Gupta, 1994; Sapienza, Manigart and Vermeir, 1996), business risk (e.g. Barney et al., 1989), stage of investment (e.g. Gomez-Mejia, Balkin and Welbourne, 1990; Sapienza, 1992; e.g. Sapienza, Amason and Manigart, 1994; Elango et al., 1995; Sapienza, Manigart and Vermeir, 1996), venture innovativeness (e.g. Sapienza, Amason and Manigart, 1994), background of PC’s executives (e.g. Gomez-Mejia, Balkin and Welbourne, 1990), and the distance between VCs and PC team (e.g. Sapienza, Manigart and Vermeir, 1996).

As an illustration of the agency-risk factor, Barney et al. (1989) showed that when CEOs have equity stakes in their ventures, fewer VCs are represented in the ventures’ boards of directors. Evidence is available that a more hands-on approach is emphasized in early-stage ventures; for example, Sapienza (1992), Sapienza, Amason and Manigart (1994), Sapienza, Manigart and Vermeir (1996) and Hellmann and Puri (2002) all identified a greater need for venture support in the early stages than in the later stages, explaining that as uncertainty is high in early-stage investments, the degree of VCs’ influence is also high. In contrast, however, Elango et al. (1995) found no association between venture stage and VC involvement, while Gomez-Mejia, Balkin and Welbourne (1990) found that VCs spend more time with mature ventures.

In addition, researchers have shown that VC involvement is related not only to agency risk and venture stage, but also to other factors affecting VCs’ attention. For instance, Sapienza, Amason and Manigart (1994) examined the determinants of the level and nature of European VC involvement in new ventures, giving attention to three factors: venture innovativeness,
CEO venture experience\(^7\) and CEO industry experience\(^8\). They showed that VC investors were more involved in highly innovative ventures but found no support for the factors related to CEO experience. In a slightly later study, Sapienza, Manigart and Vermeir (1996) showed that VCs located geographically closer to their PCs engaged more deeply with these ventures.

### 2.3.2.2. The role of a VC’s characteristics

Researchers have found that the level of VC involvement is affected not only by the features of PCs but also by the structural and strategic features of the VCF and/or its executive team. Such characteristics include VC reputation (e.g. Timmons and Bygrave, 1986; Gompers, 1996), VCF size (e.g. Elango et al., 1995), human capital characteristics, such as VCs’ education and experience (e.g. Sapienza, Manigart and Vermeir, 1996; Dimov and Shepherd, 2005; Bottazzi, Da Rin and Hellmann, 2008), control rights and equity stake (e.g. Kaplan and Strömberg, 2004), portfolio management strategy (e.g. De Clercq and Fried, 2005), number of companies in VC portfolio (e.g. Jääskeläinen, Maula and Seppä, 2006; Fulghieri and Sevilir, 2009), and VCs’ selection behaviour (e.g. Knockaert and Vanacker, 2013).

For example, Elango et al. (1995) discovered that medium-sized VCFs provide more support for their venture companies relative to larger VCFs. With regard to VCs’ characteristics, Sapienza, Manigart and Vermeir (1996) found that the intensity of VCs’ interaction with CEOs is higher when VCs’ have more experience in the venture industry but lower when they have more experience in the VC industry. They also found, as expected, that the greater the general experience of VC partners in the venture industry and the more uncertainty in the venture, the more the VCs add value. Bottazzi, Da Rin and Hellmann (2008) noted another important human-capital characteristic related to the VC’s professional background: work experience prior to entering the VC industry. They found a positive relationship between prior work experience and VCFs’ activity level, particularly in terms of recruiting top management, helping companies to achieve their goals, and interacting with venture companies. It is likely, therefore, that VCs with prior business experience have a deeper understanding of the market and venture challenges. Regarding the effect of organizational structure (fund characteristics), Bottazzi, Da Rin and Hellmann (2008) found that private independent VCFs are more active.

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\(^7\) CEO venture experience measured whether a venture’s CEO have prior experience as the CEO of a start-up.

\(^8\) CEO industry experience is measured by the number of years of experience in the new venture’s industry.
than captive VC institutions, such as corporations, banks and governmental bodies. A novel feature of their study was the use of a direct measure of value-adding effects by looking at activities in individual firms.

Kaplan and Strömberg (2004) looked at how VC intervention and value adding support is related to control rights and equity stake by analysing 67 investment memoranda by 11 VCFs. They found, as predicted, that VC intervention (e.g. recruiting management) increases as VC control rights increase, whereas value adding support (e.g. strategic advice or customer introductions) increases as VC equity ownership increases. Jääskeläinen, Maula and Seppä (2006) showed that the portfolio size is likely to influence VC attention. To illustrate, the higher the number of companies in a VC portfolio, the less attention it provides to each company. Similarly, Fulghieri and Sevilir (2009) found that the size of the VC portfolio is likely to influence the division of time, attention, and resources devoted by a VC to each of its investee companies.

Knockaert and Vanacker (2013) studied the VCs’ selection behaviour and how it affects their involvement in value adding activities. They found that VCs who focus on technological criteria are more involved in providing value adding activities, compared to their peers, who focus on entrepreneurial team characteristics or financial criteria.

2.3.2.3. The role of external condition

Beside PCs’ and VCs’ characteristics, studies have shown that the geographical region or institutional context in which VCs operate influences the investor’s level of activity (e.g. Sapienza, Amason and Manigart, 1994; Sapienza, Manigart and Vermeir, 1996; Bruton, Fried and Manigart, 2005; Bonini, 2012). Sapienza, Manigart and Vermeir (1996) surveyed four major VC markets - France, the UK, the US and the Netherlands - to ascertain how and when VC investors vary their support for venture companies, and the value added by these differences. At that time, they found VCs in France to be less involved and adding the least value, whereas VCs in the U.S. and the U.K. were more involved and adding the greatest value.

In addition, the extent of VC involvement differs between continents; for example, it has been shown that European and Asian VC managers add less value than their American counterparts.
(Bottazzi and Da Rin, 2002; Bruton, Fried and Manigart, 2005). Furthermore, value-adding intensity varies between local and foreign VCs. For instance, Devigne et al. (2013) found that foreign VCFs that co-invest with domestic VCs are more involved in a strategic capacity, whereas domestic VCs provide more day to day assistance for investees. The VC behaviour is culturally relative, and hence, the institutional context may influence the level of involvement, because each country has its own specific cultural norms, rules and regulations.

2.3.3. Consequences of VCs’ Involvement

Studies exist which examine the impact of VC investment on PC related variables, such as access to financial resources, innovation, and growth. In regard to access to financial resources, Vanacker, Manigart and Meuleman (2014) showed that receiving VC funding from experienced investors alleviates the PC’s financing constraints. They illustrate that firms backed by an experienced VC raise, occasionally, more follow-on finance from a pool of investors. They also have more options to choose between investors in comparison to firms backed by an inexperienced VC. This is because an experienced VC normally has a strong network position, meaning that it can take advantage of its social capital and benefit its PCs in finding follow on funding (ibid.).

Moving on to the relationship between VC and innovation, Hellmann and Puri (2000) provide empirical evidence of the impact of VC on the outcomes of new firms. Their research compares 115 VC-backed and 57 non-VC-backed companies in the Silicon Valley district between 1994 and 1997. They found that VC-backed firms tend to bring products to market more quickly than non-VC-backed firms. The effect was found to be statistically significant for innovator companies and statistically insignificant for imitator companies. Therefore, this study highlights that VCs play different roles depending on the PCs strategies (innovator or imitator). Other studies have focused on examining the impact of VC involvement in patent activity, and contradictory views are held on this. Mann and Sager (2007), Bertoni, Croce and D’Adda (2010) and Arqué-Castells (2012), for example, report a positive relationship between VC-backed firms and patent activity. In contrast, Engel and Keilbach (2007) and Caselli, Gatti and

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9 Innovators are firms that are first movers to the market, introducing new products or services, whereas imitator firms are not first movers to the market, but may improve existing products and services (Hellmann and Puri, 2000).
Perrini (2009) suggest that VC involvement is not associated with an increase in patenting activity. As Manigart and Wright (2013, p.427) counsel, these contradictory findings require further investigation “as to whether they relate to institutional, sample, or sector differences”.

The impact that VCs have on the development of PCs has had some investigation. A prime example is the study completed by Bertoni, Colombo and Grilli (2011). They analysed the effect of VC financing on the growth of companies using a unique sample of a decade-spanning longitudinal data set (1994–2003) of 538 Italian, new technology-based companies, 58 of which were VC backed. They documented a positive association between VC backing and the growth of employment and sales of new technology-based companies. While most of the literature compares VC-backed companies with non-VC-backed companies to examine the impact of VC financing on the PC growth, a recent study by Quas, Martí and Reverte (2020) did something different. It studied and quantified the effect of value adding support on the growth performance of PCs using a large sample of small and medium-sized enterprises (SMEs) in Spain that were subject to a VC/participative loans investment between 2005 and 2013. The study compared 915 companies that received VC financing with 1,551 companies that received only participative loans, no value adding support. Results showed that, value adding support contributes yearly to increasing employment by 12.86%, total assets by 38.13% and sales by 54.03%. Also, the results showed that only the more experienced VCFs contribute with valuable value adding support.

Overall, most studies in the field of VCs’ value-adding activities have shown that, by default, VC involvement can add value to investee firms; however, no clear explanation is given of how exactly such value is added. In the following section, some of the research on the mechanism underlying the adding of value by a VC to an entrepreneur is reviewed.

2.3.4. Content and Process Aspect of VC–entrepreneur Relationship

De Clercq and Manigart (2007), and later, Manigart and Wright (2013), noted that no clear explanation was available about how exactly value is added. They proposed that the literature had previously treated the VC-entrepreneur relationship as a “black box”, with only a few researchers recently beginning to investigate the factors affecting the degree of value created. They identified two key categories of issue related to the VC–entrepreneur relationship: (1)
content-related issues pertaining to the type of information exchanged by VC and entrepreneur; and (2) process-related issues relating to the interaction between the two parties.

The argument in this stream of the research is that, for a VC to add value to a PC, first it must build a good relationship with said company to improve its understanding of the venture’s needs and operations (process aspects). This is also because “knowledge and meaning are always embedded in a social context – both created and sustained through ongoing relationships in such collectives” (Nahapiet and Ghoshal, 1998, p.253). Second, building a good relationship between the two parties does not guarantee that value will be added; therefore, the process of interaction between VCs and their PCs needs to be effective, as it depends on the resource base (e.g. knowledge and social capital) controlled by VC investors relative to the PCs’ needs, these being content aspects (Manigart and Wright, 2013).

In the following sections, the literature on the above-stated “black box” problem will be reviewed. In terms of process, some studies have focused on the role of social capital in the interaction between VCs and PCs; in terms of content, some studies have examined the importance of knowledge and learning in VC finance.

2.3.4.1. Process aspects in VC–entrepreneur relationship

De Clercq and Manigart (2007) argued that prior researchers investigating the VC-entrepreneur relationship focused on the monitoring role undertaken by VCs (e.g. Barry et al., 1990; Sahlman, 1990). This stream of literature relies on the agency framework to explain the relationship between the two parties: it is assumed that VCs monitor the behaviour of entrepreneurs to ensure that the latter use funding not opportunistically, in pursuit of self-interest, but in the best interests of the company. However, another stream of literature argues the importance of building a strong social relationship between the two parties with a full understanding of the venture’s operations and needs; this relationship is then believed to enhance venture value through value-adding activities.
In explaining why some investor-investee relationships are more effective than others, De Clercq and Manigart (2007) and Manigart and Wright (2013), highlighted the importance of four process-related issues: trust\(^{10}\), social interaction\(^{11}\), goal congruence\(^{12}\) and commitment\(^{13}\). De Clercq and Sapienza (2006) examined the connection between relational capital and VCs’ commitment in terms of perceived company performance. They found support for the hypothesis that the higher the level of three social-capital dimensions (trust embedded in VC-entrepreneur dyad, degree of social interaction in VC-entrepreneur dyad, and extent of goal congruence in the relationship), the greater the perceived performance. Furthermore, they provide convincing empirical evidence of a positive relationship between VC commitment and the performance of VCs’ investment. This is attributed to the fact that trust, social interaction, goal congruence and VCs’ commitment each, facilitate a VCF’s ability to gain an understanding of the venture’s needs and operations by increasing the amount and quality of knowledge exchange between the two parties, thereby enhancing the value-added outcome.

The importance of trust in the VC-entrepreneur relationship was acknowledged in early research (De Clercq and Manigart, 2007). Sapienza (1989) showed that successful VCs attempted to build trust among entrepreneurial team members. It is also worth noting that goal congruence is widely considered an essential determinant of the success of a venture (Bruton, Fried and Hisrich, 2000; Shepherd and Zacharakis, 2001; Parhankangas, Landström and Smith, 2005). Furthermore, Sapienza (1992) found that the greater the frequency of interaction between VC practitioners and CEOs, the higher the value of VCs’ involvement.

2.3.4.2. Content aspects in VC–entrepreneur relationship

A key content-related issue pertains to VCs’ knowledge and experience. The VC knowledge base comprises internal (experiential) knowledge, inherited knowledge and external knowledge (De Prijcker et al., 2012). Experiential knowledge refers to a VC’s experience as acquired

\(^{10}\) Trust is defined by Boon and Holmes (1991, p.194) as “a state involving confident positive expectation about another’s motives with respect to oneself in situations entailing risk”.

\(^{11}\) Social interaction refers to the contact that takes place between two exchange partners for purposes other than instrumental (De Clercq and Sapienza, 2006).

\(^{12}\) Goal congruence refers to the extent to which two exchange partners share similar goals and values in their relationship (Nahapiet and Ghoshal, 1998).

\(^{13}\) Commitment reflects the strength of the relational collaboration between two parties (De Clercq and Manigart, 2007, p.207).
through prior investments by the VCF, while inherited knowledge refers to a VC’s professional experience or educational background, and external knowledge pertains to knowledge gained through the VCF network (ibid.). To decrease investment uncertainty, some VCs prefer to specialise in a particular industry or developmental phase (for example, Gupta and Sapienza, 1992; Norton and Tenenbaum, 1993; Sapienza and Gupta, 1994; De Clercq et al., 2001; De Clercq and Sapienza, 2001; Lockett and Wright, 2001). Research on VCs has shown that VCs’ development of specialized expertise increases the performance of PCs; see, for example, De Clercq and Dimov (2003) and later De Clercq and Dimov (2008). Prior research suggests that VCs in possession of specific knowledge are invaluable to investee companies as they enhance the potential for favourable investment outcomes. For example, VCs with greater experience add value to their PCs because they have a deeper understanding of the market and consumer needs.

Research has drawn attention to inherited knowledge as an important driver of PC performance. For instance, Dimov and Shepherd (2005) examined the influence of VCs’ education and experience on the performance of PCs. They found that VCFs with more general human-capital partners bring about more successful outcomes, while VCs with specific human-capital partners are associated with fewer bankruptcies. Similarly, Bottazzi, Da Rin and Hellmann (2008) found that VCs’ level of activity is more closely associated with the number of their partners who possess business experience than with VCs’ own experience.

In addition to experiential knowledge and inherited knowledge, external knowledge accessed through VC syndication is also valuable. For example, De Clercq and Dimov (2008), who examined the impact of external knowledge on the performance of 200 U.S. VC-backed firms, proved that knowledge-driven strategies affect investment outcomes. They discovered a positive association between co-investment with syndicate partners and investee-company

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14 Refer to science and humanities education.
15 Refer to MBA, law education, and consulting experience.
16 Experience before becoming VC investor.
17 Experience as VC investor.
18 Syndication refers to the co-investment of more than one VCF in an investee company with joint payoffs (Lerner, 1994).
performance. External knowledge access was found to be more beneficial in cases of incongruity between the firm’s expertise and its activities.

Furthermore, as VCs and entrepreneurs may have different spheres of knowledge, the two parties can benefit from each other’s expertise and skills. Therefore, it is necessary to build an effective communication route for the exchange and processing of knowledge between the two (De Clercq and Manigart, 2007). It has been argued that effective communication between a VC and an entrepreneur may enhance the quality and amount of knowledge and information exchange between the two parties, aid the processing of complicated knowledge, and enhance mutual understanding, which in turn can help to enhance value creation for the venture (Sapienza, 1992; Sapienza, Manigart and Vermeir, 1996; De Clercq and Sapienza, 2005). Two main theoretical perspectives, namely a knowledge-based view (KBV) and learning theory, have been used in the literature to explain why some VC-entrepreneur relationships are more effective than others (De Clercq and Manigart, 2007).

Overall, most early research on VC was descriptive due to a lack of knowledge of what VC investors do (e.g. Gorman and Sahlman, 1989; Macmillan, Kulow and Khoylian, 1989). This was followed by more theory-driven research describing the nature and intensity of VCs’ interaction with entrepreneurs, with reference to agency theory (e.g. Sapienza and Gupta, 1994; Lerner, 1995), and resource-dependence theory (e.g. Devigne et al., 2013; Quas, Martí and Reverte, 2020). Also, explaining the mechanism underlying value adding in the VC-entrepreneur dyad by focusing on the content and processes perspective, with reference to knowledge based view (e.g. De Clercq and Dimov, 2008), human capital theory (e.g. Dimov and Shepherd, 2005) and social capital theory (e.g. De Clercq and Sapienza, 2006).

Next, I will present and discuss the alternative perspective to studying VC literature, that is the practice-based approach. Also, I will show how this approach increase our understanding and provide new fruitful interpretations of the VCs value adding phenomena.

2.4. ALTERNATIVE APPROACH FOR STUDYING VC

After conducting a detailed review of the literature on VCs’ value adding, it was clear that prior VC research has relied on ‘homo economicus’ tradition (Reckwitz, 2002) or an ‘individualist’
approach (Schatzki, 2005). Researchers who take this approach give focal intention to activity as driven by an individual calculus of information, decisions, and incentives. The methodological individualist helps to determine and explain the relationships between variables and generalize the results, as well as providing representative descriptions at a micro level. The down side is that this approach can “attribute too much to individual human actors, neglecting macro phenomena” (Whittington, 2006, p.614). Indeed, VCs’ activity can be explained from both external and internal elements which are simply not addressed in micro-level research. However, VC studies have been slow to seek a full understanding of VCs’ activity at both micro and macro level. Hence, it is important to investigate VC activity not only by looking at the individual facts, but also by focusing on the larger forces that influence the individual activity.

The vast majority of studies of VCs’ post-investment activities have treated VCs as fixed entities with objective properties. They have focused on identifying factors that cause or correlate with VCs’ level of involvement and on assessing the consequences of VCs’ value-adding activities. The assumption underlying this view is that human beings and the world are arranged according to subject–object relationships. While these studies have increased our knowledge in VC value adding phenomena, how the VCF social, cultural and institutional context can shape the VC behaviour arguably remains under-theorized.

Research design grounded in a positivist epistemology has predominantly used to explain VC phenomena in previous literature in the VC field. To illustrate, most knowledge of the value adding roles and how VCs add value to their PCs comes from studies that have used survey data and economic or statistical analysis. While survey data and economic approaches or natural science helps to explain some relationships between variables and behaviours, it limits provision of a holistic explanation of the phenomena. This is because the survey, as a tool, restricts responses and studies very limited and partial relations, hence, it fails to allow for more comprehensive understanding of the phenomena under study, in this case, VCs’ value-adding activity.

As indicated in the previous section (section 2.3), VC researchers have used management, finance and economic theories to understand VC phenomena. Most of the theories that have
been used in VC research to explain behaviour, structure and performance differences are based on the premises of the scientific rationality lens (Sandberg and Tsoukas, 2011). For example, numerous researchers have used agency theory as a framework for exploration of VC behaviour, such as Sapienza and Gupta (1994), Sapienza, Manigart and Vermeir (1996) and Lerner (1995). Manigart et al. (2002) and Quas, Martí and Reverte (2020) have applied the resource-based view framework to the VC context, whereas De Clercq and Dimov (2003, 2008) use the KBV in the VC context. De Clercq and Sapienza (2006) use the relational-capital perspective to explain the association between relational capital, created through social interaction between VCs and entrepreneurs, and the performance of VC investments. All the above theories focus on analysing and explaining the social phenomena by showing how it results from individual actions. This shows once more that VC researchers come from a different conceptual framework and that they have a specific view of how to approach phenomena.

However, Sandberg and Tsoukas (2011, p.341) have shown that management and organization theories do not fully explain the logic of practice, because these theories are filtered through the scientific rationality lens. They identified three problems with the assumptions underlying scientific rationality: “(1) it underestimates the meaningful totality into which practitioners are immersed, (2) it ignores the situational uniqueness that is characteristic of the tasks practitioners do, and (3) it abstracts away from time as experienced by practitioners”. This means that the names given to the scientific concepts have no meaning when one tries to apply them in a practical sense. The scientific concepts do not give access. To illustrate, VCFs in Silicon Valley differ from VCFs in Dubai and if we put a Silicon Valley VCF in Dubai the value-adding activity changes. Consequently, Sandberg and Tsoukas (2011) call for theories that are more relevant to management practice and able to connect with management practice and its practitioners. To accommodate this, they developed an alternative framework: practice rationality.

Next, in section 2.4.1, I will explain practice theories, their philosophical underpinnings and three commonalities. Then, to illustrate, I will present examples of studies in management and organization that have adopted a practice approach. In section 2.4.2, I will present and discuss the key elements of Schatzki’s practice theory and explain my reasons for adopting it.
2.4.1. Theoretical Underpinnings of Practice Theories

Social ontology “examines the nature and basic structure of social life and social phenomena” (Schatzki, 2005, p.465). The main dominant forms of social ontology are individualism and societism. Individualists “maintain that social phenomena are either constructions out of or constructions of individual people and — on some versions — their relations”, whereas societists hold that social phenomena are “complex [ ] set of individuals involved” or, in other words, “a system of relations among structurally defined positions” (ibid., p. 466). Recent decades have witnessed the emergence of an alternative approach of social ontology, namely site ontology, which according to (Schatzki, 2005, p.467) “maintain that social life, by which [he] mean human coexistence, is inherently tied to a kind of context in which it transpires”.

The practice approach occupies a position between the individualist and societist approaches. The aim of practice theorists is to overcome the dichotomy between individualism and societism (Whittington, 2006). In this regard, a practice-theory perspective “respect[s] both the efforts of individual activity and the workings of the social” (Whittington, 2006, p.617). Figure 2.3 illustrates the differences between the three social ontologies: individualism, site and societism, as explained by (Whittington, 2006).

![Figure 2.3: Representation of Social Ontology Mapped to VC Research](image-url)
Reckwitz (2002) introduced practice theory as a specific form of cultural theory. He started his paper by positioning cultural theory between the two traditions of social theory: the ‘homo economicus’ and the ‘homo sociologicus’. While the former situated the social “on the level of the intended or unintended product of subjective interests – a common will or distribution of values on ‘markets’”, the former placed the social “in a consensus of norms and roles” (ibid., p. 246). He emphasises that “the newness of the cultural theories consists in explaining and understanding actions by reconstructing the symbolic structures of knowledge which enable and constrain the agents to interpret the world according to certain forms, and to behave in corresponding ways” (ibid., p. 245).

Basically, cultural theory is concerned with making meaning that is more specific to people based on the activities they are involved in and the language they use. For example, a term, such as “h-index” is a specific term in academia that makes sense to academics and researchers and may guide their activity but not to those outside academia. This is the idea of the symbolic that is brought to the fore by cultural theory. It makes sense of things in more local sense, related to a particular activity that people do and that is what practice is. Reckwitz (2002) then distinguished the features of practice theory from the features of the other three alternatives of social and cultural theory, that is culturalist mentalism, textualism and intersubjectivism. As a distinct form of social theory, practice theory locates the social neither in the mental faculties of individuals nor in the values and norms of social structures but from the site of the social is the symbolic interaction arising from distinct practices (ibid.).

Before advancing further arguments for practice theory, it is important to highlight that it is not truly ‘a theory’ in the sense that it is used as framework to explain or understand behaviour, structure or performance differences. Instead, practice theories are “ontological projects in the sense that they attempt to provide a new vocabulary to describe the world and to populate the world with specific ‘units of analysis’; that is, practices” (Nicolini, 2013, p.9). In other words, practice theory, practice-based approach or practice-based perspective is not a unified theory but a device for doing social theory Nicolini (2017). This approach is exemplified by the work of Pierre Bourdieu, Michel de Certeau, Michel Foucault and Anthony Giddens, among others (Reckwitz, 2002; Nicolini, 2013).
Although there is no one view of practice theory, there are, according to Nicolini (2017), three shared assumptions underpinning practice approaches. First of all, practices are key to understanding and explaining social and organizational phenomena carried out by multiple people. Second, they are performed as part of conventionalized ways of doing, they do not happen in isolation, as they are part of longer sequences or larger wholes. Third, their configurations and dynamics can be used to explain other phenomena, such as meaning, knowledgeability, social change and sustainability.

The practice theory approach has attracted heightened attention and has been adopted as the major framework for empirical research in management and organization research, ranging from studies of strategic management (e.g. Jarzabkowski, 2003; Whittington, 2003), technology (e.g. Orlikowski, 2000), institutional change (e.g. Seo and Creed, 2002) and entrepreneurship (e.g. Keating, Geiger and McLoughlin, 2014; Gross and Geiger, 2017), to studies of marketing (e.g. Allen, 2002) and accounting (e.g. Ahrens and Chapman, 2007). In general, the aim of these studies is to understand actual human activity, that is, what people actually do, in different fields (Whittington, 2006). Despite the increase interest in adopting the practice-based approach in the management and organization field, it has not yet been adopted as a theoretical lens within the VC literature.

In the next section, I will discuss some key aspects of Schatzki’s practice theory. The discussion is intentionally selective to suit the purpose of this study. These aspects will be then used in the Finding chapters (4, 5 and 6) to theorize Horizon Venture’s value-adding practices.

2.4.2. Schatzki’s Practice Theory

Schatzki (2005) proposes the theory of site ontology to examine social life. It occupies a middle position between the two social ontological camps: individualism and societism (ibid.). Site ontology according to Schatzki (2005) maintains that social phenomena need to be analysed and explained in their social sites (contexts) because human coexistence retains a natural link to the kind of context (the site) it originates from. By ‘site’ Schatzki (2005, pp.467-468) means “arenas or broader sets of phenomena as part of which something — a building, an institution, an event — exists or occurs”. Examples of sites in Schatzki’s work include the Nasdaq market, Shaker medicinal herbs and a university’s academic department.
Schatzki (2005, p.471) describes the social site as “nexuses of practices and material arrangements”. He emphasises three important tasks to be undertaken in order to understand a site. The first task is to identify the actions that comprise a site, the second is to identify “practice-arrangement bundles” these actions belong to, and investigate whether the bundles cohere or compete. The third and final task is to identify other nexuses of practice-arrangement bundles, to which the nexuses composing the site studied is closely tied.

He defined practices as an “open-ended spatial-temporal manifold of actions” (Schatzki, 2002, p.72). A social activity is considered a practice when it continues in time, many people do it, and it has a history (Nicolini and Monteiro, 2017). Examples of practices include cooking practices, educational practices, trading practices and pitching practices19. Schatzki further explains practices as sets of doings and sayings, tasks, and projects. In Schatzki’s words, practice constitutes “a set of doings and sayings organized by a pool of understandings, a set of rules, and a teleoffective structure” (Schatzki, Knorr-Cetina and Savigny, 2001, p.61). At a basic level, a practice is a set of doings and sayings (e.g. looking at potential investment’s financial model, looking up information on competitors, and writing in notebooks). Such a set of doings and sayings can, in turn, be part of a task (e.g. evaluating a prospective company). The several tasks, in turn, are usually involved in accomplishment of a project (e.g. screening an initial venture).

Schatzki’s practices link a set of actions through practical understandings, rules, teleoffective structures and general understandings. The first, practical understandings, involves “knowing how to X, knowing how to identify X-ings, and knowing how to prompt as well respond to X-ings” Schatzki (2002, p.77). Schatzki emphasises that practical understanding never determines actions, rather it “executes the actions that practical intelligibility singles out” (Schatzki, 2002, p.79) and practical intelligibility “is what makes sense to a person to do” (Ibid., p. 75). The second, rules, are “explicit formulations, principles, precepts, and instructions that enjoin, direct, or remonstrate people to perform specific actions” Schatzki (2002, p.79). The third, a teleoffective structure “is a range of normativized and hierarchically ordered ends, projects, and tasks, to varying degrees allied with normativized

19 Wherein VCs attend entrepreneurs’ presentations to prospect new companies for investment.
emotions and even moods” (ibid., p. 80). The fourth and final dimension, general understandings, are “abstract senses...They are not ends for which people strive but senses of the worth, value, nature, or place of things, which infuse and are expressed in people’s doings and sayings” (Schatzki, 2012, p.16). These four together form the framework of practice organization.

Moving on to the material arrangements, Schatzki defines these as “set-ups of material objects”, classified into human beings, artefacts, other organisms, and things (Schatzki, 2005, p.472). He explains each of these entities in the following way. By people, he means human beings to whom “actions and mental conditions as well as self-consciousness, gender, and identity are ascribed”, artefacts are “products of human action”, living organisms are “life forms other than humans”, and things are “non-living entities whose being is not the result of human activity” (Schatzki, 2002, p.22). He further explains the relationship between practices and material arrangements, whereas practices “effect, use, give meaning to, and are inseparable from [material] arrangements”, material arrangements “channel, prefigure, facilitate, and are essential to practices” (Schatzki, 2012, p.4).

I used Schatzki’s practice theory over other theories for three reasons. First, I concur with Nicolini (2017, p.15) that Schatzki’s is “one of the strongest and far-reaching versions of practice theories available to date”. Second, Schatzki adds analytic categories (i.e. understandings, rules, and teleoaffective structures) to further understand the social order. Schatzki, therefore, unpacks more what lies behind practices and provides more detailed articulation. This gives Schatzki’s theory a stronger position in comparison with those of Bourdieu and Giddens, who only articulate one analytic category, that is, habitus and structuration, respectively. Third, Schatzki made the practices’ teloi a main component of the practice organization. To this end, I use Schatzki’s practice theory as a sense-making tool to gain a distinctive and holistic understanding of VCs’ value adding work: rather than a fixed entity with objective properties, I see such work as the unfolding of daily practices (De Clercq and Voronov, 2009).

As such, this study offers a different locus of inquiry into VC activities. While it continues to accept the primacy of individual actions, it locates the meaning of such actions in a wider
context of social practices. The practice-theory perspective thus, offers three main advantages for this study. First, it enables us to ‘zoom in’ and ‘zoom out’, where zooming in entails focusing on individual practices and their constituting elements; and zooming out entails understanding the practices in their wider social context (Nicolini, 2009). That is to say, the practice perspective allows a phenomenon to be appreciated as a whole through recognizing the contributions of its constituent parts. Second, this approach overcomes the drawbacks of methodological individualism by offering a rich methodology that reveals the connections between social activities and prevailing practices, rather than focusing solely on activities. Another important advantage is a shift in the unit of analysis (or the focus) of empirical research, from individuals or systems to social practices.

The rest of this chapter discusses and describes the MENA region and pays a particular attention to the local context of Dubai.

2.5. OVERVIEW OF THE MENA CONTEXT

The MENA (Middle East and North Africa) region covers an extensive area from Morocco, in northwest Africa, to Iran, in southwest Asia, from the Mediterranean Sea to the Sahara Desert. The region has a combined land area of 15 million square kilometers. It is estimated to have over 336 million inhabitants, which is six percent of the world’s population. Although there is no unified list of the MENA countries, according to the World Bank (2021), it comprises nineteen countries, namely: Algeria, Bahrain, Djibouti, Egypt, Iraq, Iran, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, the UAE, and Yemen.

The strategic geographic location of the MENA region, connecting the continents of Asia and Africa, with access to global markets, its size, its human and natural resources, gives it strategic importance (El-Erian et al., 1996). Trade, and economic and financial connections with industrial countries, have long been pivotal to the region (for a review of trade and investment trends in the MENA region, see Saidi and Prasad, 2018). It is a place abundant in natural resources (e.g. crude oil, natural gas, nonfuel minerals and nonmineral resources) and holds a large share of the global supply of petroleum and export services. Currently, the region holds 41 percent of the world’s proven petroleum reserves (OPEC, 2020a) and 61 percent of the
world’s gas (OPEC, 2020b). Indeed, eight of the MENA countries - Algeria, Iraq, Iran, Saudi Arabia, Kuwait, Libya, Qatar and the UAE - are members of the Organization of the Petroleum Exporting Countries (OPEC). OPEC’s main function is to negotiate and unite the petroleum policies of member countries and ensure oil market stability for all parties (i.e., producers, consumers, investors). Therefore, membership gives countries a critical role in petroleum policy making.

Countries in the MENA region have similar cultures, language, and other general characteristics which tie the region together and give it its identity (Abed and Davoodi, 2003). Arabic is the official language of the MENA countries, except in Iran where the first language is Persian. The major religious group is Muslim along with smaller minority religions in several countries. Statistics from 2010 showed the region as having a population that was 93 percent Muslim, with Christians and Jews, making up a further six percent of the remainder (Statista, 2014).

However, MENA countries also differ significantly in key respects. They vary widely in terms of wealth, size, stage of economic development, population, income level and living standards (El-Erian et al., 1996). To demonstrate the range, it is useful to compare the largest economy, Saudi Arabia, to the smallest, Gaza and the West Bank. According to the World Bank (2020a), the gross domestic product (GDP) of Saudi Arabia was US$ 792.967 billion in 2019, while that of Gaza and the West Bank was just US$ 16.277 billion (for 2018)\(^{20}\). The GDP per capita in 2019 for countries in the region varied from US$ 62,088.1 for Qatar to US$ 774.3 for Yemen (World Bank, 2020d). Looking at the business climate in the MENA region, specifically the indicators which reflect ease of doing business, there are clear differences between MENA countries (see Table 2.1). For instance, the UAE ranked 1\(^{st}\) out of 20 MENA economies and scored highly across all indicators, whereas Yemen scored 20\(^{th}\) and scored poorly across all indicators.

\(^{20}\) No data was found for West Bank and Gaza in 2019.
Given that MENA countries diverge economically and financially, they share some common structural economic features which impact their economic performance (El-Erian et al., 1996). First, the public sector plays a substantial role in the region’s economic activity, whereas the role of the private sector is negligible. That is, in MENA countries, the state manages and controls economic activity and employs more citizens than the private sector. For example, the majority of Saudi citizens are employed by the public sector. This is because the Saudi public sector provides 58% higher wages than its private sector (General Authority for Statistics, 2018) and offers greater job security.

Second, the MENA region experiences high intra-regional interaction on labor flows and a low level on trade in goods and services. The high level of labor movement within the region is due in a large part to the increased oil prices in the 1970s which exploded investment in the oil-
exporting countries and their subsequent growth (Abed and Davoodi, 2003). That is, as the growth rate increased in the oil-exporting countries, specifically the Gulf Cooperation Council (GCC)\(^{21}\) countries, it became a rich source of employment for the non-oil economies (e.g. Egypt, Syria and Yemen) and attracted workers due to the proximity as well as the cultural, language, and religious ties.

The third structural feature of the MENA region is that the economy of the oil-exporting countries is less diversified, relying mainly on a single commodity, such as oil or gas. In other words, individual oil-exporting countries engage heavily in a single commodity trade and this is the main government revenue of these countries. For instance, oil and gas contributed approximately 50% to the GDP in the GCC countries. However, such reliance on natural resources is not always associated with sustainable economic growth and welfare. This is because natural resources are sensitive to the fluctuations of commodity prices on the world market, leaving them more exposed to external shocks. Losses caused by these could have significant knock-on effects on government expenditure. The non-oil producing countries depend on external financing, such as development aid or endowments from other countries or organizations, and capital flows and remittances from the oil-economies (Abed and Davoodi, 2003).

The fourth feature is that the level of investment in general and of foreign direct investment (FDI) in particular, is low in most of the MENA countries. This is partly due to the geopolitical situation of the region (e.g. civil wars in Syria, Yemen and Libya), as investors prefer to invest in less fragile contexts (for a review of FDI trends in the MENA region, see Garin and Sanchez-Bella, 2018). According to the World Bank (2020c), there has been a marked a decline in the past decade in foreign investment in the MENA region. Its report shows a twenty-five billion dollar drop in investment between 2009 (US$ 83.845 billion) and 2019 (US$ 58.313 billion). Common structural economic features across the region (e.g. excessive resource dependence) along with a set of more dynamic challenges (e.g. rapid population growth, high unemployment rate) affect MENA countries’ economic performance. Having an understanding of this has

\(^{21}\) The GCC is a transnational economic and political union that is made up of all Arab states that constitute the Arabian Gulf- Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates - except Iraq.
generated pressure for economic and fiscal reforms and led some governments to radically change their policies. Such reforms have included implementing policy measures to diversify a country’s economy, attracting foreign and domestic investors, and enhancing financial markets. Governments have also liberalized trade regimes, privatized and deregulated economic activity, reformed public expenditure and empowered the private sector. MENA governments recognize the integral role played by start-up businesses in fostering economic growth. Hence, since 2010 multiple initiatives have been launched and strategies developed to nurture and support the region’s entrepreneurship ecosystem (International Monetary Fund, 2019). One example of a broader strategy is the Saudi 2030 vision (national development vision) and another is the UAE vision 2021. These serve to improve business policies for SMEs and entrepreneurs, increase the availability of capital, enhance legal and regulatory frameworks, and facilitate access to capital.

As discussed previously, the geopolitical tensions and economic challenges of the MENA region are well known. These difficulties have led many citizens to migrate from their home countries to other countries, either in or outside the region, for work or study. In the MENA region, the city of Dubai has numerous attractions for investors, specialists, aspiring entrepreneurs, and outstanding students within the MENA region. It is known for its stable economy and political system, friendly regulations, sound infrastructure, and lively social life. The city is particularly attractive to incomers from other MENA nations, who understand the intricacies and nuances of its culture. Dubai was one of the first cities to create an environment conducive to the flourishing of SMEs. In the following subsections, I outline and discuss how Dubai has become the centre of foreign investment, a key destination for business, and a hub for VC and entrepreneurship in the MENA region.

Interestingly, its origins lie in another natural resource, pearls. Pearl fishing was central to the UAE’s economy from the 5th millennium BC until the Great Depression of the 1930s and the growth of the Japanese cultured pearl industry (for comprehensive review of pearling history in the Gulf Countries, see Carter, 2005). Most of the UAE’s population were involved

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22 In 2019, archaeologists in Abu Dhabi found the oldest natural pearl at a Neolithic site on Marawah Island (Debusmann, 2019).
in and profited from the pearling industry, whether this was through financing, diving, trading, merchandising or shipbuilding (Arabian Business, 2019). The industry attracted divers from across the MENA region (e.g. GCC countries and Yemen) and merchants from India, Iran, Europe and other MENA countries (ibid). This industry was instrumental in fostering the concept of international trade, finance and banking in Dubai. Abdullah Al Ghurair (Chairman of Mashreq Bank in Dubai), who co-founded the first privately owned banks in the UAE in 1967, reflected in a recent interview on how the UAE’s pearling industry developed the financial system and international trade in the UAE (Stanley, 2018). He also drew attention to the role of families in setting up family banks, to finance not only the pearl hunting business, but also the other businesses that evolved around it, such as shipbuilding.

Thus, an early example of Dubai’s VC investment can be found in the pearling industry. Risk-taking merchants sponsored the expeditions of entrepreneurs for pearl hunting, which was regarded as a highly profitable VC investment at the time. Pearl diving involved high risk (i.e. burst eardrums, death by drowning) for high potential rewards. Similar to the current VC structure, the pearling activity had two main players: entrepreneurs, who had ideas but needed funding, and investors, who sought high returns on the capital they allocated. However, because there were no capital markets at that time, there was no intermediary role for VCs. Hence, entrepreneurs were able to fundraise for their ventures directly from investors. The pearling ship was theoretically the PC and financiers could invest in multiple ships for the promise of good fortune. The pearling ship consisted of crew members with different responsibilities. Members included a captain, divers, divers’ assistants (e.g. rope pullers), singers (to lift the spirit of the divers) and assistant members (e.g. cookers, sailors). After financing the venture, the pearl hunting followed a process which normally took a couple of months. First, the captain had to find the pearl bank locations (i.e. a rich oyster bed). Then the divers, with assistance, collected the molluscs. The molluscs were then opened and the pearls examined. After that, the captain had to deliver the pearls to the investors who had financed their pearl hunting activity. The final stage was to sell or export the pearls in order to gain profit.

In the last forty years, Dubai has established a number of centres, cities (e.g. smart city, media city), and initiatives. The purpose of this was to attract foreign investment, foster its business and financial environment, boost the region’s entrepreneurship ecosystem, and, ultimately,
stimulate economic growth. A notable example is the Dubai International Finance Centre (DIFC), which was set up to grow and develop the financial sector. It was established in 2004 as a special economic zone with competitive regulations and procedures. It is subject to different economic laws and regulations from the rest of the country, and it has its own independent regulator and judiciary. Being designated a special economic zone enables the DIFC to offer incentives to encourage and support the growth of the financial industry. For example, it permits 100% foreign ownership and capital repatriation, and offers tax efficiencies (e.g. exempting clients from paying corporate tax for 50 years). According to the website (accessed October 2020), there are 2,584 companies registered with the DIFC, with a workforce of more than 25,000.

The DIFC has become a financial hub not only for the MENA region but also for other subregions of Africa and South Asia. Its business areas include banking, brokerage services, insurance, wealth management, private equity, Islamic finance, and financial technology (fintech\(^\text{23}\)). The centre seeks new opportunities to develop the financial services landscape. One way it achieves this is through the DIFC Academy. The Academy offers training courses, workshops, and programs to help financial service practitioners develop their knowledge and enhance their skillsets. For example, it delivers professional development (e.g. international law qualifications) and higher education courses (e.g. MBA programs) by partnering with leading academic institutions and educational organizations. Another example of a DIFC initiative was the launch, in 2017, of the fintech accelerator program, ‘FinTech Hive’. The program’s aim is to nurture fintech in the region by offering targeted support to help startups develop fintech solutions. It supports startups by enhancing entrepreneurs’ skillsets, arranging for mentorship by financial and insurance institutions, connecting entrepreneurs with financial stakeholders, and offering co-working space.

The DIFC plays a key role in driving investment that strengthens the regional entrepreneurship ecosystem (DIFC, 2018). Its laws and regulations are conducive to the emergence and operation of VC funds in Dubai. For instance, it allows multiple fund structures (i.e. companies) to be registered as open-ended, closed-ended, or GP–LP structures, and offers them

\(^{23}\) Fintech refers to technologies designed to enhance financial services and processes for business use.
different licensing options. VC funds in the DIFC are closed-ended for a fixed time period and are structured as either closed-ended investment companies or partnerships. The first VC fund licensed by the Dubai Financial Services Authority was “MEVF I”, managed by Middle East Venture Partners, established in 2010.

Alongside its reputation as a financial hub, Dubai attracts business in areas such as media, content, tourism, hospitality, and technology. World-class higher education institutions, such as London Business School, Cass Business School, and Harvard Medical School, have also established branch campuses in Dubai. According to the World Bank (2020b), the UAE ranks 1st in the MENA region and 16th in the world in terms of ease of doing business. It is also the largest beneficiary of foreign investment in the Middle East (Mohamed, 2019). These successes can be attributed to its well-established infrastructure, stable political system, efficient financial system, liberal trade policy, and free zones (KPMG Lower Gulf, 2020).

Dubai plays a vital role in enhancing the entrepreneurship and SME ecosystem through business accelerator programs (e.g. Dubai Future Accelerators), VCFs, entrepreneurial events (e.g. the Arab Startup Competition), innovation centers in universities, and other means. Its government also fosters entrepreneurship through legislative means, for example, by offering specific visas to the founders of start-up businesses to make the application process simpler. These combined efforts have helped establish a vibrant environment for the growth of startups, and this vibrancy continues to draw entrepreneurs to the UAE to launch their businesses, which in turn helps to increase Dubai’s GDP.

To conclude, Dubai is an emerging hub for startups in the region, attracting both local and international entrepreneurs. Startups are usually set up in places where opportunities are readily available. They require appropriate infrastructure, a market for their products and services, and

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24 Dubai has set up twenty free zones to attract foreign businesses to Dubai. It focuses on a number of sectors, including financial services (e.g. the DIFC), ports and logistics (e.g. Jebel Ali Free Zone and Dubai Airport Free Zone), telecommunications, IT, and multi-industry business (e.g. Dubai Internet City and Dubai Multi Commodities Centre). Each free zone has its own rules and regulations. The free zones offer a number of incentives (e.g. permitting 100% foreign investment) and provide an environment conducive to networking and collaboration.

25 According to Nazeer (2017), the Arab Startup Competition has played a major role in the development of the entrepreneurship ecosystem in the MENA region.
access to resources (e.g. skilled talent, funding). Unsurprisingly therefore, Dubai, which can readily meet all such requirements, has become an attractive environment for business and startups.

2.6. CONCLUSION

This chapter reviewed the extant literature on VC value adding, highlighted the gaps in knowledge and presented an alternative approach (practice perspective) to studying VC. Section 2.2 discusses the approaches to valuation in finance. Section 2.3 presents the traditional approach to studying VCs value adding activity. In particular, I reviewed key points of the four research streams in VC value adding literature (forms of VC value added, determinants of VCs’ level of involvement, consequences of VC investment, content and process perspective of the VC–entrepreneur relationship).

Section 2.4 highlights the gap in the VC research and introduces the alternative approach to study VCs value adding activity, one based on the ‘site’ ontology, to gain a different insight into the VC value adding phenomenon. Specifically, it illustrates four critical point in the literature. That is, the literature: (1) has relied on an ‘individualist’ approach, (2) it is grounded in a positivist epistemology, (3) it has treated VCs as fixed entities with objective properties and (4) it has relied on theories that are based on the scientific rationality lens.

Studying VCs value adding is part of the scholarly practice of understanding. What scholars are doing is a practice and what they study is a practice. They have understandings, rules, and teleoaffective structures. Their rules require the need to study things in an objective way. Their teleoaffective structure is that they apply the scientific rationality lens. Therefore, their epistemology is the positivist methodology. The majority of studies are concerned with explaining and predicting rather than understanding. Therefore, it leaves the gap that I outlined.

Section 2.4.1 discusses the philosophical underpinnings of practice theories, and section 2.4.2 presents the key elements of Schatzki’s practice theory and gives the rationale for my decision to adopt Schatzki’s practice theory. Finally, section 2.5 gives an overview of the regional and local contemporary context of Dubai.
As a consequence, in my investigation into what VCs do to add value to their PCs, my analysis is at VC practice level rather than at the level of the VCF or individual VC. On this basis, the following chapter will discuss the research methodology of this thesis.
Chapter 3: METHODOLOGY

3.1. INTRODUCTION

The purpose of this chapter is to describe and justify the key decisions made in relation to the research methodology, to identify VC value-adding practices and explore their constitutive elements and continuous enactment. The previous chapter has explained how the practice-based approach is suggested as means to provide an alternative approach to studying the VCs value-adding phenomena. It is important to highlight that adopting this approach informs the research methodology (research philosophy, design and methods).

The rest of the chapter is structured as follows: section 3.2 details the research philosophy for the thesis and section 3.3 provides a rationale for the research design of this thesis. Section 3.4 presents and explains the cases selection. Sections 3.5 and 3.6 detail the method for the two case studies, and the latter discusses the research quality, ethical considerations and research reflection. Finally, the concluding section summarizes the chapter’s main points.

3.2. RESEARCH PHILOSOPHY

This section discusses the philosophical position underpinning the thesis. The aim of this thesis is to investigate “everyday activity, its human embodiment, material mediation, embeddedness in socio-political context and enactment of social structures” (Orlikowski, 2010, p.29) in order to study VC’s value adding role in its social, cultural and institutional context. Guba (1990, p.17) defined a research philosophy or paradigm as “a basic set of beliefs that guide action”.

A research philosophy can be viewed in terms of ontology or epistemology. Ontology is related to the nature of reality or the mode of existence of what we aim to study, whereas epistemology is concerned with the nature of knowledge and the ways in which knowledge is gathered and justified.

Since I have adopted practice theory for this thesis, it has committed me to a particular philosophical position (as discussed in Chapter 2, section 2.4.1). To illustrate, a practice-based approach sets out an alternative approach of social ontology (i.e. site ontology) and informs the processes of data collection and analysis (i.e. constructionist epistemology). Site ontology is cultural and symbolic (i.e. symbolic interaction among people), related to meaning (Reckwitz,
Symbolic interaction means that people create symbols that facilitate what they do or understand. For instance, a PhD is a symbol, and by describing myself to others as a PhD student, I am saying that there is a way to understand what I do in the light of that symbol. This symbol creates shared meaning for those engaged in academic study and this meaning enables me to organize myself and what I do. It, like all symbols, is a social construct.

In regard to the epistemology, this thesis intends to focus on the meanings (i.e. representations, not facts) attributed by VCs to value-adding activities. As such, the researcher needs to interact with the participants and their surrounding environment to elicit a range of opinions, rather than seeking a single truth, as in a survey.

Social constructionism is in line with the practice perspective because the aim of this perspective is to comprehend how people in organizations do and understand things. In the VC context, this involves comprehending how VCs do value-adding activity and what the terms “value” or “value adding” means. This is in contrast with the aim of the positivist approach, which is to explain phenomena (i.e. value adding activities) in a causal relationship. Thus, the role of the researcher, in the social constructionist approach, is to understand socially constructed reality by being close to the phenomena being researched, instead of remaining detached from it, as in the positivist approach. Therefore, the assumption of the social constructionist approach ensures that the researcher provides a thorough description of the phenomena to cover the multiple realities that exist. Also, because I am taking a social constructionist (or interpretive) approach, I need to ascertain the VCs’ interpretations of what value is and not only understand how they add value. This is because value-adding activities are organized around what VCs consider to be value. In other words, all the value-adding activity that VCs conduct comes from a shared understanding of what value is.

Social constructionism has its origins in two disciplines: social psychology and sociology (Chell, 2000). Creswell (2014) claimed that the main assumption of social constructionism is that people try to understand phenomena or objects by developing different and multiple subjective meanings through their own experiences, rather than determining reality in relation to objective and external factors (Easterby-Smith, Thorpe and Jackson, 2015). The role of the researcher is not only to narrow meaning to a few concepts and to collect facts, but to gain a complex view of meaning from multiple participants who place multiple meanings on their
experience (Creswell, 2014; Easterby-Smith, Thorpe and Jackson, 2015). An inductive pattern of meanings is created by identifying the meanings that individuals attach to the situation under study, in contrast with a post-positivist philosophical paradigm, which starts with theory (Creswell, 2014). According to Easterby-Smith, Thorpe and Jackson (2015), social constructionists view collected data as representations rather than facts, and insist that in order to reflect these representations fairly, researchers need to become deeply involved with the cultural setting of the study.

Having discussed the research philosophy of this thesis, I turn now to explain the rationale for the decisions made on research design, to address the research questions of this thesis.

3.3. RESEARCH DESIGN

In line with the practice-based approach undertaken for this thesis and to answer the research questions about what VCs actually do in practice to add value to their PCs, a case-study was considered the most appropriate research design for this thesis. Such a design allows the researcher to engage with the details and have a closer look at the value-adding activity. In particular, it allows the researcher to observe what the participants are doing, to interact with them (e.g. ask questions), and to attempt to discover the actual value adding practices (Schatzki, 2005).

Moreover, as relatively little is known about the mechanism which underlies how value is added in VC firms, and due to the type of research questions chosen (“what?”), there is a need to examine the VC value adding role in a more comprehensive and in-depth manner. Consequently, a case study approach is adopted. The choice of a case study is further justified by the focus on contemporary events through interaction with the VCs involved in these events. Furthermore, the events under investigation are in their real-life setting and not manipulated by the researcher, in contrast with the experimental method, which requires the investigator to control the event under study (Yin, 2014). A further reason for the choice of a case study is the ability to analyse the research questions using multiple sources of data and data-collection techniques, which enhances the credibility of the research results and conclusions (Patton, 2002).
A case study is defined by Yin (2014, p.16) as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. The purpose of the case-study design is to gain a rich understanding of one or more real-life cases, such as organizations, individuals, industries, or events, and to draw some general conclusions over time (Easterby-Smith, Thorpe and Jackson, 2015). Yin (2014) presents four types of case-study design (see Table 3.1): (1) single-case holistic designs; (2) single-case embedded designs; (3) multiple-case holistic designs and (4) multiple-case embedded designs. A case study can be conducted using a single case, such as an organization, or multiple cases, that attend to more than one organization. A case study is considered holistic if it studies an organization as a single unit of analysis, and embedded if the researcher divides the organization into multiple units of analysis (e.g. by department or work group) and studies each unit as a separate case. Triangulation is associated with the use of the case-study strategy, and is considered a powerful method of enhancing the validity of research results and conclusions; it entails analysis of the research question using several kinds of data-collection methods, such as observations, questionnaires, interviews and archival data, within a single study (Saunders, Lewis and Thornhill, 2009; Yin, 2014).

<table>
<thead>
<tr>
<th>Holistic (single unit of analysis)</th>
<th>Single-case design</th>
<th>Multiple-case design</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holistic (single unit of analysis)</td>
<td>Type 1</td>
<td>Type 3</td>
</tr>
<tr>
<td>Embedded (multiple units of analysis)</td>
<td>Type 2</td>
<td>Type 4</td>
</tr>
</tbody>
</table>

Source: Yin (2014, p.50).

Easterby-Smith, Thorpe and Jackson (2015) distinguish the main features of a case study based on epistemological continuum (see Table 3.2). Three important dimensions of a constructionist case study are deemed valuable: data collection, sampling and time horizon. First, a constructionist case study involves first-hand observation and contact with a phenomenon, mainly via interviews. Second, data are collected from numerous individuals to study a single organization. Third, data are collected over an extended period of time; they may cover real time events and memories of past events.
The case study has attracted enormous attention from researchers for its several affordances: it simplifies complex concepts in real-life contexts, it yields richer and more in-depth data than other research strategies, it can be combined with a range of data-collection methods, and it reflects individuals' perspectives. However, case-study research is contingent on the data collected; its findings can only be generalized based on theoretical prepositions and cannot be generalized to the wider population or universe (Saunders, Lewis and Thornhill, 2009; Yin, 2014).

To conclude, a case study was chosen as research design for this thesis and I conducted two case studies within the VC field. The first case focused on obtaining an in-depth understanding of VC value adding practices of one specific firm - an active VCF - while the second case study was across two VCFs with the aim of understanding and identifying the common practices constituting the field.

3.4. CASES SELECTION

The research setting for this thesis is the VC context, because the aim of the study, as indicated above, is to unpack its value adding practices. De Clercq and Manigart (2007) and Manigart and Wright (2013) acknowledge how little is known about what VCs actually do in practice, given the empirical importance of the phenomena. This is because research access into VCFs is very difficult given the confidential nature of these firms, which has been acknowledged by pioneer scholars, such as Rin, Hellmann and Puri (2013).
The MENA region was chosen as the geographical context for this study and for developing the case studies. The choice was driven by various factors. One is, as Landström (2007) highlights, while we know more about the VC practices in dynamic regions, such as Silicon Valley and Boston, there is a lack of knowledge about what happens in other regions. This view is shared by Sapienza and Villanueva (2007), who also contend that more VC research is needed to understand VC behaviour in other parts of the world, and to not only rely on the US model. A further important reason for the selection of the MENA region is my familiarity with the context, language and culture that help me to better understand the site and recognize the participants’ implicit meanings and feelings.

According to MENA Private Equity Association (2016), Dubai and Amman had several of the most prominent and active VCFs in the region. Therefore, for the first case study, based on the Forbes Middle East List (2017) of the top 50 active VCFs in MENA, I chose a VCF which will be called Horizon Venture, with headquarters in Dubai and offices in Amman and Riyadh to explore the various value adding practices and understand how they operate (Case One). There were three clear reasons why Horizon provided an attractive case for studying VCs value-adding practices. Firstly, it has a dedicated value creation team (VCT) to assist its PCs with their post-investment expansion and growth. Secondly, it has Horizon Enabler, which supports the development of the MENA start-ups ecosystem through media, research, advisory services and partnerships, as well as community programs and events. Thirdly, the founder of Horizon is considered one of the pioneer entrepreneurs in the region, and a successful angel investor.

Since VCFs do not exist on their own but are connected to other VCFs (are part of a broader practice), it was necessary to explore their various value adding practices and understand how they operate. Therefore, I chose two Jordanian VCFs, chosen from the same Forbes Middle East List (2017). These will be referred to herein as, Circle Venture and Triangle Venture. Circle Venture is particularly interesting because it invests both in the MENA and the USA, through a separate focused fund, and thus can provide unique insights into the different blending of practices that exist in the two locations. Also, Circle Venture, considered to be the first leading VCF in the region, has invested in around 50 technology companies in the world through the VCF Oval Venture, the predecessor to Circle Venture, founded in 2006. The purpose of the second case study is to further the understanding of Horizon Venture value
adding practices by relating them to other VCF practices of the overarching social structures of the site (i.e. Horizon Venture). Together, these two case studies offer an interesting insight into the VC work.

Gaining access to the VC field was the most difficult phase in the entire process of my PhD because these firms within it are considered to be conservative, and I had no contacts in this industry. The case selection was achieved by carrying out an internet search of top and active VCFs in the MENA region. I came across the MENA Private Equity and Venture Capital Association (MENA PEA)26, which is a non-profit organization, PE and VC industry body founded in 2010 and based in Dubai. The association acts as public-policy advocate dedicated to supporting the PE and VC industries in the MENA region. It improves the ecosystem by issuing research and industry reports that highlight the region’s VC activity as well as conducting industry discussions and workshops that bring together different stakeholders (e.g. PE and VC fund managers, investors, entrepreneurs, lawyers). The association helped me to increase my knowledge about VC activity in the region and make a list of the different types of investors involved, including VCs, angel, government, accelerator and incubators. Then, I added information from the firms’ website and CB insights27 about the team, headquarters, investment stage, investment category and investment companies. I also read about these firms, learned about their histories, their teams, their investors, their investment thesis, and their PCs. In further research, I came across an interesting list in Forbes Middle East titled ‘The 50 Most Active Investors in the Arab World’. It lists and ranks VCFs based on the level of assistance and ability in spotting entrepreneurial talent.

Between September and November 2017, I contacted four VC experts in the region (a partner in a VCF, a senior partner in VC consulting firm, a venture capitalist practitioner and an academic) to seek insights and feedback in relation to VC activity in the region. Based on their insights, I contacted the VCFs that fitted the purpose of my study via LinkedIn. LinkedIn was a very useful platform for making initial contact with the VCs because their email address tend

26 The MENA PEA association has closed down and a new association named Middle East Venture Capital Association (MEVCA) has been established in January 2018.
27 CB Insights is a business analytics platform that provides market intelligence on investor activities and private companies.
not to be found on their websites. I sent them a message introducing myself, the purpose of my study, and asking for approval to conduct the study in their firm. To negotiate the access, I sent them a research summary with a brief of the research project, the research team, how the research would be conducted, how the research was funded, and information about the confidentiality and anonymity of the collected data (see Appendix 1). Not all the firms replied, and some replied with cold messages but the ones who positively replied I asked for a phone call to further explain my research purpose, discuss the data collection method and negotiate agreement to conduct my study. Then I conducted my first field study in Amman from the 2\textsuperscript{nd} to 6\textsuperscript{th} of December 2017, since two of the VCFs were located there.

After my field study in Amman, I realized that I needed to take more time to identify the value adding practices, as I had not had enough time to answer my research questions by relying on interviews and a few days observation. Also, because the two VCFs were relatively small, with one or two partners doing all the VC work with the help of the associates and analyst, they alone would not offer sufficiently rich insights into the value adding activity. So I explored some other VCFs in Dubai and identified Horizon Venture. Surprisingly, I found that a University of Bath School of Management undergraduate student, Tariq, had completed his internship at Horizon in Summer 2017. I spoke to Tariq to hear about his experience at the firm and I enquired about the nature of the work, the team, its involvement in the post-investment stage, and its PCs. I also consulted a fund manager to ascertain his perspective on Horizon. Based on their feedback, it was apparent that Horizon could offer rich data for my study. Then I sent a message to Horizon’s CEO and received a very positive reply. He put me in touch with the Managing Partner. It took me longer to convince the Managing Partner to gain access in compare to Amman field study because I asked him to spend a considerable amount of time at the firm with the team. After several email exchanges and phone calls, I convinced him to consider me as an intern, which would allow me to spend time in the firm, attend some meetings and conduct interviews. Finally, on the 14\textsuperscript{th} January 2018, he confirmed the internship.

The following subsections will provide an overview of each case and discuss the method (data collection and analysis) for the two case studies in the thesis.
3.5._CASE ONE

3.5.1. Research Site

The research site for my first case study was Horizon Venture, an institutional VCF with headquarters in Dubai and offices in Amman and Riyadh. The headquarters were located in an area populated by creatives, designers, talents, and entrepreneurs. The area was built as part of the Dubai Plan 2021 with the aim of encouraging creative businesses to establish themselves within the area. It remains a prime location in Dubai, offering low setup costs and upgrade facilities. It also provides a multicultural environment for those in business, to work, live and network with one another.

The area consists of a number of modern buildings with office spaces, retail units, studio spaces, galleries, cafes and restaurants. In addition, there are a number of innovative indoor and outdoor venues to host events, meetings, workshops, talks and pop-up opportunities or photo shoots. Alongside these there are a number of co-working spaces to encourage entrepreneurs and freelancers to work, collaborate and network. The proximity of other amenities like, a gym and health club, a nursery, a hair and beauty salon, also make the area a convenient and attractive environment in which to work.

Horizon Venture clearly benefited from all the advantages that the area had to offer. I could see how the partners and employees took advantage of the opportunities to meet others outside the firm’s offices (e.g. in cafes or restaurants), which offer a less formal environment for meetings. Because the area was built to encourage creative businesses and because of the advantages that the area offers, Horizon Venture helped some of its PCs to relocate their office to the area. This benefited both Horizon and the startups as it facilitated easier communications and interactions. To illustrate, I witnessed how “PC2” interacted more often with the Horizon team because their offices were in the same location as its VCF.

28 The real name of the VCF, PCs and VC team are not disclosed, and pseudonyms have been adopted to maintain anonymity.
29 The Dubai Plan 2021 was formed in December 2014. It is a strategic plan to address the urban environment and enhance the living experience of the Dubai’s residents and its visitors.
The Horizon Venture office workspace was open plan and constructed mainly from glass. It was different from the traditional layout design that I used to see in other companies or organizations, where the senior team members worked in enclosed spaces. I could see the rationale behind the office design. The open environment allowed the management to be closer to the team, offered visibility and mentorship, facilitated interactions, and made communication easier. Although the workspace was generally open plan, it had some closed spaces with glass partition walls to provide the required privacy of an office environment. In total, it had eleven offices and two meetings rooms.

For the office setting, the CEO, Partners, Head of VCT and Director of Operations and Customer Experience had their own glass office, whereas the investment associates shared their glass offices with other members of the Venture or the Enabler. I noticed that the sharing of offices was decided based on gender rather than job title. For instance, the two investment associates did not work in the same office. Instead, the female investment associate shared her office with the female Ecosystem Relations Manager, and the male investment associate shared his office with the male Head of Operations and Partnerships at Horizon Enabler. I imagine that this was a culturally influenced decision to make each gender feel more comfortable. Each office had a desk with a computer, and the glass partition could be used as a whiteboard to write notes and brainstorm ideas.

In regard to the two meeting rooms, they differed in terms of size, with one accommodating around ten people, and the other four. The former was used mainly for larger meetings (e.g. pitching and PCs meetings, and firm-level meetings), whereas the latter was used for smaller meetings. Each meeting room had a meeting table and chairs, a whiteboard, a projector, and a computer. Located at the centre of the workplace, there was a printing area and an open-plan kitchen. In it there were different kinds of coffee machines (e.g. an espresso machine, Turkish coffee machine, and a filter machine), plus a variety of teas and healthy snacks. There was an office break-out area with comfortable couches where employees could relax, eat, and hold informal meetings.

Concerning the working environment, I found that although the official work hours were from 9:00 to 18:00, the team has a flexible work attitude to them. The team chose when to start work,
where they worked, and what time they finished. This flexibility resulted in increasing employee engagement with, and commitment to, the firm. For instance, I witnessed many instances of employees extending their working hours, if necessary to complete a task.

I would compare the firm’s culture to a start-up culture, where there are many visible actions, interactions, and dynamics in the firm. Socializing with the team seemed to play an important role in improving employee engagement at Horizon Venture. They socialized both within the office (e.g. during coffee, lunch and smoke breaks) and outside it (e.g. at restaurants and cafes), often to celebrate employees’ birthdays and successes. They also ran team-building activities (e.g. basketball games), went for meals, and took part in music activities. For example, some members of the Horizon team played musical instruments, and they informally played together and shared these moments on their personal Instagram accounts.

The official language used in the office was English, but because most of the team were Arab (apart from three) they tended to use Arabic between themselves. In terms of employee gender balance, it was mixed, with six females (a manager, two associates, an analyst, an accountant, a receptionist) and eleven males (CEO, three partners, Head of VCT, Head of Operations, an associate, three employees of Horizon Enabler, a CD Fund manager). Horizon Venture was founded as UAE company by non-Emirati. I also discovered that some of the team were old school friends and, therefore, they were hired through that connection.

In February 2015, Horizon Venture closed its first fund (i.e. Fund I). From this it raised $50 million in commitments from a number of LPs. The LPs of Fund I included global institutions, financial firms, leading regional family offices and high net worth individuals. At the time of data collection, Fund I had deployed most of its investment capital, investing in around 30 companies (see Table 3.3), and it was in the process of launching the second fund (i.e. Fund II), which is discussed in more detail in Chapter 4 (section 4.3). The GP, which is Horizon Venture, was responsible for managing the business and affairs of both Fund I and Fund II.
Table 3.3: An Overview of the Portfolio Companies

<table>
<thead>
<tr>
<th>Name</th>
<th>Stage</th>
<th>Industry</th>
<th>Name</th>
<th>Stage</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC1</td>
<td>Growth</td>
<td>Enterprise Offering</td>
<td>PC13</td>
<td>Growth</td>
<td>Mobile Gaming</td>
</tr>
<tr>
<td>PC2</td>
<td>Growth</td>
<td>E-commerce</td>
<td>PC14</td>
<td>Seed</td>
<td>Consumer Services</td>
</tr>
<tr>
<td>PC3</td>
<td>Growth</td>
<td>E-commerce</td>
<td>PC15</td>
<td>Seed</td>
<td>E-commerce</td>
</tr>
<tr>
<td>PC4</td>
<td>Growth</td>
<td>Fintech</td>
<td>PC16</td>
<td>Seed</td>
<td>Marketplace</td>
</tr>
<tr>
<td>PC5</td>
<td>Growth</td>
<td>Content</td>
<td>PC17</td>
<td>Seed</td>
<td>Fintech</td>
</tr>
<tr>
<td>PC6</td>
<td>Growth</td>
<td>Enterprise Offering</td>
<td>PC18</td>
<td>Seed</td>
<td>Enterprise Offering</td>
</tr>
<tr>
<td>PC7</td>
<td>Growth</td>
<td>Consumer Services</td>
<td>PC19</td>
<td>Seed</td>
<td>Enterprise Offering</td>
</tr>
<tr>
<td>PC8</td>
<td>Growth</td>
<td>E-commerce</td>
<td>PC20</td>
<td>Seed</td>
<td>Content</td>
</tr>
<tr>
<td>PC9</td>
<td>Growth</td>
<td>E-commerce</td>
<td>PC21</td>
<td>Seed</td>
<td>Marketplace</td>
</tr>
<tr>
<td>PC10</td>
<td>Growth</td>
<td>Content</td>
<td>PC22</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>PC11</td>
<td>Growth</td>
<td>E-commerce</td>
<td>PC23</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>PC12</td>
<td>Growth</td>
<td>Marketplace</td>
<td>PC24</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>PC13</td>
<td>Growth</td>
<td>Mobile Gaming</td>
<td>PC24</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Horizon Venture invests in seed to growth stage technology and technology-enabled companies across commerce, marketplace, fintech, software as a service (SaaS), enterprise offerings and new media spaces. The primary geographic focus is on companies operating in the MENA region. They invest in companies in Seed, Series A and Series B financing rounds with ticket size ranges from $100k to $3 million. According to the Horizon Venture II teaser (slide 9), the aggregate value of PCs, at the time, was around $1.7 billion.
At that time, the Horizon Venture team consisted of a CEO, four partners, a team head, a manager, two directors, three investment associates and an analyst. Figure 3.1 shows Horizon Venture’s organizational structure, composed of a fairly flat hierarchy, which is different from the more traditional hierarchical organization.

In the next section, I will provide background on the case, specifically an overview of Horizon Venture’s history, previous and (then) current structure, and sister companies. Information collected from interviews, internal sources (e.g. the firm’s website, presentations, internal reports, videos) and external sources (e.g. media, press articles, databases).

3.5.1.1. The story of Horizon Venture
When I asked HV “Can you tell me the story of Horizon Venture?” He replied that it was a “continuation of a previous story of a small company that [he] used as an investment vehicle in early stage, a company called [CD Fund]”.

Horizon Venture was founded by HV, an entrepreneur who became an investor. As an entrepreneur, he co-founded a service company, and, as an investor, he co-founded an angel
investment vehicle called CD Fund\textsuperscript{30} that invested in early stage technology startups. The aim of the fund was to support MENA entrepreneurs by providing seed funding, managerial support, access to the network, markets and clients, in exchange for equity stakes. In its time, the CD Fund team invested in and helped to develop a number of early stage technology companies in the MENA region, and by doing so they have built a reputation from several successful exits. CD Fund had shown that a significant opportunity had existed in the MENA region but as these companies start to grow, they were struggling to get funding. As a result, Horizon Venture was founded in 2010s with the aim to fill the emerging equity funding gap and support the growth of MENA region’s start-up ecosystem.

3.5.1.2. The evolution of Horizon Venture’s structure
Horizon Venture began by adopting an individual approach, where the partner who led the deal handled it from selection to exit and he/ she sat on the board of directors and was responsible for adding value, with the support of the investment associates and the analyst. TS, who is a partner at Horizon Venture, explained his previous role in the individual approach as:

\textit{From the very early days I would run deals. I meet with the entrepreneurs, I look at the business, I do commercial due diligence, I will structure the deals, I will liaise with legal team, I will get the term sheet outs, sign the documents, and then once the investment has been deployed, I will sit on the board of the companies help them grow and even negotiate strategic partnerships, investments, further rounds of funding and potentially exits} (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

As the number of PCs increased, and due to the PCs’ needs for a more hands-on support, it was difficult for the partners to handle the whole process and add value in measurable ways, as is reflected in the Managing Partner comment:

\textit{Before that we did funding and high-level strategic guidance, but because we are busy doing other stuff, the other activities managing the fund, it is difficult for us to

\textsuperscript{30} Anonymized.

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be able to add value in very concrete and measurable ways. So, the way we thought we’d do that was by bringing together a team that is truly dedicated for that, supporting companies on a day-to-day basis (BM, Managing Partner, Horizon Venture).

As a result, Horizon Venture shifted towards an institutional approach, with two teams: the deal team and the VCT. The deal team was responsible for pre-investment stage activities and the VCT for the post-investment stage activities. So, once the deal team closed a deal, the team would hand it to the VCT who would provide support to their PCs and add value. The deal team consisted of a lead Partner, Investment Associates and an Analyst, whereas the VCT consisted of the Head of VCT, Director of Finance, Director of Operations and Customer Experience, and an Investment Associate. The latter team had experience in finance, marketing, operations and logistics, and strategic thinking.

RS, who is a partner at Horizon Venture, explained the role of the VCT and the partners in the institutional approach: “We have recently started our [VCT]... . So, a lot of the work that's operational, it goes to them. A lot of the work that’s strategic, is usually up to us at the board”.

Having a VCT added another level of information to the VCF, as the Director of Operations and Customer Experience explains:

As the [VCT] came in, we added a new level of complexity, and a new level of information coming into the company. So, look at [Horizon] before May last year, what they did was that they received the financial reports, sit in board meetings, sometimes discuss strategy and a very critical stuff. But, on the kind of hands-on day to day, there was no, there was missing information (TF, Director of Operations and Customer Experience, Circle Venture).

3.5.1.3. Horizon Venture sister companies
The sister company of Horizon Venture is Horizon Enabler31, an ecosystem-building firm, with headquarters in Dubai and operations in Beirut and Amman. The Enabler CEO and the senior

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31 Anonymized.
team members shared the same office space with Horizon Venture. The Enabler was launched in the beginning of 2010s, as a comprehensive value-adding platform to support the development of the MENA entrepreneurship ecosystem. It sought to achieve this through media content, community-building programs and events, research, and corporate and government advisory services (discussed in detail in Chapter 5, section 5.4.3). Horizon Venture and Horizon Enabler are collectively called the Horizon Conglomerate, of which HV is the chairman.

It is important to highlight that the Enabler’s Research arm conducted an important study that evaluated the MENA startup funding landscape. The evidence showed a funding gap for MENA start-ups and highlighted investment opportunities to unlock the funding gap. Hence, this study and the CD Fund findings seek to show that there was an investment opportunity to create a VCF and this was used to support the creation of Horizon Venture.

At the time of data collection, Horizon Conglomerate were in the process of initiating Horizon Space\textsuperscript{32}, which would include an accelerator program, provide capital and offer co-working space for early stage startups. Its aim was to open spaces in significant cities across the MENA region, including Dubai, Amman, Beirut, and Riyadh. In each city space, it would give entrepreneurs seeking desk space an environment of likeminded people and provide them with the opportunity to benefit from the offerings and network of the Horizon Conglomerate. It would also run an accelerator program for prospective startups. So far, this has partly been achieved by initiating the Dubai space.

3.5.2. Data Collection

To answer the research question about what VCs actually do in practice to add value to their PCs, and in line with the methodological approach of this thesis, I combined participant observation, semi-structured interviews and informal talks, other primary data and archival material. Table 3.4 describes the data sources accessed at that time and how I have used them.

\textsuperscript{32} Anonymized.
Table 3.4: Data Sources and Use

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Type of Data</th>
<th>Use in the Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observations (70 pages single-spaced)</td>
<td><em>Field notes from observations and meetings:</em> detailed record of activities, social interactions, conversations, key phrases and events</td>
<td>To capture what VCs are saying and doing and to identify the VCs actions and the value adding practices and material arrangements</td>
</tr>
<tr>
<td></td>
<td><em>Informal conversations:</em> informal discussions with partners and employees during work breaks, before and after meetings</td>
<td>To familiarize myself with the firm’s context and terminology, to gain trust of the team, to discuss insights and to clarify interpretations from observations</td>
</tr>
<tr>
<td></td>
<td><em>Pictures:</em> visual documentation of material arrangements created during meetings (taking photos)</td>
<td>To keep a record of the practices that the members engage in during the meetings</td>
</tr>
<tr>
<td>Interviews (176 pages single-spaced)</td>
<td><em>Semi-structured interviews (12)</em> with Horizon Venture, from partners to the analyst</td>
<td>To capture what they are saying, to explore the organization of practices (rules, understanding, and teleoaffective structure), to yield explanations and insights unavailable from other sources, and to triangulate evidence from observations</td>
</tr>
<tr>
<td>Other primary data (27 pages single-spaced)</td>
<td><em>VCT calendar (7 pages single-spaced):</em> record of the VCT daily activities</td>
<td>To keep a record of the VCT’s daily activities, to help in asking specific questions during the interviews/ informal conversations, and to triangulate evidence from observations and interview data</td>
</tr>
<tr>
<td></td>
<td><em>Database content (20 pages single-spaced):</em> record of the content of the firm’s database</td>
<td>To familiarize myself with the firm’s context, organizational practices and terminology, to understand how it retains its knowledge in the database and to identify important archival materials</td>
</tr>
<tr>
<td>Archival material</td>
<td><em>Firm-related documents:</em> e.g. fund administration, LPs reports, auditor reports, meeting minutes, presentations, investment process map, research, valuation policy</td>
<td>To familiarize myself with the firm’s context, and terminology, to identify the VCs actions and the value adding practices and material arrangements, and to support, integrate and triangulate evidence from observations and interview data</td>
</tr>
<tr>
<td></td>
<td><em>Portfolio company-related documents:</em> e.g. term sheets, commercial, legal, and financial due diligence, pitch deck, financial and business model, PCs’ updates, meeting minutes, PCs’ monthly reports, 100-day plan</td>
<td>To familiarize myself with the PCs’ contexts and terminology, to identify the VCs’ actions and the value adding practices and material arrangements, and to support, integrate and triangulate evidence from observations and interview data</td>
</tr>
</tbody>
</table>
3.5.2.1. Observation

Over five weeks, beginning the 19th February 2018, I spent five days per week from 9:00 to 18:00 each day at Horizon Venture attending meetings, conducting interviews, attending social events, and having informal conversations. On my first day, I was allocated a desk at the centre of the office, which I shared with the analyst and two longer-term interns. The workspace was open plan with glass partitions. The layout made communication easy and optimised teamwork and collaboration, while also offering a level of privacy to employees when required. With few physical barriers between team members, open communication was facilitated between the senior and junior team members. This allowed me to clearly observe team interactions: see what they were doing, listen to their talk, and observe who was coming and going. Also, sharing a desk with the analyst and the interns gave me the opportunity to ask questions and request materials. As they set up a new account for me in the firm’s email system, that also allowed me to understand how they communicate and how they work. At the beginning, the team were uncomfortable with my presence in the firm and would ask questions about my observations and notes. After the first week, however, they became more comfortable, increased my involvement in meetings and gave me access to the firm’s database.

I attended various meetings (see Table 3.5 for meeting details) where I took notes focusing on the actions, conversations and interactions between informants. I would then immediately write up my notes after each meeting. Also, I took field notes every day to record Horizon’s work practices, my experiences, ideas and breakthroughs. I would then expand on these notes every night while my memory was still fresh, producing 70 single spaced pages of field and meeting notes. Two types of information are collected in the field notes: descriptive (i.e. date, time, location, actions, behaviours) and reflective (i.e. thoughts, insights, ideas, questions). Observations allowed me to familiarize myself with the firm’s context and terminology, to capture what VCs were saying and doing. This helped me to capture the full picture of the research phenomenon. Research participants also led me to new document sources.

Although Horizon Venture allowed me to observe serval meetings, there were meetings I was not given permission to attend as they were confidential. These included PCs’ Board Meetings, Investment Committee Meetings, VCT and Managing Partner Meetings, monthly Portfolio Meetings, monthly Pipeline Meetings.
Table 3.5: Details of Attended Meeting

<table>
<thead>
<tr>
<th>Meeting Type</th>
<th>Firm Name/ Meeting Subject</th>
<th>Location</th>
<th>Attendance</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Partner Pitch</strong>³³</td>
<td>DEF</td>
<td>Horizon Venture’s meeting room</td>
<td>RS, SB, BN, interns, DEF’s CEO</td>
<td>22/2/2018</td>
</tr>
<tr>
<td></td>
<td>ABC</td>
<td>Horizon Venture’s meeting room</td>
<td>BT, ZA, SB, ABC’s CEO, Techstars UAE’s CEO</td>
<td>5/3/2018</td>
</tr>
<tr>
<td><strong>C-suite meeting</strong>³⁴</td>
<td>PC21</td>
<td>PC21’s meeting room</td>
<td>TF, ZA, PC21’s founder and CEO, PC21’s Financial and Business Planning Manager</td>
<td>26/2/2018</td>
</tr>
<tr>
<td></td>
<td>PC19</td>
<td>Horizon Venture’s meeting room</td>
<td>BT, TF, intern, PC19’s CEO and PC19’s COO</td>
<td>28/2/2018</td>
</tr>
<tr>
<td><strong>Functional Group meeting</strong>³⁵</td>
<td>PC19</td>
<td>PC19’s meeting room</td>
<td>TF, ZA, intern, PC19 COO and Operation team</td>
<td>4/3/2018</td>
</tr>
<tr>
<td><strong>VCT-PC meeting</strong>³⁶</td>
<td>PC8 (ops meeting)</td>
<td>Horizon Venture’s meeting room</td>
<td>TF, ZA, PC8’s Customer Service Manager</td>
<td>25/2/2018</td>
</tr>
<tr>
<td></td>
<td>PC8 (ops meeting)</td>
<td>PC8’s meeting room</td>
<td>TF, ZA, PC8’s Head of Operation</td>
<td>12/3/2018</td>
</tr>
<tr>
<td><strong>VCT meeting</strong></td>
<td>Recap meeting</td>
<td>Horizon Venture’s meeting room</td>
<td>TF, ZA</td>
<td>25/2/2018</td>
</tr>
<tr>
<td></td>
<td>VCT structuring meeting 1</td>
<td>Horizon Venture’s meeting room</td>
<td>TF, ZA</td>
<td>27/2/2018</td>
</tr>
<tr>
<td></td>
<td>Debrief meeting</td>
<td>Horizon Venture’s meeting room</td>
<td>TF, ZA, BN</td>
<td>28/2/2018</td>
</tr>
<tr>
<td></td>
<td>VCT structuring meeting 2</td>
<td>Horizon Venture’s meeting room</td>
<td>BT, TF, ZA</td>
<td>4/3/2018</td>
</tr>
<tr>
<td></td>
<td>VCT structuring meeting 3</td>
<td>Horizon Venture’s meeting room</td>
<td>BT, TF, ZA</td>
<td>12/3/2018</td>
</tr>
</tbody>
</table>

³³ Meetings between VC team and prospective entrepreneurs to prospect new companies for investment.
³⁴ Meetings between the PC executive team and the VCT.
³⁵ Meetings between the PC functional group and the VCT.
³⁶ Meetings between the PC team and the VCT.
3.5.2.2. **Formal semi-structured interviews and informal conversations**

Participant observation was supported by 12 semi-structured interviews with the partners and employees of Horizon Venture. To gain deep and rich understanding of the activities and practices, I followed the recommendation of Sandberg and Tsoukas (2011), by asking the practitioners questions that allowed them to step back from their practice and reflect on how they accomplished the practice. To illustrate, I asked the VCs “*detailed and concrete questions about what practitioners do and how they accomplish their work*” (ibid., p. 350).

The interview protocol was flexible in order to obtain explanations and insights that were not available from other sources. In general, however, it contained questions about informants’ roles within the VCF, their descriptions of what VCs actually did, information on what value meant to them and how value is added (see Appendix 2 for more detail on the interview guide). The interviews were recorded digitally, with the interviewees’ consent, and lasted 60 to 120 minutes. Each took place either in the meeting room or an employee’s office. A list of respondents’ details is summarised in Table 3.6. Recording and transcribing these interviews yielded 176 pages, in Times New Roman (12 point, single spaced).

Overall, interviews allowed me to directly target the topic of understanding VC work and focus on the areas to be explored while, at the same time, encouraging the interviewees to expand on their responses. Typically, qualitative interviewing can open up new themes or concepts that had not initially been considered (Saunders, Lewis and Thornhill, 2009). In addition, interview data can provide information on people’s underlying attitudes, feelings and emotions, as well as information about language, such as the meanings and relationships of words and sentences. This information can be used to find patterns, form coherent themes and relevant categories, and construct new ideas (ibid.). Crucially, interviews also guided me to useful documents.
<table>
<thead>
<tr>
<th>Name</th>
<th>Gender</th>
<th>Qualification</th>
<th>Professional experience</th>
<th>Position</th>
</tr>
</thead>
</table>
| HV   | Male   | BSc Political Science | Founder of a service company  
Co-founder of CD Fund, a seed capital fund investing in early-stage tech companies in the MENA region | Chairman of Horizon Conglomerate and CEO of Horizon Venture |
| BM   | Male   | BSc Economics | Ten years in VC and PE investment  
Founding team member of an institutionalised angel investment fund  
Head of strategy and investments at media company  
Associate at Oval Venture | Managing Partner |
| TS   | Male   | BSc Marketing  
MBA | Investment Manager in CD Fund | Partner in Horizon Venture and CEO of Horizon Enabler |
| RS   | Male   | BA International Relations | Investment Manager in CD Fund | Partner |
| BT   | Male   | BSc Chemical Engineering & Applied Physics  
MBA with a specialty in Corporate Finance | Managing Director of internet company  
Co-founder of a boutique investment firm specializing in early to mid-stage private equity investments  
Seven years as investment banker | Head of the VCT |
| TF   | Male   | BSc Industrial Engineering  
MBA | Eleven years in a service company | Director of Operations and Customer Experience |
| NS   | Female | BSc Computer Science with a minor in Creative Writing | Four years in converged communication media start-up | Ecosystem Relations Manager |
| ZA   | Female | BSc Statistics  
MBA | Three years at a consulting service company | Investment Associate |
| CW   | Female | BCs Finance and International Business | Three years at a service company | Investment Associate |
| SB   | Male   | BSc Corporate Finance  
MBA | Five years at a consulting service company | Investment Associate |
| BN   | Female | BSc Applied Mathematics  
MSc Finance | First job in Horizon | Analyst |
| TM   | Male   | BSc Marketing | Three years’ experience as advertising manager | Head of Operations and Partnerships at Horizon Enabler |
3.5.2.3. Calendar
Being in the firm for five weeks allowed me to identify useful data to be collected. In this respect, I asked for access to the VCT calendar, where meetings, trips and events are documented. Access to the VCT calendar was particularly useful because the calendar captured what the team did and how team members allocated their time between their activities, tasks and meetings. It also helped with the interview questions, allowing me to ask questions regarding meetings or events and allowing the participants to reflect on these in the interviews. I managed to trace the VCT’s activities, tasks and meetings for three months from 1/1/2018 onwards. This yielded 7 pages in Times New Roman (12 point, single spaced).

3.5.2.4. Database content
Horizon Venture provided me with fairly wide access to the firm’s database, which held records of all the information regarding their PCs, potential companies, internal reports, presentations, articles, and the firm’s organization chart, among other documents. I also succeeded in collecting data on the structure of the Horizon Venture database, recording the folders and files. This yielded 20 pages in Times New Roman (12 point, single-spaced). This information enabled me to familiarize myself with the firm’s context, organizational practices and terminology, to understand how they organized their knowledge in the database and, most importantly, to identify the important archival material.

3.5.2.5. Archival material
I gathered a substantial amount of archival data from internal and external sources. In regard to internal resources, to identify the useful materials to my research project, I spent a considerable amount of time searching the materials in the firm’s database. As discussed earlier, observations, informal talks with the team and interviews also led me to identify the useful materials. Table 3.7 outlines some of the archival materials. It presents a description of each document, the document type, and the number of pages. External sources included media articles, and additional data available in the CB insights and Crunchbase.

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37 There were some zones in the firm’s database with restricted access. Only some members of the VC team had permission to access certain files and folders (e.g. “PC7” folder).
38 Crunchbase is a platform that provides private and public companies information.
**Table 3.7: Record of Some Horizon Venture Documents Used in this Research**

<table>
<thead>
<tr>
<th>Document Title</th>
<th>Description</th>
<th>File Type</th>
<th>Pages/Slides or Sheets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Process Documents</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horizon Venture Investment Process</td>
<td>It outlines the stages in the investment process, from deal originating to exits, and emphasizes the sequence of activities involved in each stage. Also, it explains the set of guidelines that govern the investment process (e.g. the documents they require from the companies). It also emphasizes how Horizon Venture employs different forms of activities to overcome some of the issues and challenges relating to MENA regulatory framework.</td>
<td>Word</td>
<td>7</td>
</tr>
<tr>
<td>Horizon Venture Investment Process Map</td>
<td>It is a flowchart that represents Horizon Venture’s investment process. It shows what is involved in the entire investment process, from initial screening to exit, who is responsible of each activity, and when and where different steps occur.</td>
<td>PDF</td>
<td>2</td>
</tr>
<tr>
<td>Horizon Venture Investment Process Outline</td>
<td>It illustrates the pre-investment process timeline and outlines the activities within each step of the pre-investment stage.</td>
<td>PPT</td>
<td>2</td>
</tr>
<tr>
<td>Horizon Venture Pipeline Activities</td>
<td>It outlines the pre-investment process based on five stages namely: (1) Initial Screening, (2) Thursday Partner Pitch, (3) Pre-IC Meeting, (4) IC Meeting, and (5) Long Form and 3rd Party DD.</td>
<td>Word</td>
<td>1</td>
</tr>
<tr>
<td>Horizon Venture Portfolio Management Activities</td>
<td>It outlines the mission, role and impact of the VCT, VCT bios, its approach, how it prioritizes its engagement with its PC and what it offers. It also highlights the impact it created (in numbers) for its PCs and provides two examples of value-adding engagement with two PCs in terms of operational and financial support, talent hiring and unit of economics.</td>
<td>PPT</td>
<td>9</td>
</tr>
<tr>
<td><strong>Fundraising Documents</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horizon Venture II PPM</td>
<td>Is a legal document proposed to prospective investors to invest in Fund II. The memorandum contains six sections: (1) Executive Summary, (2) The Investment Opportunity, which discusses the investments trends and highlights the funding gap, (3) Operating Model, which highlights the investment criteria and the investment process, (4) Sector Deep Dive, which discusses the target sectors, and team and organizational structure, an overview of the team with detailed bio, (5) Economic Impact of Fund II, and finally (6) Summary of Terms, The Principal Terms for Fund II.</td>
<td>PDF</td>
<td>131</td>
</tr>
<tr>
<td>Pre-investment</td>
<td>Horizon Venture II Fund Presentation</td>
<td>It is based on the PPM document with a similar structure to the PPM section (overview of HG, the opportunity in investing in Fund II, the technology landscape in the target geographies, investment criteria and strategy, HC team bio). Summary section of its PCs and an appendix on CD Fund and Fund I track record added.</td>
<td>PPT</td>
</tr>
<tr>
<td>Fund II Teaser</td>
<td>A high-level summary of the PPM document with one slide that gives an example of how it adds value to two of its PCs.</td>
<td>PPT</td>
<td>13</td>
</tr>
<tr>
<td>Fund II Deck</td>
<td>A presentation designed to give a short summary of the Horizon Conglomerate to potential investors. It has five sections: (1) An Overview of the Group, (2) The Opportunity, (3) An Overview of Horizon Venture, (4) Horizon Enabler and (5) Horizon Space</td>
<td>PPT</td>
<td>36</td>
</tr>
<tr>
<td>HV’s Fund Model</td>
<td>It outlines sixteen criteria identified by the CEO to help the VC team in the process of selecting which company to invest in.</td>
<td>PDF</td>
<td>1</td>
</tr>
<tr>
<td>Screening Checklist</td>
<td>It specifies the investment criteria used in the initial step of the investment process. Its purpose is to speed up the reviewing process. Checklist of nine elements includes: (1) Stage, (2) Team, (3) Founder Equity, (4) Geography, (5) Industry, (6) Market Size, and (7) No Conflict of Interest (see Appendix 6).</td>
<td>PDF</td>
<td>1</td>
</tr>
<tr>
<td>Short Screening Memo Template</td>
<td>It is a template to help investment associates to write a short memo for each prospective PC based on the information from the pitch deck, the financial model, the discovery meeting, and other relevant information. It has five sections: (1) Overview, (2) Location, (3) Market Size, (4) Team, and (5) Financial Traction.</td>
<td>PDF</td>
<td>1</td>
</tr>
<tr>
<td>Extended Screening Memo Template</td>
<td>It is a template to help the investment associates to write an extended memo for each prospective PC (see Appendix 7). It has seven sections: (1) Overview (business summary, location, pro of investment/ reasons to invest, cons/key risks), (2) Product, (3) Market (market value, competition), (4) Team and Financial Traction (revenue, burn rate, income statement Summary), (5) Non-financial Traction, (6) Funding Requirements, and (7) Valuation (history and current round).</td>
<td>PDF</td>
<td>1</td>
</tr>
<tr>
<td>Due Diligence Checklist</td>
<td>The checklist specifies the information that needs to be collected on a potential PC to help in the DD evaluation (see Appendix 8). It covers around 120 items based on twelve areas: corporate structure and general matters, accounts, financial relationship and guarantees, property and fixed assets, intellectual property rights, contractual arrangements, employees, regulatory legal compliance, sales, marketing, competition and anti-trust, litigation and legal proceedings, insurance and tax.</td>
<td>PDF</td>
<td>11</td>
</tr>
<tr>
<td>Term Sheet Template</td>
<td>It outlines the terms and conditions of the investment agreement (thirty terms and conditions). Also, it specifies the reserved matters in the agreement.</td>
<td>PDF</td>
<td>7</td>
</tr>
<tr>
<td><strong>IC Guidelines</strong></td>
<td>It outlines the guidelines that the fund general manager applies to promote good governance in relation to the investment committee. Also, it specifies the supporting documents that need to be included in the IC meeting.</td>
<td>PDF</td>
<td>7</td>
</tr>
<tr>
<td><strong>Outline of Operational DD Report</strong></td>
<td>The report is prepared by the deal team and is based on information from the target company and the analysis of the deal team. The report is used by the VC executive team to evaluate the potential company and is divided into six: (1) Executive Summary, (2) Investment Rational, (3) Cap Table and Valuation, (4) Competition, (5) Risk and Mitigation, and 6) Exit.</td>
<td>PDF</td>
<td>1</td>
</tr>
<tr>
<td><strong>Outline of Legal DD Report</strong></td>
<td>The report is prepared by the Fund’s General Counsel and is based on information from the target company, the analysis of the deal team and the legal counsel analysis. The report is divided into ten main sections: (1) Corporate Organization, (2) Tax Matters, (3) Contractual Obligations, (4) Insurance, (5) Intellectual Property &amp; Information Technology, (6) Facilities and Properties, (7) Human Resources (8) Litigation, (9) Regulatory Framework, and (10) Environmental Matters.</td>
<td>PDF</td>
<td>1</td>
</tr>
<tr>
<td><strong>Valuation Policy</strong></td>
<td>The document outlines the valuation policy and the principles of valuation. It discusses the different valuation methodologies for valuing individual PC. Also, it reflects the fair value of the Horizon Fund I future portfolio so as to reflect the value carried by these investments in the Fund’s financial statements.</td>
<td>Word</td>
<td>3</td>
</tr>
<tr>
<td><strong>2016 Annual Report</strong></td>
<td>A comprehensive annual report of Fund I’s activities and financial performance. The purpose of the report is to give the fund LPs information about the Fund’s activities, new fund investment, updates from their current PCs, as well as Fund I’s quarterly financial statements and financial performance. The report consists of six parts: (1) Definitions, (2) GP Message, (3) Latest Investments, (4) Update from Partner Companies, (5) The Fund's Q1, Q2, Q3 and Q4 annual financial statements, and (6) Annex.</td>
<td>PDF</td>
<td>54</td>
</tr>
<tr>
<td>Post-investment</td>
<td>2018 LP Report</td>
<td>The report is based on the LP Report Template (see Appendix 13). The purpose of the report is to give the Fund’s LPs detailed information on the Fund’s PCs in terms of investment thesis/expectations, investment structure, financial results, value creation update and risk assessment update.</td>
<td>Excel</td>
</tr>
<tr>
<td>IFC Portfolio Report</td>
<td>This is created by the VC team and is based on the monthly reports from the PCs. The purpose of the report is to give a summary of each PC by (1) identifying local and global competitors, (2) providing an update of current events, (3) illustrating funding events, (4) highlighting investment rationality, (5) identifying risks and threats facing the business, (6) highlighting financial updates and key performance indicators, (7) identifying existing potential, (8) emphasising the lessons learned, and (9) documenting the post-investment involvement. Appendix 14 presents the template for the IFC Portfolio Report.</td>
<td>PPT</td>
<td>41</td>
</tr>
<tr>
<td>Portfolio Meeting Presentation Template</td>
<td>The purpose of the presentation template is to provide a status review on each PC for the Horizon Conglomerate team by highlighting the income statement, and including updates on the company’s progress and information on the issues and risks being faced. (See Image 5.7)</td>
<td>PPT</td>
<td>1</td>
</tr>
<tr>
<td>Portfolio Meeting Presentation January 2018</td>
<td>This is based on the Portfolio Meeting Presentation Template and presents a status review of each PC in a separate slide.</td>
<td>PPT</td>
<td>22</td>
</tr>
<tr>
<td>Monthly Report Template</td>
<td>This is a template to help the PCs to write their monthly reports. The purpose of the report is to give Horizon Venture information about the company’s progress and its financial performance. The template includes a summary comparing the company’s finances (e.g. revenue, EBITDA, net profit, cash burn and cash in bank) at two points in time (e.g. Jan 2015 and Jan 2016), and information about the company’s operation and non-financial KPIs. (See Appendix 11)</td>
<td>Excel</td>
<td>1</td>
</tr>
<tr>
<td>PC8: Investment Consideration</td>
<td>This is a presentation designed by the VCT to convince Horizon Venture’s partners to provide follow-on investing to “PC 8”. It has nine sections: (1) State of Affairs, (2) Business Drivers, (3) Strategic Direction, (4) Strategic Direction Prioritize For 2018, (5) Revised Organizational Structure, (6) Use of Incremental Funds, (7) Proposed Financing Structure, (8) Where Will the Funding Takes Us, and (9) Appendixes</td>
<td>PPT</td>
<td>16</td>
</tr>
<tr>
<td>Horizon Space Proposal</td>
<td>This outlines the aim, vision and mission of Horizon Conglomerate’s new entity, ‘Horizon Space’. Also, it highlights the three arms of the Horizon Space offering: co-working space, accelerator, and R&amp;D.</td>
<td>PPT</td>
<td>95</td>
</tr>
</tbody>
</table>
3.5.3. Data Analysis

The data analysis follows Schatzki’s practice theory framework (1996, 2002) in the interpretation of the data. I found this framework to be particularly suitable, given its prior application in the context of NASDAQ securities dealers.

To prepare data for analysis, I transcribed eight out of the twelve interviews myself, using software Sonix.ai, following the McLellan, MacQueen and Neidig (2003) transcription protocol for qualitative interviews. For the remaining four interviews, I hired a professional transcriber to complete the transcription process. Then I conducted a pass verification for all the transcripts to ensure accuracy and correct inaccuracies. Data preparation also include organizing my field notes and writing a summary of the archival materials (see Table 3.7). Writing a summary of the archival materials helped me understand the intended purpose of each document, its practical use, and whether it was relevant to my research questions or not.

Consequently, I used the NVivo 12 data-management tool and I entered all the data into text files. NVivo 12 was mainly used to classify, sort, and organize my analysis and create charts. Before starting the analysis process, I familiarized myself with the datasets and identified items of interest in order to gain a comprehensive understanding of the meanings of the data (Corbin and Strauss, 2008). I decided to classify the data as per the VC investment process (fundraising, deal originating, pre-investment, post-investment) in preparation for organizing and facilitating the voluminous data.

The data analysis process was guided by Schatzki’s social ‘site’ analysis, discussed in Chapter 2 (section 2.4.2). Following Schatzki (2005)’s three tasks (see Figure 3.2), I began the analysis by first identifying the actions that comprise the site (i.e. Horizon Venture). To illustrate, I asked myself questions, such as, what VCs do in general, what VCs do to add value, and what the actions involved at each VC stage (i.e. fundraising, deal originating, pre-investment, post-investment).
In the second task, I combined the actions that shared the same teleoaffective structure into a practice\(^\text{39}\). This is because Schatzki (2012, p.15) explains that “\textit{an action belongs to a practice if it expresses one of the understandings, rules or teleoaffective elements that organise that practice}”. For instance, activities such as reviewing the investment opportunities, consulting the VC team, and identifying whether there is a real or perceived conflict of interest between the VCF and the potential company, are different activities within the reviewing practice (see Chapter 4, section 4.5.1.1). In the analysis, I will use the term ‘ends’ or ‘purposes’ to capture what Schatzki refers to as teleoaffective structure.

Subsequently, I engaged in a further round of analysis in which I combined practices that shared the same teleoaffective structure into a higher-level practice. For example, practices such as reviewing the PC’s materials and pre-investment documents, meeting the founder and the employees, and visiting the company premises were different practices within familiarizing practice (categorised as familiarizing practice). These practices were grouped as familiarizing practice because they were held together by the same teleoaffective structure (i.e. to get to

\(^{39}\) Since my focus is on exploring how VCs’ value-adding activities are held together by one dimension of practice organizations (i.e. teleoaffective structure), the other practice dimensions are not used.

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know the company business and collect data and information). Image 3.1 shows a Nvivo hierarchy chart of familiarizing practice node compared by number of items coded.

The second task also involved discovering relationships among the practices which composed the site and reflecting on the data by asking questions. Such questions included, whether and how the findings differed from existing knowledge and why VCs do what they do. To help me visualise the relationships within each practice, I developed a practice template (see Figure 3.3). This provides a representation of the sub-practices and the aggregated practice mapped to the teleoaffective structure.
After identifying the practices of which the actions that comprise the site are part, I set out to identify the practices outside the site, to which the practices composing the site studied are closely tied. Specifically, I explored and identified some of the practices that forming part of the wider MENA's VC and entrepreneurial ecosystem (see Case 2). More details of data collection and analysis is provided in (section 3.6). Then I compared and reflected on how Horizon Venture net of practices (Case 1) are tied to the other two VCFs (Case 2). Image 3.2 shows a screenshot of the VCs bundles of practices as per the VC investment process form NVivo 12.
Image 3.2: VCs Bundles of Practices as per the VC Investment Process form NVivo 12
The data analysis process was a lengthy one; it took me an entire year to draw my findings. This is because I found that practices were not always easily identifiable, especially in isolation. When I started the analysis, I had a singular focus: identifying the value-adding practices in the post-investment stage. But through immersion in the data, I realized that I needed to consider the place of other practices within the site, that is, investment and non-investment practices, that Horizon Venture engaged in (see Figure 3.3, column two). Thereby, through immersion in the data and looking at Horizon Venture as a social site instead of a separate entity, I was able to recognize the links between the value-adding practices and the other practices within the site. In addition, I was able to consider what the connections were between the value-adding practices and other practices outside the site and recognize their relationship with other people and organizations.

To demonstrate how I dealt with the rich data of this case, I show where I have used the data in the analysis (see Table 3.4, column three). To illustrate, the field notes were used for two reasons: to capture what VCs were saying and doing, and to identify the VCs actions, and therefore their value-adding practices and material arrangements. Similarly interview data were used to capture what VCs were saying but also to explore the organization of practices, to yield explanations and insights unavailable from other sources, and to triangulate evidence from observations. More details relating to where I have used the different sources of evidence in the analysis are available in Appendix 3.

I would compare the data analyses to building a puzzle. It was challenging, required assembly, often there was no end-time expectation, and the difficulties rested on finding ways to sort out the pieces and, therefore, build the puzzle. At the early stages of building a puzzle (i.e. data analysis), one could start the process by sorting similar colour or pattern pieces together (i.e. I identified the VC activities and grouped them based on the VC investment process). This step allows to divide the main task into sub-tasks. Then one could assemble the sorted pieces to build smaller clusters (i.e. combining activities that share the same end into a practice). After that, one could connect the smaller clusters and fill in the gaps until the whole puzzle was completed.
Overall, I would describe the analytic process for this study as iterative, spiraling, and/or cyclical, rather than linear. That is, I moved iteratively between data, practice theory and extant literature.

3.6. CASE TWO

3.6.1. Overview of the Case
To understand how the practices of VCs vary across organizations and to compare and contrast the findings of Case One with other VCFs in the region, two VCFs in Jordan were chosen: Circle Venture and Triangle Venture. Collectively, these firms represent the main players of the VCFs in Jordan and in the MENA in general. Table 3.8 describes each VCF and the nature of research engagement with each.

<table>
<thead>
<tr>
<th>VCF</th>
<th>Description</th>
<th>Research Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Circle Venture</td>
<td>Circle Venture, a leading VCF that invests in technology companies, was founded in 2011. It invests through separate focused funds both in the USA and MENA, which are backed by the King Abdullah II Fund for Development, Cisco, the European Investment Bank, and the European Bank for Reconstruction and Development. It recently launched a new fund called AB Venture in partnership with Endeavor to support Jordanian entrepreneurs, fund managers and investors. The fund is backed by the United States Agency for International Development</td>
<td>Semi-structured interview with (a) the founder and managing partner, (b) investment associate, (c) a PC’s CEO, and (d) founder of a PC 1-day participant observation</td>
</tr>
<tr>
<td>Triangle Venture</td>
<td>Triangle Venture is a VCF that focuses on the MENA region, founded in 2011. It is a private partnership between investors and business experts. One of the investors is the founder of one of the leading companies in the MENA region (listed in FTSE 100) and the other individual is the founder of a Jordanian bank. Triangle Venture invests in seed and early stages opportunities, and focuses on technology, energy, lifestyle brands, and creative industries</td>
<td>Semi-structured interview with (a) managing director, (b) investment associate and (c) a founder of a PC 1-day observation of Triangle Venture daily morning team huddle</td>
</tr>
</tbody>
</table>

40 The real name of the firms, funds and VC team are not disclosed. Pseudonyms have been adopted to maintain anonymity.
It is worth mentioning that the two VCFs are considered small firms. At the time of the research, Circle Venture had a CEO, two partners (one based in Jordan and the other in the US), two directors and an investment associate, whereas Triangle Venture has an executive director, a managing director, an investment associate and an analyst.

### 3.6.2. Data Collection

To gain insights into the activities and practices of the two VCFs, semi-structured interviews were conducted with VCs and some entrepreneurs over a week (beginning 2nd of December 2017). Table 3.9 gives an overview of the key respondents in the second case.

<table>
<thead>
<tr>
<th>Name</th>
<th>Gender</th>
<th>Qualification</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>KE</td>
<td>Male</td>
<td>BSc Economics and Political Science</td>
<td>Co-founder and Managing Partner, Circle Venture</td>
</tr>
<tr>
<td>SD</td>
<td>Female</td>
<td>BSc Economics Politics and International relations</td>
<td>Investment Associate, Circle Venture</td>
</tr>
<tr>
<td>SO</td>
<td>Male</td>
<td>BSc Finance and Management MBA</td>
<td>Managing Director, Triangle Venture</td>
</tr>
<tr>
<td>JS</td>
<td>Female</td>
<td>BSc Finance and minor in Accounting MBA</td>
<td>Investment Associate, Triangle Venture</td>
</tr>
<tr>
<td>AA</td>
<td>Male</td>
<td>BSc Entrepreneurship/Entrepreneurial studies</td>
<td>Analyst, Triangle Venture</td>
</tr>
<tr>
<td>HF</td>
<td>Male</td>
<td>BSc Agricultural Economics and Agribusiness Management MBA</td>
<td>CEO, Square</td>
</tr>
<tr>
<td>AJ</td>
<td>Male</td>
<td>BSc Industrial Engineering</td>
<td>Founder of a PC</td>
</tr>
</tbody>
</table>

The interviews lasted between 30 and 90 minutes in length (overall this data totals 388 minutes). The interviews were audio recorded and subsequently transcribed using software Sonix.ai, yielding around 97 pages in Times New Roman (12 point, single-spaced). The transcription procedure was the same as in Case One. VC respondents were asked similar questions to Case One interviews (see Appendix 2 for the interview guide), whereas the PC founder and CEO were asked to talk about how VCs add value to their companies, what forms
of support they received, and to explain the meaning of adding value\textsuperscript{41} (see Appendix 4 for the entrepreneur’s interview guide). The interviews were supplemented with several day observations (see right side of Table 3.8).

Furthermore, to gain insights into VC activity in the MENA region, I attended the 17\textsuperscript{th} Annual London Business School Middle East Conference on the 8th March 2019. The conference featured prominent MENA business and government leaders to discuss emergent themes in the region. The theme of the conference was ‘Investing in Transformation’, and the sessions focuses on topics related to VC investing and entrepreneurship. I found three sessions of particular interest. The first was a panel session called ‘Venture Capital: Fuelling Innovation and the Technological Revolution’, which brought together three managing partners of leading MENA VCFs to share their experience and discuss how they fuel innovation. The second panel session called ‘Entrepreneurship: Building Unicorns in the Middle East’ brought together three executives of potential unicorns in the region to share their stories and experience on how they compete with tech giants. The conference also hosted a fireside chat for two senior investors in the MENA region to discuss how investment in technology is fuelling economic diversification and value-creation. All in all, the conference helped me to gain insights about the VC activity in the region but also to gain familiarity with VC terminology and the language they used and in general.

\textsuperscript{41} For Square’s CEO interview, I combined both interview guides because Square act as an accelerator and fund manager and is one of the PCs of Circle Venture.
3.6.3. Data Analysis

This section provides an overview of the data analysis process followed for the second case study. A summary of the main steps is presented below in Table 3.10.

<table>
<thead>
<tr>
<th>Steps</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarization</td>
<td>Read through data to familiarize myself</td>
</tr>
<tr>
<td>First-level coding</td>
<td>First-level open coding of the interviews and the observation notes to identify general themes (QSR Nvivo 12)</td>
</tr>
<tr>
<td>Second-level coding</td>
<td>Second-level coding to aggregate the general themes</td>
</tr>
<tr>
<td>Cycling among the emergent themes</td>
<td>Understand the differences and similarities of VCs practices across firms</td>
</tr>
<tr>
<td>Cross case analysis</td>
<td>Compare the two cases</td>
</tr>
</tbody>
</table>

The first step of the data analysis was to familiarize myself with the data by reading all the transcripts and the observation notes. Subsequently, I engaged in open coding, using Nvivo 12, to identify general themes. During this step, I kept an open mind in organizing the data, identifying connections within datasets and producing frameworks for data analysis. Next, I conducted selective coding (Corbin and Strauss, 2008) to aggregate the general themes to more broader themes. The fourth step involved cycling among the emergent themes from both cases to develop a deeper understanding of the differences and similarities of VCs’ practices across organizations. Finally, I compared and contrasted the emergent findings of the two VCFs - Circle Venture and Triangle Venture - with the emergent findings of Horizon Venture. Table 3.11 shows the data structure of the findings.
### Table 3.11: Data Structuring and Findings

<table>
<thead>
<tr>
<th>First-order Themes</th>
<th>Second-order Themes</th>
<th>Overarching Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning by itself</td>
<td>(6.3.1) Starting a VCF in the Region</td>
<td>(6.3) Different approaches to VC in the MENA region</td>
</tr>
<tr>
<td>Educating service providers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dealing with international service providers</td>
<td></td>
<td></td>
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<tr>
<td>Setting up a fund as a private partnership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Launching a joint fund</td>
<td>(6.3.2) Lack of equity investments</td>
<td></td>
</tr>
<tr>
<td>Persuading international investors to co-invest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Setting up an American VC fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishing accelerators, incubators and mentorship program</td>
<td>(6.3.3) Accessing the pipeline</td>
<td></td>
</tr>
<tr>
<td>Launching non-profit organizations (NPOs)</td>
<td>(6.4.1) Supporting startups</td>
<td>(6.4) VC activity in the MENA region</td>
</tr>
<tr>
<td>Serving as a board trustee in NPOs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supporting universities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Giving feedback to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participating in the region’s summits, conferences, and events</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Providing mentorship support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building or helping catalyse the creation of entrepreneurship programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-investing</td>
<td>(6.4.2) Supporting other VCFs</td>
<td></td>
</tr>
<tr>
<td>Referring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaborating</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Giving feedback</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharing skills and expertise with others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivering successful stories</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.7. QUALITY OF RESEARCH, ETHICAL CONSIDERATIONS AND RESEARCHER ANTICIPATION

3.7.1. Quality of Research

As for all research, the main objective is to contribute to existing knowledge; therefore, it is necessary to ensure the quality of the research (Easterby-Smith, Thorpe and Jackson, 2015). According to Lincoln and Guba (1985), the trustworthiness of a research study depends on its credibility, transferability, dependability and confirmability. Credibility refers to the degree of confidence in the truth of the findings whereas transferability refers to the ability to apply the findings beyond the context of the study (ibid.). Dependability is concerned with the ability to replicate the findings of a study by repeating the data-collection process while confirmability refers to the degree to which the findings are shaped by the participants and not researcher bias or views (ibid.). These four criteria are in place of those usually applied in judging the positivist approach, namely: internal validity, external validity, and reliability.

However, this thesis is based on a constructionist case study and adopts a practice theoretical approach. Such an approach is predominantly concerned with providing a rich picture and situated insights of the phenomena and less concerned with applying the findings to other contexts (transferability) or replicating the findings (dependability). It is important to point out that unlike positivist researchers, constructionists believe that social reality changes and that there is, thus, no need to replicate the research outcomes.

Ensuring the credibility of the study is important because it enables the researcher to assess and ensure the consistency of the research findings and conclusions. To ensure credibility and corroborate the research findings, the study follows the techniques of Lincoln and Guba (1985), wherein various sources of evidence are used to strengthen the research findings. The credibility and confirmability of the study is further ensured by implementing several triangulation methods, such as informant triangulation and data triangulation. As previously noted, the interviews triangulated to elicit a range of perspectives on the topic. In addition, multiple sources of evidence were used to capture the topic in full, from observations to firm-related documents. The second technique, used to ensure the credibility of the research output, was ‘peer debriefing’, in which the researcher discussed and presented the research process...
and the emerging analytical models with research colleagues at peer conferences and workshops. Overall, the study followed the recommendation made by Easterby-Smith, Thorpe and Jackson (2015) that the findings of a constructionist study must be believable and its methods transparent.

3.7.2. Ethical Considerations

To ensure the safety of the researcher, research participants and organizations involved in this research, it is necessary to consider ethical issues. The research project followed the ethical principles identified by Easterby-Smith, Thorpe and Jackson (2015), based on Bell and Bryman (2007).

At the beginning of each interview, I clearly informed the interviewees of the general subject, purpose of the study, benefits of contributing to the study, and its intended uses. The participants were also given the option to refuse to answer any questions on topics or areas with which they were uncomfortable, and to leave at any point without censure. The written consent of all participants was obtained at the beginning of each interview, that covered the rights to record the interviews, to use anonymised quotes and to use the data for future research. Also, all participants had the right to see their data and have the opportunity, at the time of the interview, to request that their data be withdrawn from the study. The written consent also covered agreement that the collected data would be anonymous and securely stored.

In regard to the presentation of the findings, I agreed to send a written summary and a presentation of the findings to Horizon Venture’s CEO in order to obtain his approval to present the findings. I agreed that the summary and presentation would not, under any circumstance, contain names or reveal the identity of either the firm or the individual participants. To ensure this anonymity, when referring to the VCF, the PCs and the persons, I substituted real names with pseudonyms. Whether these pseudonyms are for individuals, where invented initials are substituted for the real, or for organizations, where invented company names are used, the

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42 I presented my work in the 3rd Annual Entrepreneurship as Practice (EAP) Conference (18-19 April 2018), 3rd Bath School of Management PhD Conference (8-9 May 2018), and in the 4th Annual EAP Conference (3-5 April 2019).
information is included within round brackets after the evidence. For example, (HV, CEO, Horizon Venture).

I acknowledge that masking the name of the VCF, the PCs and individual persons is not enough to ensure anonymity. This is because the study has elements of ethnographic inspiration which are about conveying a richer description to get a sense of the research site. To illustrate, the thick description of the site and the unique settings of the firm (i.e. its organizational structure, location, PCs, number of funds, multicultural office, sister companies), events and background of the research participants, may inadvertently make the research site recognizable.

In order to reduce the possibility of site identification, I used two methods: the first involved questioning myself (about the necessity and outcomes of including/excluding certain details) and the second was checking potential exposure through a pre-emptive internet search. To illustrate, I have chosen to withhold specific details in my possession that were not strictly necessary to the narrative (e.g. the exact location of the headquarters, the names of firms where participants previously worked, the specific sectors of the PCs). Where I was unsure about including a piece of evidence, I conducted an online search to see if the information I was considering using was likely to reveal the research site. For instance, I did not reveal the Capital or the Enabler report titles because they would be easy to locate, being publicly available on the Horizon website. Also, I removed specific information regarding partnerships and events (e.g. the name of the company/organization and theme of the event) because of the ease with which these might be found via an online search.

Despite the efforts that researchers can make to ensure anonymity of the research site, anonymity is, nonetheless, difficult to maintain. However, contexts evolve, and structures change with time, which makes the research site less identifiable. Horizon Venture today, since they exited one of its PCs, is a substantially different concern as most of its team has moved. For instance, the Managing Partner co-founded a new VCF in the region, one of associates and the analyst have moved to the other side of the equation and joined startups, and other team members have joined other firms or organizations. As a result, the firm’s organizational structure has changed, and the focus is now moving to Horizon Space.
As the research project does not deal with personal issues, the risk of harm to the participants is deemed to be negligible. However, sensitive data related to the VCF, for example, venture valuation, might be required and reported in the research process. The sensitive data has been managed with extra care, and the data held securely and confidentially with access limited to the research team only. The research data is securely stored and, in integrating part of the University’s Data Management procedures, I completed a detailed account of the University's data-management plan. Also, in integrating part of the University's ethical procedures, I completed the University's Ethical Implications of Research Activity Form.

3.7.3. Research Reflection
This section highlights my personal experience and reflections of conducting ethnographic inspired research in the VC context. Hopefully, it will also shed light on some of the ethnographic inspired research practices in the study of VCs.

One of the early learning outcomes in my research journey was that it would be insufficient to rely on interview data to identify the VCs’ value adding practices. This understanding became clear while conducting my first period of fieldwork in December 2017 in Jordan. This initial experience taught me about the importance of ethnographic methods in understanding the VCs value adding practices. As a consequence, I decided to engage in a longer period of fieldwork with a VCF, and that led to the decision to embark on Case One.

Since Horizon Venture is based in Dubai and I am a Saudi citizen, I decided to enter the field site with my identity, that is, wearing my traditional clothing. The traditional clothing, that is, abaya for women and thobes for men, are the accepted clothing style in public for most GCC citizens. At the beginning of my fieldwork, I spent the first couple of days building my understanding of the research site culture. To illustrate, I attempted to understand the VC’s work style, capturing the language they used, observing people’s workplace interactions (i.e. with each other and with their environment), and recognizing their day-to-day routine, rituals and norms. I noticed the VC team’s consciousness of my role as a researcher in the firm, especially that I was a Saudi woman, wearing my traditional clothing, doing a research on a

43 Apart from Kuwait and Bahrain.
MENA VCF from a UK university. I was aware that as I was the only person in the firm wearing a traditional outfit, that gave the impression, even to Arabs, that I was conservative. The team I was working alongside wore Western-style clothing because there were no Emirati working in the firm.

In order to make the VC team comfortable with my presence in the firm, I engaged in activities to gain its trust and I set out to build friendships with members of the junior team (i.e. investment associates and the analyst), since they were similar in age to me. For instance, I spoke with the junior team about my experience of living independently in the UK and how my family supported me. In addition, I volunteered to assist the junior team with certain things (e.g. writing meeting memo and screening memo). I also took every opportunity to join the VCs in their coffee and lunch breaks to engage them in informal conversation. Simultaneously, that gave them the opportunity to ask me about my research since this was the first experience for them to have a researcher on site. Such activities and discussions were extremely important in challenging the VC’s perception of the stereotype of Saudi women in general and, more specifically, to help them to understand my way of thinking. After couple of weeks, the investment analyst told me what the team thought of me, that was, a conservative person but with an open mind. Therefore, they become less concerned about my presence in the firm and were more open to discussing confidential matters.

However, I met some resistance from one of the VCs. That is, this person decided not to allow me to attend some of their meetings. I felt that the decision was either to exercise power or to discuss some criticisms of their PCs that they did not want me to hear. I reflected on this exclusion and, in response, I decided to change my behaviour and take a more active part in meetings. I reflected on this exclusion and, in response, I decided to change my behaviour and take a more active part in meetings. That is, instead of just writing everything down, I would just write the main points and then expand those notes when I got back to my office. This is because I felt that the person in question was concerned about my not talking in meetings, and I wanted to make them feel comfortable in my presence.

Ethnographic access to Case One provided a range of data, including observations, formal interviews, attending meetings, being present during daily activity, and having access to the
firm’s database. As such, it yielded unique and in-depth insights and understanding into VC value adding that is difficult to capture using quantitative methods (e.g. survey data). Furthermore, it enabled me to capture the actual doings and sayings that the VCs engaged in, and to explain why something happens and how it is done. Also, it allowed me to appreciate the artefacts at play in these doings as well as the social, cultural and institutional contexts in which these doings are immersed. If I reflect on what I learned from the data collection stage, it was the importance of being open when I entered the field. That is, I learned that I should not narrow my focus on what I should observe (i.e. value adding activity and the work of the VCT). Luckily, being in the field gave me the opportunity to attend pitching meetings and observe the other investment (e.g. fundraising, deal originating, due diligence) and non-investment practices (e.g. onboarding, continuous improvement) which, during the data collection, were less relevant to my topic. But when I started analysing my data, I realized and appreciated the relationship between the value-adding practices and other practices within the site (i.e. investment and non-investment practices).

While I was extremely happy that I gained access to the reality of VCs’ value-adding activity and was able to secure access to rich data from Horizon Venture, at times I was overwhelmed by its volume and whether I would be able to analyse the extensive data and use it to draw conclusions. This is because ethnographic research is subjective, that is, it depends on the researcher’s background and knowledge, what the researcher observed and paid attention to, and what the participants decided to give access to and consciously share with the researcher. It was extremely challenging to analyse the huge volume of data. Indeed, I became lost in its messiness, which is why it took an entire year to reach my findings. In addition, practices were not easily identifiable. The slow process of identification came through immersion in the data and moving between data, practice theory and extant literature.

By being closer to the studied context through spending several weeks in the VCF, interacting with VCs, and observing their behaviour and events, I gained three tangible benefits. First, my proximity and curiosity generated an openness from the VCs, and, as a result, increased my understanding of the topic under study (i.e. VCs’ value-adding practices). Second, I was able to personally capture the value adding in situ, that is, the actual doings and sayings, and not only rely on what VCs told me in the interviews. Third, it helped me to appreciate the cultural
aspect of the VCF, the managerial and human dynamics as well as artefacts that play a role in VC practices. As a result, it opened my eyes to the connections and relationships between VCs value adding and other practices within and outside the research site.

Moving to the learning outcome of Case Two, the Jordanian case study helped me to reflect on the VCs investment practices in a broader context and therefore, develop a better understanding of the MENA entrepreneurship ecosystem. This is because I was able to meet and speak to two leading VCFs and different entrepreneurs as well as to gain an overview of the VC scene in Jordan. Amman was the leading VC hub in the MENA region before Dubai took its place. What makes Amman a leading VC hub is its highly-educated citizens, its technology infrastructure, its political stability, and its cultural diversity (i.e. its many immigrants and refugees). Jordan has a long history of hosting immigrants and refugees from Middle Eastern countries, that is, Palestine since 1948, Lebanon during the civil war of the 1970s and 80s, Iraq since the 1991 Gulf War and again after the 2003 invasion of Iraq (Chatelard, 2010) and, most recently, Syria, since the 2011 outbreak of civil war. The presence of these people has played an important role in developing the country’s private and public sectors. Hosting immigrants and refugees has given Jordan access to receive development assistance from various countries and organizations, and this has helped supports refugees resettle, integrate into communities, and ultimately contribute to the Jordanian economy (ibid). This includes providing start-up funding for Jordanian companies or funding to VC funds.

Overall, the two case studies provide richer and deeper insights into the topic of VCs value adding. Although Case Two involved limited access to two VCFs, it did serve to increase my understanding of the MENA VC ecosystem, as will be explored in more detail in Chapter 6.

3.8. CONCLUSION

The purpose of this chapter was to describe the research methodology adopted, to explore the VCs practices to add value to their PCs, and to provide a rationale to justify that choice.

Given the nature of the research questions and in line with the practice theory and the philosophical stance of this research project, a case study design was adopted. For the first case study, Horizon Venture provided me with wide access to observe the practices and data was
collected mostly from four data sources: observations, interviews with partners and firm team, other primary data, and archival data. For the second case, two VCFs were carefully and purposefully selected and data was collected mainly from interviews with one-day observations at each site (VCF). Interviews were transcribed following the McLellan, MacQueen and Neidig (2003) transcription protocol for qualitative interviews. Concerning data analysis, data were entered into NVivo 12 and coded based on emergent themes following both Miles and Huberman (1994) and Corbin and Strauss (2008).

In the next three chapters, I will present and discuss the results from the two case studies. First, Chapter 4 will unpack the VC investment practices which are engaged in before an investment is made. Then, Chapter 5 will open the “black box” of how VCs add value. Chapter 6 will discuss some of Horizon Venture’s key organizational practices and reflect on some of its investment practices in a broader context by comparing it with Triangle Venture and Circle Venture (case two).
## 4.1. LIST OF TERMS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>100-day plan</td>
<td>It describes the most urgent steps for value development that companies should take as soon as the agreement is concluded.</td>
</tr>
<tr>
<td>Burn Rate</td>
<td>Refers to the rate to which a startup company uses capital to fund expenditure.</td>
</tr>
<tr>
<td>C-suites</td>
<td>Is a term used to refer to the top senior managers whose roles appear to begin with the 'C' letter for 'Chief'.</td>
</tr>
<tr>
<td>Cap Table</td>
<td>An official record that indicates a company's financial structure.</td>
</tr>
<tr>
<td>Carried Interest</td>
<td>The proportion of income created which a fund manager is entitled to retain as rewards.</td>
</tr>
<tr>
<td>Control Rights</td>
<td>An investor's or shareholder's rights involving influence over the affairs of the company.</td>
</tr>
<tr>
<td>Convertible Note</td>
<td>A loan that requires the issuer to swap the debt at a fixed ratio for common stock instead of retrieving the principle as cash.</td>
</tr>
<tr>
<td>Drag Along Rights</td>
<td>It enables an investor to compel the promoters and shareholders of the firm to agree by referendum to a change of ownership that liquidates a portion of the company.</td>
</tr>
<tr>
<td>Entrepreneur in Residence (EIR)</td>
<td>A seasoned entrepreneur hired by a VCF to support the fund in screening potential investment and to mentor the fund’s PCs.</td>
</tr>
<tr>
<td>Fund of Funds</td>
<td>A fund established to invest in VC funds or private PE funds.</td>
</tr>
<tr>
<td>Investment Memorandum</td>
<td>An investment memorandum allows prospective investors to understand the value of investing by explaining the investment opportunity and the fund’s operating model and structure.</td>
</tr>
<tr>
<td>Investment Term Sheet</td>
<td>A non-binding arrangement that specifies the key components of an investment to be made in a company. A term sheet provides the basis for the creation of extensive legal papers.</td>
</tr>
<tr>
<td>Investment Thesis</td>
<td>An investment thesis determines the point, geography and the investment focus, as well as the company's distinctive qualities.</td>
</tr>
<tr>
<td>Lead Investor</td>
<td>Refers to a VCF or potential investor that arranges a particular round of investment, in which they tend to spend the most capital in the round.</td>
</tr>
<tr>
<td>Offshore Company</td>
<td>A company founded in a place other than its country of residence.</td>
</tr>
<tr>
<td>Onshore Company</td>
<td>A company organized under a country's general laws.</td>
</tr>
<tr>
<td>Pitching</td>
<td>A succinct presentation given to a prospective investor by an entrepreneur to convince...</td>
</tr>
</tbody>
</table>

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Chapter 4: IDENTIFYING THE SOCIAL SITE OF VENTURE CAPITAL
<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>an investor to invest.</td>
<td></td>
</tr>
<tr>
<td><strong>Restricted Stock</strong></td>
<td>Represents a type of stock that is non-transferable.</td>
</tr>
<tr>
<td><strong>Revenue Run</strong></td>
<td>A revenue run estimates annual performance based on actual revenue for a specified shorter span.</td>
</tr>
<tr>
<td><strong>Roadshow Meetings</strong></td>
<td>Refer to a series of meetings that are typically made to current and prospective investors in several different locations to convince them investing in a startup’s new round.</td>
</tr>
<tr>
<td><strong>Seed Round</strong></td>
<td>The first structured round of funding for a startup company is the seed round. This is usually to prove the concept and/or create a prototype.</td>
</tr>
<tr>
<td><strong>Series</strong></td>
<td>Refer to the particular financing round a startup company is raising.</td>
</tr>
<tr>
<td><strong>Service Led Agreement</strong></td>
<td>An agreement between a supplier of services and a customer.</td>
</tr>
<tr>
<td><strong>Shareholder Agreement</strong></td>
<td>An agreement that lays out how the company will be run, and it specifies the obligations and rights of the shareholders.</td>
</tr>
<tr>
<td><strong>Stage</strong></td>
<td>Refer to the stage of a start-up: A seed-stage, early-stage, mid-stage, and late-stage.</td>
</tr>
<tr>
<td><strong>Stock Option</strong></td>
<td>A right to buy or sell, within a given period of time, a share of stock at a particular price.</td>
</tr>
<tr>
<td><strong>Tag-Along Right</strong></td>
<td>Refers to the equal rights of all investors regardless of size.</td>
</tr>
<tr>
<td><strong>Unicorn</strong></td>
<td>Refers to a privately-owned start-up company with estimated valuation at US$ 1 billion or more.</td>
</tr>
</tbody>
</table>
4.2. INTRODUCTION

Although the aim of this thesis is to unpack a particular VC investment practice (value adding practice) using Schatzki’s practice theory, it is crucial to analyse and explain a social phenomenon within its site. This is because human coexistence inherently transpires as part of its site (Schatzki, 2005). The site of the social, as Schatzki (2005) portrays, is a mesh of practices and material arrangements. This indicates that human coexistence is inherently tied to the mesh in which it transpires. Therefore, the aim of the three Finding chapters is to provide an overview of the site (i.e. Horizon Venture) by identifying what the firm does, identify the different ways in which the value-adding activities are connected, and to reflect on some of its investment practices in a broader context.

Viewing Horizon Venture as a social site, I begin this Findings chapter with an illustration (Figure 4.1). My illustration is inspired by Schatzki (2005) site analysis of an academic department and Nama (2014) representation of an academic department as nexuses of practice-arrangement bundles to express the concept of the social site in my study.

![Figure 4.1: Horizon Venture as Nexuses of Practices and Material Arrangement](image)

Horizon Venture is a bundle of practices and material arrangements. I have categorised the former into investment level practices (fundraising, deal originating, pre-investment activities, and post-investment activities) and organizational level practices (onboarding, meeting and continuous improvement). Investment level practices refer to the projects and tasks that firms...
do to form as a VCF, whereas the organizational level practices refer to those that help the VCF to work or function as an organization. The material arrangement it embraces includes the meeting rooms, computers and projectors. The practice-arrangement bundles at Horizon Venture links and overlap with the bundles of Horizon Enabler. In turn, the larger nets of practice-arrangement bundles (Horizon Conglomerate), forming part of the wider MENA's VC and entrepreneurial ecosystem, are tied to similar nets that are other VCFs, VC associations, industry bodies and governments. This larger confederation of nets (MENA's VC and entrepreneurial ecosystem) links with confederations found in other regions, such as Silicon Valley and Boston.

Horizon Venture employs several practices and implements a number of interrelated projects and tasks, both as a VCF and as an organization. On an investment level, practices include those that the VCF undertakes to fundraise plus those that the VCF undertakes in relation to individual investment. In regard to the latter, Tyebjee and Bruno (1984) identified five activities in the VC investment process model: deal origination, deal screening, deal evaluation, deal structuring, and the provision of monitoring and value-added services. Based on my observations, I have divided the VC activities into four stages: fundraising, deal originating, pre-investment, and post-investment. Pre-investment activities include all the activities from receiving a funding request from a prospective company to the point of deciding to make an investment. Whereas the post-investment activities refer to all the activities that occur once an investment has been made in a company, for the duration of that relationship (until the VCF exits). Figure 4.2 presents the four main steps in the investment process mapped to the teleoaffective structure of each step.
The overall goal for the VC investment process is to select promising investments, monitor and add value and, ultimately, exit them. In this way, it can provide returns to investors. This chapter is organized as follows: section 4.3 presents the identified fundraising practice; section 4.4 presents the identified deal originating practice; and section 4.5 presents the identified pre-investment practices. Section 4.6 concludes the chapter with a short summary.

4.3. **FUNDRAISING PRACTICE**

Before the VCF can invest in companies, it needs to raise capital from institutional and/or individual investors to build a VC fund. As discussed in Chapter 1, the fund is structured as a limited partnership, where the VC fund managers are the GP, who manages the fund, and the investors are the LP, who give the money. Fundraising practice prefigures VC investment practices. To illustrate, without a fund the whole VC investment activity would not exist.

VCs are selective in choosing their prospective investors because they understand the value and the unique insights that these investors can bring to operations of the fund, specifically, in regard to the value that these investors can add to their PCs (as will be discussed in Chapter 5). The fundraising process for Fund I was not easy because investors were cautious about investing in this type of finance in the MENA region. As a result, Fund I did not meet the $100
million fund target and only raised $50 million in commitments. However, investors did become more aware of the benefit of investing in VC funds, as TS reflected:

*So to talk about it with you know ... and see what's happening, and today as we are fundraising we hear about family offices that are scared to be disrupted by the digital evolution, transformation and now they want to start investing with [VC] because this is interesting. There has been a paradigm shift... and I think [HV] and [Horizon] have had a big role to play in all of that* (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

During my time at Horizon Venture, the VC team were in the process of launching a second dedicated institutional VC fund, called Fund II, to continue investing in and scaling MENA start-ups. The VC executives assigned TS to lead Fund II’s fundraising process with the help of the investment associates and the analysts (called the Fund team). The Fund team created a folder ‘HC Fund Raising 2’ on the cloud storage service Dropbox to store all the reports, presentations and documents related to the fundraising process (This is theorized as ‘rule’ in Schatzki framework). This made the folder accessible to the Horizon Conglomerate team.

To raise funds, the Fund team engages in three practices (preparing a private placement memorandum (PPM), making presentations, and pitching to investors). The ‘end’ of the fundraising practice is to secure commitments from prospective investors. Figure 4.3 illustrates the sub-practices that constitute the fundraising practice.
In the following paragraphs, these practices employed in the fundraising practice are explained in more detail.

4.3.1. Preparing a Private Placement Memorandum

The Fund team prepares the PPM, which is a legal document proposed to potential investors to invest in Fund II (as outlined in Chapter 3). The purpose of the document is to convince the potential investor of the value of investing by explaining the investment opportunity and the fund’s operating model and structure. It highlights the scope of the fund, discusses the target sectors, and describes the team’s capabilities and organizational structure. Vitally, it also discusses the economic impact of the fund, outlines investment terms, and displays Fund I’s track record.

I witnessed how the Fund team at Horizon spent a considerable amount of time and effort preparing the PPM document. They identified the selling points that differentiated them from others to attract investors. The selling points were: (1) having experienced partners - successful entrepreneurs and former founders or CEOs of successful companies; (2) having a dedicated VCT to support the development of the PCs; (3) having an Enabler that accelerates the
entrepreneurship ecosystem, and (4) having a track record of investing in Fund I and CD FUND.

Although the Fund team is responsible for preparing the PPM, the VCT and the Enabler team is also involved in the preparation. The VCT is responsible for highlighting its role and how it offers help and support in the post-investment stage. This is referred to in the PPM Document (p. 24): “As part of its value-add strategy, Fund II will hire operational support teams to structure comprehensive support for its [PCs] and synergize the portfolio management experience across various business sectors”. With regard to the Enabler team’s involvement, the team highlights the important role it plays in supporting Horizon Venture and gives an overview of the role of its four arms: media, community development, research and advisory services. Also, it gives examples of its strategic partnerships and advisory services.

The Fund team highlights the past performance of Fund I and CD Fund to show the team’s capabilities in managing start-ups. They draw on financial and accounting information to provide insights into the performance of the PC and of the fund. For PC performance, the multiple of capital contributed (MOC) is calculated for each company by dividing the current value of the VC stake by the paid in capital; whereas for fund performance, the total value to paid-in (TVPI) is calculated by dividing the sum of the VC stake’s current value by the sum of paid in capital. The Fund team also provides information on the number of investments, investment date, investment stage, and business description. Image 4.1 shows an example of how past performance is also used by the team to highlight the realized return, unrealized returns, capital deployed and the multiple for CD Fund companions44.

<table>
<thead>
<tr>
<th># of portfolio companies</th>
<th># of non-MENA based companies</th>
<th>Realized returns</th>
<th>Unrealized returns</th>
<th>Capital deployed</th>
<th>Multiple</th>
</tr>
</thead>
</table>

Image 4.1: CD Fund Track Record
Source: Horizon Venture’s PPM Document (p. 64).

44 For confidentiality, I have removed the figures.
The PPM Document provides an overview of the MENA ecosystem by discussing the increased interest in entrepreneurship and the macro trends of technology investment in the MENA. It also discusses the market opportunity and provides evidence from reliable sources, such as the International Monetary Fund (IMF), the World Economic Forum, Ernst & Young, Arabnet45, and Magnitt46, about topics like transaction value and VC investment activity in the MENA region. Furthermore, it highlights the funding gap for start-ups in the region by comparing how comparatively little the VC investment in the MENA region contributes to the GDP. For example, evidence in the PPM Document from the 2014 joint report of the IMF and World Economic Forum, is used to compare Arab countries to the US:

According to the [IMF], the UAE, Saudi Arabia, and Arab countries more broadly are lagging far behind in terms of [VC] investment in technology and technology-enabled sectors. The ratio of VC investments as a percentage of GDP is 0.03% in the UAE and 0.02% in Saudi Arabia. In comparison, that ratio is 0.30% in the US (PMM Document, p. 16).

Another way the fund gap is highlighted in the PPM document is by using a figure from the Arabnet report titled ‘The State of Digital Investments in MENA’. From this, it is clear to see that the majority of the VC investment in the region is allocated to growth-stage start-ups (see Image 4.2).

45 Arabnet is an organizer of a case, perspectives, and innovation initiative focusing on technology and growth in the MENA region.
46 MAGNiTT is an investment data platform that offers a range of research, reports and data covering the MENA startup ecosystem and connects entrepreneurs with the ecosystem stakeholders.
4.3.2. Making Presentations

The Fund team prepared two presentations based on the PPM Document using Power Point ‘material arrangement’. The first, a shorter one, is a teaser, sent to the prospective investor to introduce them to the fund and encourage them to invest. This presentation comprises just 13 slides which include key information and relevant figures. The slides highlight Horizon’s background, partners’ backgrounds, Fund I LPs, the target market, Fund I pipeline overview, Fund I PC highlights, examples of value-added support for two PCs, Fund II’s proposition, Fund II’s investment strategy, and Fund II’s indicative terms.

The second, more comprehensive presentation is a communication tool designed to support the Fund lead in delivering the message to potential investors effectively. A storytelling approach is taken to describe the emergence and development of Horizon Venture, highlighting the company’s milestones and the challenges it has faced and overcome. Evidence is also provided to prove the management team’s capabilities and to support the fund’s investment strategy (focus on particular industries and locations). In regard to the former, one example given is, how the CEO of Horizon Venture invested, via CD Fund, in leading global startups and had successful exits in the region. It also provides figures for how many companies Horizon
Venture has supported and how they created an impact on them, as illustrated in Image 4.3\textsuperscript{47}. For the latter, they provide a pipeline analysis of Fund I with a breakdown by industry (e.g. e-commerce, content & financial services) and geography (e.g. Saudi Arabia, UAE & Jordan).

**Impact created**

<table>
<thead>
<tr>
<th>xx companies</th>
<th>$ xxM</th>
<th>Xx %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy, Marketing</td>
<td>Helped raise xx M in funds as part of follow on investment rounds</td>
<td>Improved unit economics by xx % across xx portfolio companies</td>
</tr>
<tr>
<td>Operations &amp; Customer Experience</td>
<td>Established xx club deals for portfolio companies to focus on financial modelling, ERP solutions and logistics</td>
<td>Hired xx new additions to the teams of the portfolio companies across several levels and functions</td>
</tr>
<tr>
<td>Fundraising support</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>✔ Hands on dedicated support</th>
<th>✔ Access to network and key contacts</th>
<th>✔ On going focus on growth and improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Value add team works hand in hand with the team on ground</td>
<td>Access to the extensive network for recruitment, club deals and ad hoc support</td>
<td>A team of experienced professionals help portfolio companies improve and scale their operations</td>
</tr>
</tbody>
</table>

*Image 4.3: Impact Created in Numbers by Horizon Venture*

Source: Horizon Venture’s PPM Presentation (slide. 57).

### 4.3.3. Pitching to Investors

With the PPM and the supporting presentations ready, the Fund lead identifies potential investors with an interest in start-ups, specifically those in the MENA region. Normally, investors are identified through the Horizon Network, proactive research, and referrals. In the MENA region, governments and corporations have realized the importance of supporting their entrepreneurship ecosystem. To support their startups, they have begun to offer public and corporate funds (e.g. Al Waha Fund of Funds and Saudi Venture Capital Company). Some of these funds used the ‘fund of funds’ investment strategy, where they invest in VC funds rather than investing directly in startups. Therefore, ‘fund of funds’ is considered key potential investors for Fund II.

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\textsuperscript{47} For confidentiality, I have removed the figures.
Horizon Venture executives recognized that the potential market for any PCs in the MENA region to grow, involved accessing the GCC market. Therefore, they identified potential investors in Bahrain to be their gateway to accessing the GCC market. To illustrate, Bahrain is considered to be an offshore jurisdiction, where 100% foreign ownership of companies is permitted. By operating in Bahrain, companies can easily operate in other countries using their GCC company. Furthermore, Horizon Venture executives understand the substantial opportunity in the Saudi market. As a consequence, they proposed the fund lead spend an entire year in Saudi to encourage wealthy individuals and institutional investors, to invest in Fund II. This will be elaborated on in Chapter 5 (section 5.3.1).

After initially sending the teaser presentation to the identified investors, if they show interest in investing, the Fund team then sends them the PPM Document. However, some investors require the fund manager to complete an application form for fundraising. The potential investors review the PPM and, if they are interested, they arrange a meeting with the Fund lead for further consideration. The purpose of a pitching meeting is to present the investing opportunity, to explain the fund strategy and, most importantly, to answer the investors questions and to clarify their understanding.

To sum up, the above findings show that fundraising practice is tied to other practices such as market research practices, meeting practices and networking practices, among others. Furthermore, fundraising practice is connected to, and forms a net both with other practices within the site (e.g. value adding practice) and with players and entities outside the site (e.g. pension funds, sovereign wealth funds, insurance companies).

### 4.4. DEAL ORIGINATING PRACTICE

When I asked the Managing Partner about the most important activity of a VC, he replied that, “We want the best entrepreneurs to come to us and to work with us. So [drawing them in], that’s the most important thing we can do”. Hence, to ensure solid access to the pipeline and to build high-quality deals, the Horizon Venture team invests its time, effort and resources by engaging in five deal-sourcing channels listed below.
4.4.1. Horizon Enabler

Horizon Venture has an agreement with the Platform, as highlighted in the PPM Document (p. 9): “[Horizon Venture] will benefit from the [Horizon Enabler] pursuant to a relationship delineated by an arm’s length cooperation agreement. This agreement enables [Horizon Venture] to leverage the Platform’s pipeline development activities”. The agreement is theorized as ‘rule’ in Schatzki framework. The Enabler engages with a number of start-ups via its four arms (see Image 4.4).

Overview of Horizon Enabler

Overview of Horizon Media

Horizon Enabler is a platform of integrated programs that aims to accelerate entrepreneurship ecosystems throughout the MENA region. It has four arms:

Platform of integrated programs

Structurally independent from the Fund

News & OpEds

Community

Research Lab

Advisory

Horizon’s Media portal is an online media outlet that covers the startup ecosystems of the MENA region in both Arabic and English.

Horizon’s Community Team organizes online and offline events to strengthen the links between the ecosystems’ stakeholders and continuously stimulate the community.

Horizon’s Research Lab produces studies and reports on MENA entrepreneurship ecosystems to reduce the knowledge gap in the region and unlock its potential.

Horizon’s Advisory Services design programs and initiatives that allow corporations, large institutions, and MENA startups to engage one-another and create mutual value.

Extensive partner network

Real time ecosystem insights

Multi-stage investing

Multiple geographies

Value-add

Horizon Enabler

High-growth verticals

Utilising this platform, with its four arms, lowers the cost of finding attractive investment opportunities for the fund. It works efficiently because of its design: “The [Enabler] is able to build a highly-effective investment pipeline, since most entrepreneurs are naturally “pulled” by the Platform, whether to get coverage, mentorship, access to regional information, or generic business support” (PPM Document, p. 26).
The VC team participates in the Platform’s programs and events, including mentorship sessions and workshops both to engage with potential entrepreneurs and increase brand awareness. According to the PPM Document (p. 59), between 2012 and 2017, the Enabler hosted 30 mentoring events in nine cities including Cairo, Manama, Amman, Riyadh, Beirut, Dubai, and Casablanca. They had attracted around 1800 entrepreneurs. BT explains how the VC team engages with the community, via the Platform, to increase the deal flow:

*So, in terms of getting access to pipeline we do a lot of things in community. We do a lot of talks, events, things like this to get our name out there, and to add value to the ecosystem so there are better developed companies that come to us* (BT, Head of VCT, Horizon Venture).

This comment reflects another ‘end’ to engaging in the community activities, which is ‘to add value to the ecosystem’ by participating in developing the start-up companies and, therefore, increase the quality of the deals made. This is because “*The Enabler provides pre-investment support and mentorship that ultimately set potential [PCs] on firmer financial and operational footing ahead of an investment by the [GP]*” (PPM Document, p. 56). With regard to the impact of these events on the deal flow volume, SB (Investment Associate) comments: “*After events you definitely see much more of an inflow of pipeline*”.

In sourcing deals, Horizon Venture benefits from the Platform’s media and advisory services. The media arm engages with a wide array of entrepreneurs and startups through written articles, reports, and videos, and this gives the Venture team great visibility into potential deals. The Enabler team also builds entrepreneurship programs, such as accelerator programs for corporates (e.g. General Electric and Zain Telecom) and governments (e.g. Saudi and Kuwait governments) to advance the entrepreneurship ecosystem. In addition, the Enabler collaborates and partners with accelerators, universities and start-up programs, such as SeedStars, Innovation Live! and Harvard Arab Weekend. In turn, collaborating and partnering provides the Venture team broad access to quality deal flow.
Ultimately, the Enabler attracts entrepreneurs from the region because it offers much needed support to the Venture’s PCs in essential areas (e.g. business development, recruitment, access to new markets, follow-on investment and exits).

4.4.2. Third Party Events and Encouragement to Interested Parties

The VC team increases participation and representation in the industry by engaging in the region’s entrepreneurship summit and other start-up and entrepreneurship-focused events, such as ArabNet, MIT Business Plan Competition, World Economic Forum, and RiseUp. Through these activities team members can acquire insights into the MENA entrepreneurial ecosystem, build relationships with ecosystem stakeholders, gain exposure to potential entrepreneurs and startups, and increase their brand awareness. For instance, SB acknowledges how Horizon Venture participation at GITEX played a part in sourcing deals:

Another event we did is GITEX, was back in August ... was more focus on SMEs and larger companies. But they did have start-up section where myself and NB went and listened to pitches and companies come speak to us and tell us about their company (SB, Investment Associate, Horizon Venture).

Investment associates and analysts also tend to attend pitching events; they gain exposure to the pipeline and participate in start-up competitions. For instance, I noticed that two investment associates went to two different pitching events in Dubai on the same day, probably because it gave them the opportunity to represent the firm and source deals.

To unlock new opportunities and increase deal flow, the Venture team offers encouragement to interested parties. This is reflected in the HC Investment Process document (p. 2): “the investment team is actively engaged through mentorship with deal originating initiatives such as incubators”. For instance, TF (Director of Operations and Customer Experience) held two coaching sessions with five female university students to give them support in building their social impact startups. Although mentoring activity is considered corporate social responsibility (CSR), such activities can help the team to source deals. Furthermore, Horizon Venture executives sit on the boards of some organizations, which gives them exposure to start-
ups and entrepreneurs. For instance, HV sits on the Board of Trustees of Endeavor Global48, and the American University of Beirut (AUB), and serves on the Advisory Council of the Massachusetts Institute of Technology (MIT) Media Lab.

4.4.3. CD Fund and Horizon Venture PCs

CD Fund is considered a source of deal flow, as SB (Investment Associate) admits: “We got a lot of contacts from it”. There are two reasons why. First, because the angel fund invested in around 70 companies and, as these companies grew, they needed additional funding and assistance. Consequently, they became a source of investment opportunity for Horizon Venture. It is important to note that CD Fund not only increases the volume of the deal flow, but also increases the quality of the deals because the fund has established a long, developmental relationship with the companies, as TS (Partner) indicates: “Because we had structured and worked on these companies early on. Typically, we see them as good or superior than a lot of the companies that are in the wider marketplace”. The second reason for good deal flow is more international. CD Fund has co-invested with other investment funds, such as Khosla Ventures and Omidyar Network, and has built a global network with thought leaders, such as Joi Ito from the MIT Media Lab, Jeff Bezos from Amazon, and Reid Hoffman of LinkedIn. These actions have driven the Horizon Venture pipeline, because association with investment funds and thought leaders of such renown brings access to unique deals.

Entrepreneurs and startups are another important route to deal sourcing. For instance, “PC20”, a Horizon PC, forms a robust component in sourcing deals for Horizon:

through the Fund I investment in “PC20” - provider of the largest interactive gathering in MENA tackling the latest trends in the tech / digital space - a consistent pipeline is generated through the conference pitch competitions and the high number of regional startups represented (PPM Document, p. 28).

48 Endeavor is a non-profit organization that assists entrepreneurs in their regions with the prospect of economic and social impact.

125
4.4.4. Network Building and Co-investing

Networking increases deal flow, it is good for business. The Venture team engages in a range of activities to build its network (these will be discussed in Chapter 5, section 5.3.1). One form is by hosting or attending networking events to develop relationships with investors, other VCFs and entrepreneurs. I witnessed first-hand how the Head of the VCT invested time in networking with entrepreneurs, consultants and investors. Another form of building a network is by establishing connections within countries or industries. For instance, TS (Partner) reflected on how he set himself up in Saudi Arabia for a year: “I was in Saudi for the last year building connections there and working on how Horizon can scale to Saudi Arabia”. There, he succeeded in connecting with the key players in the start-up ecosystem and participated in informational sessions at universities (e.g. King Saud University), with the angel network (e.g. OQAL Angel Investor\(^\text{49}\)) and with organizations (e.g. Endeavor and Monshaat\(^\text{50}\)).

Co-investing with VCF and angel investors gives access to investment opportunities because each investor has their own network of entrepreneurs and startups and their own pipeline channels. Horizon Venture attracts potential entrepreneurs because of the profile of its VC team. This is reflected in PPM Document (p. 29): “The Investment Team receives many inbound potential investment opportunities due to the regional experience and reputation of HV as well as other members of the Investment Team”. The Horizon team founded and manage the CD Fund and have already made some successful exits from their PCs.

4.4.5. Proactive Research

As reflected in the PPM document, the VC team monitors and analyses the MENA technology space in the search for attractive investment opportunities in the region. For example, they use databases, such as CB Insights and Crunchbase, to track news and explore potential investments. The investment team makes use of the data collected from this research alongside that from the Platform: “Proactive search leverages data collected through both the [Horizon] Venture team’s activities as well the Platform’s broader outreach programs” (PPM Document, p. 29).

\(^{49}\) OQAL Angel Investors is an angel investment network that connects entrepreneurs with investors was founded in 2011 and is based in Saudi Arabia.

\(^{50}\) Monshaat is the general authority of SMEs in Saudi Arabia.
4.5. PRE-INVESTMENT PRACTICES

Once an investment opportunity has been identified, the investment team engages in sixteen practices to evaluate it. According to TF (Director of Operations and Customer Experience), this process affords fair treatment to everyone and, most importantly, enables better decision making. These practices fall into four categories based on the teleoafffective structures: (1) screening, (2) partner pitch, (3) due diligence, and (4) structuring. The pre-investment process is executed by the investment deal team (lead partner, associates, and analyst) but are considered and validated by the Fund’s investment committee (IC). This is theorized as ‘rule’ in Schatzki framework. The committee consists of the senior investment team members (CEO, Managing Partner and two partners) and two seasoned outside investors. The ‘end’ for having outside investors is to provide objectivity in the decision making. The whole pre-investment process normally takes three to four months (see Appendix 5 for the series of activities that every investment deal goes through before investing).

Pre-investment practices are tied to the deal sourcing practice. In general, the more investment opportunities the VCF is exposed to and the more structured data it has on them, the better-informed the decisions it can make. Therefore, Horizon Venture engages in a rigorous investment process. The following subsections provide a detailed account of each category, the identified practices and the empirical evidence regarding the practices, and the goal/end of each practice.

4.5.1. Screening Practice: detailed account

The four screening practices focus on assessing whether the opportunity fits the Fund’s investment criteria. These practices are (1) reviewing, (2) conducting a discovery meeting, (3) writing a screening memo, and (4) presenting the opportunity to the partners. Figure 4.4 illustrates the sub-practices that constitute the screening practice. In the following paragraphs, the practices that are employed in the screening practice are explained.
4.5.1.1. Reviewing

Entrepreneurs approach the VCF by email or through LinkedIn and send the VC team their pitch decks and financial models. Then the investment associate, who received the investment request or who is assigned to the opportunity\(^{51}\), reviews the investment opportunity against a pre-defined checklist to assess whether it is in alignment with the Fund’s criteria. Horizon Venture’s criteria checklist can be found in Appendix 6. If the investment opportunity meets the criteria, the investment associate sets up a discovery meeting, which is discussed in the following section.

The reviewing practice is organized and linked by the criteria checklist (this is theorized as ‘rule’ in Schatzki framework), developed to support the decision-making process. It is designed to speed up the reviewing process, as associates review “between three and five business plans per day” (PPM Document, p. 27), and to help associates focus on key requirements in the initial phase. One of the partners, RS, implies that Horizon’s success is linked to this unified

\(^{51}\) Sometimes entrepreneurs approach partners, analysts or the Enabler team.
approach, in which: “[e]ach person looks for something else or something different. But you tend to find common themes with regards to what we all look for at [Horizon] when looking at a company”. The criteria are based on two elements: the experience of the VC team (as entrepreneurs and as VCs) and the Fund’s investment thesis.

In the review process, the investment associate consults the VC team about the potential company to gain insights and share feedback. Here are two examples from Horizon. I witnessed SB (Investment Associate) asking the VCT about their insights on the operation and the logistics of some e-commerce potential companies. Also, during the weekly pipeline meeting, where all the Venture and the Enabler team gathered to discuss, share information and get update on the pipeline activity, the investment associate took the opportunity to gain feedback about the potential companies.

One of the important checks done by the associate is identifying whether there is a real or perceived conflict of interest between the VCF and the potential company. Conflict of interest might arise if, for example, the potential company is a CD Fund PC. To manage the potential conflict, the investment team would have to seek permission from the Limited Partner Advisory Committees (LPAC) to invest. This will be discussed later in this chapter (section 4.5.4.2). Another conflict of interest scenario is where the VC team have a personal or close relationship with the potential company. For example, one of the interns told me that an investment associate has a cousin relationship with one of the founders who applied for funds from Horizon Venture. In this case, to manage this conflict in the best interests of the fund and to ensure that the investment evaluation was fair, the associate withdrew from the investment review process.

4.5.1.2. Conducting the discovery meeting
A discovery meeting takes place between the investment associate and the founding team. Before conducting the discovery meeting, the investment associate prepares questions for the founding team based on his/her experience of previous meetings and on the company’s pitch deck, financial model, website, market, and sector. Then the two parties have a thirty-minute

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52 I was not able to attend these meetings because they are confidential. But I managed to ask questions about what they do in these meetings.
meeting, either in person or over the phone. The ‘end’ of conducting a discovery meeting is to learn from the founding team, to further understand the business, to collect relevant information beyond the pitch deck, to see if the company’s vision is aligned with the VCF, to understand its personality and to start building a relationship with it. For example, having observed CW (Investment Associate) conduct an online discovery meeting, it was clear that she had prepared questions to help her understand the attractiveness of the opportunity and to evaluate the knowledge of the founding team.

4.5.1.3. Writing the screening memo

The investment associate writes a short and extended screening memo, using the screening template (see Appendix 7), on the prospective company. This memo is based on information from the pitch deck, the financial model, the discovery meeting, and other relevant information. The rationale for writing it is this. It summarises key facts about the prospective company (e.g. location, market size, team information, financial and non-financial traction, growth plan, funding requirement and valuation) for future reference and serves as a brief for the VC team (in place of attending the discovery meeting). It also gives the Venture associate’s own perspective on the prospective company business and explains important aspects of the investment opportunity.

To facilitate monitoring of the deal flow, to build a pipeline database and to optimize decision making, the investment associates have developed a routine to log all company information (pitch deck, financial model, screening memo and meeting notes) into Zapflow ‘material arrangement’. This is a VC deal flow software for documenting deal flows, assigning tasks and projects to team members, and processing deals efficiently. Image 4.5 outlines the rule that the associates follow in the initial screening.

Pipeline process moving forward:

1. Initial screening
   - Every pipeline company needs to have a one pager that will feed into the data project
   - The company one pager has to be a Zapflow driven document
   - Yes/No associate driven decision with an FYI to the partners
   - Outcome: Company 1 pager, deck and financial model (as a general rule no NDAs)

Image 4.5: List of the Initial Screening Activities
Source: Horizon Venture Pipeline Activities Document (p. 1).
4.5.1.4. Conducting a partner meeting

In the partner meeting, the investment associate presents the investment opportunity to the partners in order to assess whether the opportunity warrants further consideration and to proceed to the partner pitch. As SB explains, partners need to:

*see that validation. And there's the right level of growth and we see a trajectory then we say okay this is of interest to us and we bring it to what we call right now our pitch days so Thursdays* (SB, Investment Associate, Horizon Venture).

After agreeing to take the opportunity to the partner pitch, the partners decide upon a potential deal timeline. Subsequently, the associates send an email to the prospective company with their decision, as is reflected in the pipeline management process map (Image 4.6). In some cases, if there is a potential in the opportunity but it is not ready for investment review, there is the option to put the company on hold for future review.

*Image 4.6: Flowchart of Initial Screening*
*Source: Horizon Venture’s Investment Process Map*
4.5.2. Partner Pitch Practice: detailed account

At this stage, the senior investment team members agree to take the opportunity to the partner pitch for further evaluation. Three sub-practices are employed to decide if the investment deal passes to the due diligence stage, these are: sending materials, conducting partner pitching and conducting an internal review. The sub-practices that constitute the partner pitch practice are illustrated in Figure 4.5 and are explained in the sections that follow.

**Figure 4.5: Representation of the Partner Pitch Practice Mapped to the Teleoaffective Structure**

4.5.2.1. Sending materials

The investment associate sends a presentation template to the prospective company to guide them on the core components and requirements to be covered. This instruction is given in the Pipeline Activities Document (p. 1): “Associate to send the company coming in a template email on what we expect them to present during the 30min pitch”. Interestingly, the VC team came up with the idea of a presentation template because it discovered that some founders in the MENA region were unaware of VC investors requirements and preferences; the team wanted to maximise the prospective company’s chance of success with this. This highlights how the VC team add value to prospective companies before investing by sharing with them, in this case, the presentation template.
Furthermore, the associate sends a meeting invitation and the company’s screening memo to the VC team a week before the pitch meeting. This instruction is given in the Pipeline Activities Document (p. 1): “Company one pager to be sent 48h before the pitch. Also try to send invites a week before the pitch”. The ‘purpose’ of sending the screening memo to the VC team is to review the prospective company preliminarily information. This is to understand the business, to evaluate the business, to identify due diligence parameters and initial red flags, to generate questions and to think about the decision. As SB explains:

if we decide to do the partner pitch, we do kind of an initial dive into all the materials they send us, we’ll ask for financials and try and provide that traction that we look for in these companies (SB, Investment Associate, Horizon Venture).

4.5.2.2. Conducting the Partner Pitch
At this stage, the founding team is invited to pitch to the partners. The team’s aim is to help the partners understand the business, and the partners’ aim is to evaluate the team’s knowledge and understanding. Pitch sessions took place at Horizon Venture every Thursday in person or via video call for those unable to come in person. The reason for conducting the pitch session in the firm offices and allocating a specific day was to allow the VC team to attend and therefore contribute in the initial evaluation. The session was strictly thirty minutes in order to be fair and to save the participants time. The partners become involved in the evaluation at this stage to provide insights, to help in the decision-making and to lead the commercial and financial due diligence. Sometimes the VCT also engage in the evaluation because, as stated by SB (Investment Associate), “they have that extra layer of expertise and doesn't take too much of their time”.

The associate starts the meeting by welcoming the attendees and establishing the meeting’s structure. All attendees are invited to introduce themselves by giving a brief background so that everyone knows who they are talking to, which is important in the discussion. The founding team pitches its business by highlighting the opportunity and why it is good to invest, then it discusses its business model and business strategy. Questions from partners and the VCT follow. For example, in the “DEF” pitch, the partner RS asked specific questions (regarding the company’s outstanding business loans), which were beyond those provided in
the pitch deck, such as “What is the average of the loans? What is the average interest rate? What is the duration to pay back the loan?”. Equally, sometimes clarifying questions are asked or feedback given about the company’s website or operating system. For instance, TF offered feedback about the website of “ABC”, an online fashion retailer targeting the Nigerian market. He commented that the models were wearing revealing outfits which seemed at odds with the conservative culture of Nigeria. Finally, at the end of the thirty minute session, the partner concludes the meeting by telling the founding team, as RS said at the “DEF” session, “We will discuss it further with the partners and will let [you] know about our final decision”. The analyst, having taken notes during the meeting, generates a meeting memo and circulates it to the VC partners to vote, and to log it into Zapflow.

The partner pitch practice (see Figure 4.6) shares some similarities with the investor pitch practice discussed earlier in this chapter (see section 4.3.3). To illustrate, in the investor pitch practice the VC team plays a similar role to the entrepreneurs (to convince potential investors to invest in the fund), whereas in the partner pitch practice the VC team plays the role of investors. They share the same understanding of the way meetings with prospective investors should proceed, the content and style of the investment pitch, and explanation of strategy and scope.

4.5.2.3. Conducting an internal review

After the partner pitch, the senior investment team members discuss the opportunity internally to decide whether to commit further resources and perform an in-depth evaluation, which is
discussed in the following section. The senior investment team is particularly keen to establish if it would be able to provide non-financial support to the potential companies, as TS explains:

*We're not going invest in a company that we can't help, other than the financial help. We're going to have to be able to be a proper fit for this company and really help them non-financially to grow or else it does not make sense for us to invest* (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

If they agree to proceed with the due diligence, they decide which of the partners will lead the investment deal team, because the due diligence stage is a very important step in the investment process, requiring significant commitment of time and resources. It is important to highlight that, before this stage, the investment associates are responsible for managing the deal.

4.5.3. Due Diligence Practice: detailed account

At this stage, the partner who leads the deal (called “the Champion”) sits with the investment team to assign tasks and set the due diligence parameters. This instruction is given in the HC Pipeline Activities Document (p. 1), “the champion has to sit with the associate leading and prepare a commercial due diligence”. This occurs in order to conduct an in-depth evaluation of the deals that pass the internal review (section 4.5.2.3).

The due diligence practice at Horizon Venture is comprehensive and systematic. It comprises four practices: (1) interacting with the target company’s team, (2) conducting a reference check, (3) conducting commercial and financial analyses, and (4) conducting a partner meeting. The practices are employed to gauge the company’s financial and commercial attractiveness before investing. Figure 4.7 illustrates the sub-practices that constitute the due diligence practice.

Horizon Venture benefits from the solid reputation it has built in the MENA region. In an informal conversation with SB (Investment Associate), he told me that “some VCF become more interested in investing in potential companies if they know that we are investing”. He also mentioned that some VCFs rely on their due diligence report to decide on investing. He gave me the example of RAED Ventures, who asked him for a due diligence report on one of
the potential companies that they were looking to invest in. SB reflected that such requests increased his awareness of his personal responsibility in the investigation process and highlighted the importance of ensuring that all the necessary information was included in the due diligence report.

![Figure 4.7: Representation of the Due Diligence Practice Mapped to the Teleoafffective Structure](image)

The due diligence practice is an important activity in the investment process and, therefore, Horizon Venture follows a more rigorous approach for it (due diligence checklist approach). This is referred to as the ‘rule’ in Schatzki framework. Appendix 8 presents a list of information that needs to be collected before the deal can be finalized. Although the evaluation process might be different for each deal, it is useful to have common requirements for each transaction. In the following, the practices employed in the due diligence practice are explained.

4.5.3.1. Interacting with the target company’s team

The investment deal team interacts with the target company team via in-depth face-to-face meetings. It listens to the target company team and asks for details about the business in order to evaluate the company’s products/services, and the company’s assets, liabilities, operations and significant business relationships. It collects soft information not documented in text (e.g. opinion, founding team vision, personalities and management style, and their understanding of
the market) as well as hard information (e.g. reports and market strategy). This helps increase the investment deal team’s knowledge about the target company and build a relationship with that team. Interacting with the target company’s team allows the investment deal team to understand if it has a shared vision with them. TS highlights the significance of having a shared vision:

If from the very beginning, we saw that the vision of the founder and the investor, being us, is not aligned then it’s not going to work. And that's one of the due diligences that we do at the very beginning (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

Sometimes the target company is visited to see directly how it operates, to identify initial red flags, to meet and interview the team, to gain insights on its challenges and obstacles. Even if the company is located outside the UAE, the investment deal team can travel to the target company headquarters. This is because, as SB (Investment Associate) highlights: “if we're going to put you know a million dollars into a company is worth going and seeing the operations and understand”. A site visit can help make clear what the company actually does instead of relying on what it says it does. As SB wisely acknowledges: “there are a lot of things that you just can't get out of Skype or phone”.

Not only does the investment deal team get involved in the due diligence process, but so do the VCT and the financial controller. For instance, during an informal conversation with TF (Director of Operations and Customer Experience), he told me that these people also spend time with the target companies to understand their operation and to identify any red flags before investing, and they may also pay a visit to evaluate the operation. For instance, I know from the analyst, mentioned informally, that the VCT visited “PC21” before investing for the reasons mentioned above. With regard to the firm’s financial controller, he checks and provides feedback on the target company’s accounting and finance because he has a high level of expertise in this area.
4.5.3.2. **Conducting reference check**

The investment deal team conducts reference checks by talking to existing or new investors, clients, and customers to learn about the history of the target company, its strengths, weaknesses, and performance. For example, SB told me that he conducted a reference check by asking HV about a company he had invested in via his angel fund CD Fund:

> this one company we are closing in Egypt now, [HV] invested out of [CD Fund]. So, [HV] has known the founder for four or five years now...So he can tell us what happened in 2014 and how the business is doing. Rather than just [getting the company] financials and presentation and meet with [the founding team to] understand what [they are] doing (SB, Investment Associate, Horizon Venture).

It is clear that Horizon Venture seeks to reduce risk in pre-investment by triangulating data acquired though a wide variety of means (e.g. in-house teams, referees, industry contacts).

4.5.3.3. **Conducting commercial and financial analysis**

The investment team, with the help of the VCT, the financial controller, and other specialist advisers, formulates a commercial view of the target company and its business by analysis and assessment of the following:

- the company’s operation, business model, past financial performance, future projections, and value
- the market, its key trends, and the competitive landscape
- key legal and regulatory considerations
- potential risks and issues of the transaction

An example of the involvement of the financial controller in the commercial and financial analysis is QE’s comment on “PC20”: “check their accounting before they invest” (Deep DD Findings document, page. 1). Because the investment team lacks expertise in technology, it consults technology experts to conduct the technical due diligence for its potential companies. For instance, the investment team gets support from their entrepreneur in residence (EIR), who acts as advisor for the fund by helping the team judge the potential investments. This is a shared practice with global VCFs, where firms offer positions to experienced and successful
entrepreneurs. The VCT becomes involved in judging the potential investment and Image 4.7 shows its areas of involvement.

During the commercial and financial analysis, the investment deal team identifies the areas in which it can add value, the potential path and expected time of exits, as reflected in TS’s interview (Partner at Horizon Venture and CEO of Horizon Enabler): “we also take a look at where is this company going to grow, how will we potentially exit”. One of the ways of identifying the potential exits is by analysing the M&A activities happening in a specific industry. The team uses the return analysis to predict when it can exit from the opportunity, which helps in performing better decision making.

It is important to highlight that the commercial and financial analysis practice involves elements of already existing practices, such as financial performance analysis practice, return analysis and valuation methods practice. Some members of the investment team have experience in finance and, therefore, extend the financial analysis practices that they learned, and have already undertaken elsewhere, in conducting the commercial and financial analysis. For example, the three investment associates had degrees in finance or an MBA and had prior consulting experience (see Table 3.6 for the respondent’s details).

After completing the commercial and financial analysis, the investment team turns its attention to determining the value of the company. Horizon Venture invests in tech startups and their value is not directly attributed to their assets or revenues but to their upside potential and their capacity to transfer innovation to value. Therefore, when it comes to valuation at Horizon, they pay attention to the outcome of the commercial and financial analysis, especially variables such
as market size, tech variable, potential margin and, most importantly, validation in the business model. In other words, valuation is subject to the commercial and financial analysis and can be affected by any issues that been discovered during the commercial and financial analysis. Based on the commercial and financial analysis, the investment team determine the pre-money valuation (the basis of the deal) using some of approaches discussed in Chapter 2 (section 2.2).

4.5.3.4. Conducting a partner meeting

The investment deal team conducts a meeting with the senior investment team to present the commercial due diligence findings, potential investment risks, pre-money valuation and the overall investment thesis. It does so in order to discuss the potential investment terms, company value, and transaction structure.

It is worth noting that the practice of conducting a partner meeting is also a sub-practice of the screening practice. This gives an example of how the same practice could be part of different aggregated practices based on its teleo affective structure. Image 4.8 outlines the partner meeting activities (called ‘internal IC’) from the Investment Process Outline Presentation.

![Image 4.8: Activities of the Partner Meeting](Source: Horizon Venture’s Investment Process Outline Presentation (slide. 2)).

4.5.4. Structuring Practice: a detailed account

The five structuring practices focus on establishing and negotiating the type of the investment agreement. These practices are (1) negotiating terms, (2) conducting an IC meeting, (3) structuring and registering, (4) performing legal and tax evaluation, and (5) closing. Figure 4.8 illustrates the sub-practices that constitute the structuring practice.
The practices that are employed in the structuring practice are explained in the following paragraphs.

4.5.4.1. Negotiating terms

The investment deal team drafts the key commercial terms of investment based on the partners’ discussion and feedback, using the term sheet template (this is theorized as ‘rule’ in Schatzki’s framework). The term sheet is a non-binding agreement and is used “for discussion purposes only; there is no obligation on the part of any negotiating party” (Term Sheet Template, p.1). Basically, it serves to facilitate the negotiating process and ensures clarity on the deal before the shareholder agreements are signed by all parties. The term sheet outlines the terms and conditions on an investment (e.g. liquidation preference, voting rights, founder lock-up). For instance, the condition on the term “founder lock-up” is that “[I]he Founder agrees not to sell or transfer [its] shares in the Company for a period of three (3) years from Closing”.

After drafting the term sheet, the team moves to discuss, negotiate and finalize the term sheet and the pre-money valuation with the target company. Negotiating the term sheet and the value
of the company with the founders is a highly important component in the investment process because the term sheet protects the long-term relationship between the two parties, whereas for the founders, the value of the company dilutes their ownership. Image 4.9 outlines term negotiation activities from the Investment Process Outline Presentation.

4.5.4.2. Conducting an Investment Committee meeting

Before conducting the IC meeting, the investment deal team compiles the analyses and the due diligence findings into an evaluation report. Appendix 9 outlines the content of the evaluation report. The evaluation report is an important reference document because it is there that the investment team records its thoughts about the investment opportunities at the time of investment and its assessment of the team. It can be used by the team at a later stage to refer back to, to reflect on outcomes, and to improve its investment strategies. Once the evaluation report is completed, the investment deal team combines the evaluation report, the term sheet, and structuring consideration into an investment proposal. Also, the team prepares the IC presentation based on the evaluation report. Image 4.10 illustrates the content of the IC presentation.
The Champion normally calls an IC meeting and submits the meeting agenda, the investment proposal, and all other materials that will be presented in the meeting to the IC members for review. This should be done "no later than 3 calendar days prior to such meeting" (IC Governance Guidelines Document, p.2). The Champion then presents the final commercial and financial due diligence findings, the potential investment risks, the company valuation and investment terms to IC members to obtain their decision on whether to offer the target company a term sheet. The IC approval is required before offering the term sheet because "finalizing a term sheet, preparing and negotiating the investment’s formal legal documentation, and performing legal and tax diligence all entail a significant commitment of time, expenses, and other resources" (PPM Document, p. 32).

To promote good governance and to provide a structure in relation to the IC, Horizon Venture executives established IC governance guidelines. This is theorized as ‘rule’ in Schatzki framework. The guidelines contain terms on quorum, regular meetings, special meetings, participation by teleconference, participation of others, materials, actions at meetings, action by consent, matters subject to vote, compensations and expenses. Furthermore, they established an advisory committee (LPAC) composed of three representatives of LPs who are unaffiliated with Horizon Venture or the GP. The committee assesses the companies that may involve actual or potential conflicts of interest. For example, they assess the companies that comes through CD Fund to prevent actual or potential conflicts of interest, but do not participate in
the management of the Fund. LPAC approval is required only if a transaction involves a potential conflict of interest. This comment from TS’s interview, explains the objectivity and transparency offered through this facility:

_So, while everybody else will go through the investment process and go through the investment committee and then get the funding and enter the fund. For companies that we have touched before or have any affiliation before, they have to go through this council. This council has to say there is no bias. They will assess the company separately and say yes or no_ (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

4.5.4.3. **Structuring and registering the startup**

The senior investment team understands the economic, legal and political instability in the region (as discussed in Chapter 2, section 2.5). In particular, it recognizes some issues and challenges in the corporate regulatory framework in the MENA region. It has identified four main issues: (1) business taxation, (2) restriction on foreign ownership, (3) permissions regarding different classes of shares, and (4) restriction on VC investors rights.

Heavy tax burdens were identified on companies operating in the MENA region and the lack of tax incentives for SMEs. TS, Horizon Venture’s Partner, gives the example that some MENA countries tax business on their profits arising outside the business country (i.e. tax disadvantages): “So it doesn’t make sense for you to register a Jordanian company have sales in Saudi Arabia or in the UAE but pay Jordanian taxes on a Jordanian company”.

Foreign ownership is also restricted in some MENA countries, though restrictions vary not only by country but also between the company’s sector or commercial activity. For instance, in the UAE, 51 percent of the company’s equity must be held by an Emirati citizen, and in some areas (e.g. real estate and general transport) any element of foreign ownership is prohibited. The outcome is that restricting foreign ownership can create difficulties when an entrepreneur or potential investor is not a citizen of the country where the company is set up.

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53 Entrepreneurs normally set up their companies either where they live or where the opportunity is available.
Some countries’ legislation in the MENA region does not permit investment in different classes of shares (e.g. stock options, restricted stock, and performance shares) or the use of VC investment rights (e.g. preferred liquidation rights, drag along rights, and tag along rights). Although some jurisdictions in the region have permitted some VC rights, according to the PPM Document (p. 33) the “enforceability remains uncertain because of the lack of a mature – or, in some cases, any – relevant body of law”.

These noted restrictions or issues could have negative consequences on company growth, that is, it could discourage investors from investing or acquiring a company, it could also limit the company’s ability to scale or to retain its talent. Therefore, Horizon Venture employs a number of structuring techniques, based on the experience of its senior investment team, to overcome the MENA corporate regulatory framework issues and challenges, and ultimately maintain its aim as TS (Partner), highlights “to grow the company, to build a solid foundation for the company and then to make it sexy enough to exit the company”. One of the structuring techniques is that the fund registers all its companies in an offshore (also called tax-free) jurisdiction:

The Fund... invests primarily in companies operating in the Region through a holding company organized in a tax-free jurisdiction, such as the Cayman Islands or the British Virgin Islands, or as pass-through investment vehicle formed in the US or other jurisdictions. This holding company often holds the target business’s intellectual property and other significant assets. The business’s operations in the region are performed by branches or subsidiaries of the holding company established in one or more countries in the Region (PPM Document, p. 34).

Registering the PCs in an offshore jurisdiction allows them to be flexible in structuring the company’s capital structure. This means that it allows for different classes of shares (e.g. stock options, restricted stock, and performance shares), which is acknowledged to be practically important for startups to attract talent:

We understood early that getting top talent to come and join these companies was going to be very expensive for startups that are limiting on their cash. So, they
needed to incentivize these potential talents to come in through other means. One of those means is to bring them in as shareholders and give them stock options through the company (TS, Partner at Horizon Venture and CEO of Platform).

The comment illustrates that the Horizon Venture team understands the importance of incentivizing a startup’s employees and executives by offering equity compensation. This will be elaborated on in Chapter 5 (section 5.2.4.2).

Overall, registering companies in an offshore jurisdiction promotes a healthy business environment for startups that could attract investors, allows the company to scale, and most importantly, it is friendly for VC investments. These structuring techniques are considered to be the first building block in adding value to the companies. TS (Partner) refers to Horizon’s innovation in doing this, “That was kind of chapter 1 of what we were doing differently in the region and kind of leading the way in doing this”.

4.5.4.4. Performing legal and tax evaluation
After the IC approve the investment’s key commercial terms, the investment deal team sends the legal documents and the company corporate structure to the Fund’s General Counsel (or sometimes to an external counsel that is supervised by the General Counsel) to assess the legal and tax risks associated with the investment and to determine the most suitable structure. This process is captured in SB’s interview: “send over all the legal documentation, their corporate structure, everything to our legal counsel here. They’ll review it and let us know if they see any issues”. Then the Fund’s General Counsel prepares and negotiates the investment legal documentation to address all legal and governance issues that emerged from the due diligence process with the company. Appendix 10 outlines the legal due diligence report and shows the specific items that are reviewed and evaluated at legal due diligence stage. These include financial matters, tax matters, employment matters, environmental matters, contracts, and issues relating to intellectual property (IP).

4.5.4.5. Closing
After concluding the optimal investment structure, the Fund’s General Counsel will draft and negotiate the longform agreements (i.e. the shareholders’ and subscription agreement, the legal
and governance provisions, and the employee stock ownership plan (ESOP) agreement) with the target company. Then the General Counsel brings the transaction to a close, which is the final step in the pre-investment process, and transfers the fund to the company. Image 4.11 is a checklist of the documents that Horizon Venture retain at closing.

- Closing:
  - Deal bible comprising of:
    - Original IC memo
    - Closing balance sheet and financial statements up to month prior to signature date
    - Final financial due diligence report
    - Final legal due diligence report
    - Risks and mitigation arising from financial, legal and ESG due diligence
    - Summary of any changes to principal commercial terms from Term Sheet arising from completion of due diligence and/or other factors from date of initial IC meeting
    - Definitive Agreements necessary for signature including but not limited to shareholder’s agreement, share subscription agreements, ESOP agreements, etc.

  Image 4.11: IC Guidelines on the Necessary Supporting Documents to be Retained in the Firm Database  
  Source: Horizon Venture’s IC Governance Guidelines (p. 4).

4.6. CONCLUSION

This chapter explained and analysed the investment practices that form Horizon Venture using Schatzki’s ‘site’ ontology. By unpacking Horizon investment practices (fundraising, deal originating and pre-investment), the findings improve our understanding of what VC does. The fundraising practices explain how the VC team secures commitment from investors (see section 4.3). It showed how the VCs carefully select their investors (LPs) because they understand the value that some of these investors can bring to their PCs.

The deal originating practice highlighted the channels through which the VC team ensures solid access to startups (see section 4.4). It showed how the VCs recognise the importance of being exposed to high quality deals in the first place because most value is in the company. Section 4.5 explained and identified the pre-investment practice that the VC team undertakes to ensure it is investing in businesses with the greatest potential. The findings also showed how these investment practices share and link the same understanding, rule and teleoaffective structure.
Importantly, they also demonstrated the value of cultural context: how VCs operating in the MENA region have different investment practices and that these need to be taken into account.

In general, this chapter manifests that value adding does not happen only after the VC selects an investment, but is something that happens along the VC investment process. The next chapter will zoom in to investigate specific practices in the VC investment process (value-adding practice) in more depth by unpacking the value-adding approach and showing the other means by which Horizon Venture adds value.
Chapter 5: OPENING THE “BLACK BOX” OF VALUE ADDING

5.1. INTRODUCTION

The previous chapter provides an overview of Horizon Venture’s site by identifying fundraising, deal originating and pre-investment practices. This chapter, as indicated in the title, focuses on unpacking the value-adding practice, which is perceived to be a “black box”. The main goal of VC investing is to secure a high return on its investment and appropriately exit the venture by re-selling it to another firm or via an IPO. Therefore, VC investors look at value that can be added to help a PC grow and enhance its performance. Overall, most value is added through the monitoring function, but many VCFs take additional approaches, associated with closer engagement, to improve the way they add value. Generally, there are two types of VC investors, “hands-off”, where they only add value via monitoring, and “hands-on”, where in addition to monitoring they engage more closely with their PCs to further enhance their value.

In the case of Horizon Venture, it has a whole philosophy of how to engage and think about value adding. It can be labelled a “value-adding approach”. The management style at Horizon Venture is universally hands-on. VCs are actively engaged in developing their PCs by contributing their skills, knowledge, experience, and contacts, as ZA explains:

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\text{we want our engagement with them to be more hands-on, where we can actually spend time with them helping them produce something that would help them focus on, like, the key areas that they're looking at, not just give them recommendations and walk away from it. So, we want to really engage with them to that level of detail (ZA, Investment Associate, Horizon Venture).}
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The ‘ends’ of value-adding practice is to enhance the company value by reducing risk, realizing opportunity, and providing support. Based on my analysis, I have divided the value adding

\[54\] Elango et al. (1995) identify three types of VC investors: “inactive”, “active”, and “hands-on".

\[149\]
practice into three levels: company level, portfolio level and firm level (see Figure 5.1). The value-adding practice at company level relate to direct practices that the VCs enact to add value to their PCs, whereas the value at portfolio level relates to the indirect practices that the VCs conduct to enhance their ability to add value to their PCs. The value at firm level relates to how the VCs add value through the Horizon Conglomerate.

Interestingly, the founder of Horizon Venture likens the VC-PC relationship to a “temporary marriage” because, from the VC perspective:

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\text{you go in you spend three, four, five years and then you go. You never married the company for life. But you are married long enough to get them to be able to stand on their feet and actually fly} \quad (HV, \text{CEO, Horizon Venture}).
\]

After building the PC value, the final responsibility of VCs is to liquidate investments after five to ten years of the initial investment, as HV highlights: “we deliver them to others because we invest to a certain level”. VCFs play a crucial role in guiding companies towards the best option for an exit route. Although Horizon Venture is consistently thinking about exit strategies for its PCs, there were no exit events during my time at Horizon. This is because exiting depends on several factors, such as target return, market condition and interested parties. BT (Head of VCT) highlights some of the exit factors: “So when valuation reaches a certain stage
or hits a target return and there is an interested party, then that's a pretty easy decision from our side”. However, more recently, in March 2019, Horizon Venture had its first successful exit from a Fund I company. This was considered the region’s largest exit.

The structure of this chapter is as follows. Sections 5.2 to 5.4 unpack the value adding practice, focusing on three key themes respectively: value at company level, value at portfolio level and value at firm level. This is followed by a chapter summary in section 5.5.

5.2. VALUE ADDING AT COMPANY LEVEL

Before VCT members can add value to a PC, they need initially to immerse themselves in the work of the company. As HV, Horizon Venture’s CEO, explains, “you basically go deep inside the companies” in order to understand the issues and challenges that the company faces and then provide support and assistance to the management team. Horizon Venture has a systematic value-adding approach, which consists of five practices: (1) familiarizing, (2) assessing, (3) planning, (4) providing support, and (5) monitoring. These practices are employed to develop a better understanding of the company’s challenges, strengths, and processes and, therefore, identify how they add value. The value-adding approach is not a one-time approach (at the point Horizon Venture invested in the company), instead it is a continuous approach of reviewing, assessing, planning and evaluating to ensure that the PC is on course to succeed. Figure 5.2 presents the sub-practices that constitute the value-adding approach.
Figure 5.2: The Value-adding Approach Mapped to the Teleaffective Structure

- **Sub-practices**
  - Familiarizing
  - Assessing
  - Planning
  - Providing Support
  - Monitoring

- **Sub-practices End**
  - to get to know the company business and to collect data
  - to isolate and prioritize the area that need support
  - to identify the required actions, resources and timeline, and to reach the company’s goal of improving company efficiency
  - to improve the company’s performance, accelerate the company growth and help them realize its potential
  - to evaluate its progress and to measure the impact of the implemented initiatives.

- **Aggregated Practice**
- **Aggregated End**
  - to develop a better understanding of the company’s challenges, strengths, and processes in order to identify how they add value.

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The value-adding approach shares some of the components of existing management, that is, consulting practice. For example, BT (Head of VCT) explains that “there is a consulting aspect, which is generally at the beginning of the process and then it moves into execution, which is more akin to be kind of a temporary integration into the team”. This explanation highlights where the VC shares similar practice with management consulting (at the outset) and how it differs by participating in the “execution”. During a VCT meeting I was present at, where the team was in the process of structuring its engagement process, BT commented, for my benefit, that “we offer in house consulting to our PCs”. Knowing the value of such tailored support, the VCT communicates this offer directly to its PCs. For example, during “PC21” C-suite meeting (see details in section 5.2.1.2), I heard TF (Director of Operation and Customer Experience) inform the PC that “the VCT offers a free consultation for their PCs and we work with them collaboratively”. While some other VCFs in the region may provide value adding support they do not have a dedicated VCT like Horizon.

The following subsections, sections 5.2.1 - 5.2.5, provide a detailed account of each practice supported by empirical evidence. Section 5.2.6 follows, offering examples of continuous improvement and section 5.2.7 discusses the issue of power.

5.2.1. **Familiarizing Practice: a detailed account**

In order to get to know the company business and collect data and information, the VCT “starts with an overall familiarization with the company. It's by no means an auditor or anything like that. We just want to understand the moving parts of the business”, as BT (Head of VCT) explains. The VCT familiarizes itself with the PCs both indirectly, by reviewing the company’s materials and pre-investment documents, and directly, by meeting the founder and the employees as well as visiting the company offices. Familiarizing may also include gathering data from external resources, such as market data, research, and reports, to further the VCT understanding on the company industry, sector, or region. Figure 5.3 illustrates the sub-practices that constitute the familiarizing practice. In the paragraphs that follow, the practices that are employed in the familiarizing practice are explained.
5.2.1.1. **Reviewing**

The VCT engages in reviewing the company’s existing materials (e.g. business and financial model, expansion plan, PC’s website), the company’s pre-investment documents (e.g. pitch deck, operational and legal due diligence, IC deck), and meeting minutes in order to understand the nuts and bolts of the company, and the rationale behind the investment decision, as TF describes in his interview:

*So first of all, of course there is a lot of information that I should read internally, ... the pitch deck, the business plan, any previous visits, any information, talk to the partners about them, so I have to understand all the information that we have about them internally. Because I don’t want to ask the basics, when I go (TF, Director of Operation and Customer Experience, Horizon Venture).*

The PCs’ materials and documents are collected in the pre-investment stage and retained in either Zapflow or in the firm’s Dropbox ‘material arrangement’, as discussed in Chapter 4. Familiarisation with the PC is essential and the more meticulous this is, the better. For example, in my own experience prior to the “PC21” C-suite meeting, TF asked ZA (Investment Associate) and me to go through the PC’s company folder on Dropbox, visit the company
website, and talk to the investment deal team in order to understand the company’s business and be able to engage in the C-suite meeting.

5.2.1.2. C-suite meeting

Once the VCT builds an understanding of a company by reviewing its material and documents, it conducts a C-suite meeting with the PC’s senior executives, as shown in the VCT engagement approach (see Image 5.1). The ‘ends’ of conducting a C-suite meeting is to initiate engagement, to collect information, to review the company’s macro strategies. It is also to discuss the VCT’s engagement and to understand the company’s goal, needs and concerns, as well as to understand the executive’s perspective and managing style. This is reflected in ZA’s (Investment Associate) interview comment that the meeting, “would be a discussion with them as well to see what they really need our help with, and what they're lacking in terms of the support that they need to make sure they're meeting their target”.

C-suite meetings are conducted either at the PC office or at Horizon Venture, with a structure similar to that of the Partner Pitch meeting (see Figure 4.6). This congruence shows that Horizon Venture has an organizational practice on conducting meetings. The practices demonstrate an understanding of how to conduct meetings, how to write meeting minutes and the importance of retaining these minutes in the firm’s database. The VCT associate is
responsible for writing the meeting minutes to record what happened in the meeting so that these can be used to follow-up. After each meeting, the associate logs the meeting minutes and the collected materials on either Zapflow or Dropbox (in the PC folder). The steps in the C-suite meeting procedure are illustrated in Figure 5.4.

The vital actions in this meeting, needed to understand a company’s strategic plans, include an in-depth review of processes, plans and goals along with a discussion of challenges and expectations. In one “PC21” C-suite meeting, for instance, the company’s Business Planner led attendees through the company’s website to explain its business process. To identify where the company needed help, the VCT asked, “What are your challenges?”. It is like a brainstorming session to understand their needs, plan what to do next and, most importantly, to understand the PC’s definition of challenge. Another example of the C-suite meeting was with “PC19”, where the CEO gave the VCT an overview of a recent visit to London to check the market, shared some of the company's challenges with the catering and service providers, and discussed some ways to increase the PC's sales.

Interestingly, at this stage, not only does the VCT learn from the PC team, but the reverse is also true. For example, in a “PC21” meeting, the executives learned from the VCT about the PC team's level of engagement and the engagement process. Horizon Venture’s Head of Operations explained how Horizon engaged with its various PCs. While this comment shows the need for processes to be tailored to the PC, a link is also made with the relative value of the investment:
To set expectations we normally do not go through all these steps. We make sure that we use our time effectively. We don’t teach you how \( X+Y=Z \). We are working with other PCs where we invested around 5 million, compared to your investment, [where] we just invested 200k. It has to be a targeted session (TF, Director of Operation and Customer Experience, Horizon Venture).

During the meeting, TF used the whiteboard (material arrangement) for laying out the engagement process and identifying the areas in which they need support, as illustrated in Figure 5.5. This showed that VCs also engage in practices that involve material artifacts to support their nonverbal understanding. He explained how they allocate their time and resources between their PCs. The PC team asked some questions to clarify what the job of the VCT would be. For example, the PC’s Business Planner asked, “Do you follow a procedure where you look at the verticals you work on?” and TF answered, “It varies from PC to PC. You have to give us output and then we discuss them with you”. Then based on the discussion that they had and a consideration of the company’s needs and requirements, TF suggested scheduling a strategy and financial session, and they all agreed on that and closed the meeting.

![Figure 5.5: Head of Operation’s Drawing of the VCT Engagement Approach with “PC21”](image)

5.2.1.3. Group heads’ meeting
After the in-depth review of the PC’s macro strategy in the C-suite meeting, the VCT conducts meetings with the CEO and all the functional group heads. This is highlighted by BT (Head of
VCT): “So we spent a lot of time in there with each functional group. So, from marketing to warehouse logistics, to last mile delivery, with third party couriers, with finance, with the CEO, every major functional group”. The ‘purposes’ of conducting a group heads’ meeting is similar to the C-suite meeting ‘purposes’, that is, to initiate engagement, to collect information, to review micro strategies, to understand their goal, needs and challenges, to understand the manager’s perspective and managing style, and most importantly, to get their insights.

To illustrate, TF highlighted the questions that group heads raised and the actions they performed during their meeting with the “PC8” operations team in order to identify what the company was missing:

we start with operations, so, how many people do you have? How many orders do you have? What is the service level?... I went through the customer experience, walk me through the customer journey... what's missing? Operational thinking? There's no SOPs, there's no process flow. So when I came in, it's like, can someone open up a process flow diagram, show me what is the customer experience, show me how does the order life cycle in the warehouse (TF, Director of Operations and Customer Experience, Horizon Venture).

5.2.1.4. Visiting
While meeting the company’s senior executives and group lead provides important insights, visiting the company and spending time with each functional group is valuable too. It is helpful to observe PC teamwork, to get insight into the real situation, to understand the issues, and to identify the team’s knowledge and skill and the company’s resources. For instance, TF reflected on the value of visiting the PCs even if they are located far from Dubai:

We fly all the time... wherever our companies exist, we go and see. So, we're not shy to spend money to travel ... Because we need to see the operations live. Otherwise, we'll be listening to the CEO telling [us] stuff, and then what's happening on the ground might be different... might be complaining about the operations manager, but the operation manager is actually being bugged by a
million things that is not being provided by the tech (TF, Director of Operation and Customer Experience, Horizon Venture).

As operations are complex to understand in theory and from a distance, visits are essential to help build a better understanding of how companies operate. For example, the VCT visited “PC19” to observe how it operated during working hours, from placing an order to delivery. The company Chief Operating Officer (COO) took members of the VCT for an office tour to help them understand the different functions of the business and to introduce them to the company team. Before observing how the PC operates and to clarify the business process, the operational team gave an overview of its operational process by walking the VCT through this, the customer service experience, the website, and the dashboard. During the discussion, VCT asked questions to clarify how the company operates and to pick up any missing data. By way of illustration, the VCT identified the following missing data in the case of “PC19”: “No customization for orders. No rank in help option on the website. No analytics for customer service. No check box for customer service”. The operational team shared some of its operational process milestones and asked for suggestions from different perspectives, for example, problems with restaurant communication. Ideas related to enhancing the customer experience were also discussed, including testing membership promotions and assessing the impact of the membership on order volume, and adding wish lists for what people might like to order to get customer feedback.

Then the VCT observed the process of “PC19” from 11 a.m. to 1 p.m. and took notes from which to ask the COO clarifying questions. In this case, following dialogue, the VCT identified and suggested a range of process-improvement measures:

no reminder integrated if orders are increased for the day, usually a call if that is the case, add pop up reminders for dispatch and other steps, flag restaurant with information that can help lunch on (has printer, centralized call centre, others). Categorize the drivers, where they’re coming from, and how to deal with the process of contacting them in order to confirm a delivery, incentivize the restaurants that aren’t going through the setup correctly (“PC19” meeting minutes).
After observing how the outfit operated, and offering suggestions, the VCT pointed out what it could offer to help the operation. It suggested having a mini operation session to focus on key performance indicators (KPIs) and another session to focus on restaurants.

Accepting feedback is not always easy for a PC. I observed power imbalances in a “PC19” C-suite meeting between the company executives and the VCT. This happened where the company’s executives were unwilling to accept suggestions from the VCT. But on this visit, I saw how the VCT tried to build trust with the company team and to overcome some of the tensions in order to be able to collect information and, therefore, help with developing the company. For instance, the VCT offered positive solutions to company issues and showed how small improvements would add value. With this I noticed a change in the COO’s tone and her willingness to share. This is different from the C-suite meeting where she was conservative in information-sharing, and unamenable to accepting suggestions.

It is important to highlight that, during meetings and visits, the VCT tries to acquire soft information about the PC’s team (e.g. personalities, opinions, vision, management style, expectations of engagement with the VCT). It gains this by observing the PC team’s behaviour, their interaction with each other, comments they make, and the language they use. Such information can, in turn, help the VCT determine a suitable approach for working with the PC executive team. When interviewed, TF reveals how this personal knowledge helps to establish operational boundaries:

*We kind of navigate and change our behaviour based on the character of the founder we work with. I just, understand how the founder works, what is the red line, what is the fine line, of how to operate. So, I read the characters, I have to work with them, and start testing them on those, so, that's a very important one. That's what ensures continuation* (TF, Director of Operation and Customer Experience, Horizon Venture).

For instance, during the “PC19” C-suite meeting, the VCT, through observing executive behaviour, realized that its PC preferred less engagement with the VCT by showing how well it knew its business. Every time the VCT proposed a solution, the response was: “we thought
about this and were considering it”. Understanding the best approach for working with PCs is particularly important because VCs are not dealing with ‘a company’ but rather individuals, from different cultures with different personalities and work styles. For instance, after the “PC19” visit, TF reflected on the important role of “emotional intelligence” in the relationship with entrepreneurs. This helps them in managing entrepreneurs’ expectations and identifying the most suitable approach.

5.2.2. Assessing Practice

After understanding the company’s business and collecting data, the VCT assesses its performance, financial situation, and processes. The VCT also evaluates company strategies and plans, and evaluates its resources and management team. The ‘purpose’ of assessing practice is to isolate and prioritise the areas that need further support.

Assessment approaches vary depending on the company’s industry, development stage, strategy and specific situation, but two common assessment exercises are the risk assessment and the SWOT analysis. The VCT conducts a risk assessment to identify and analyse risk factors. With “PC8”, for example, the VCT identified the following risk factors: “Fulfilling from the UAE is not sustainable, cancellations rates are high with these types of goods and cross-border shipping insurance could reduce gross margins” (“PC8” sheet, 2018 Horizon Venture’s LP Report). The SWOT analysis is used by the VCT to identify the company's, strengths, weaknesses, opportunities and threats. For example, the VCT judged the strengths of “PC1” in the following way: “Positive industry trends: rapid growth in analytics and social monitoring, strong growth for SaaS products and integrated solutions, strong growth for consultative insights and briefings across all markets” (IFC Portfolio Report, slide. 2). Assessment exercises may also include assessing turnaround options, evaluating strategic alternatives and forecasts.

The assessing practice is linked and depends on other practices and understandings. It is linked to the due diligence practice, discussed in Chapter 4 (section 4.5.3), where the investment deal team and the VCT assessed company performance, analysed key matrices, potential risks and issues, and flagged potential areas of improvement, resulting in “a deep understanding of the challenges facing companies” (HC Investment Process Document, p.6). Furthermore, it is
linked through the understanding of ‘how to do’ certain things, some of which are: to analyse and assess financial statements, to perform a valuation analysis, to evaluate a company’s operation and to analyse the business plan. Also, because the companies are part of other systems (market, industry, country) there is a need to analyse the company market, the market transitions and the industry trends, and to assess competitors’ offerings.

5.2.3. Planning Practice

Based on the understanding that emerges from familiarizing and assessing practice, the VCT collaborates with the PCs’ senior executives to develop and formulate action plans (e.g. marketing plan, expansion plan, scaling-up strategies), set targets and benchmarks (e.g. list of metrics for the companies to meet), and define expectations. The ‘ends’ of planning practice is to identify the required actions, resources, measurements and timeline to reach the company goal and improve company efficiency; ZA (Investment Associate) describes it as, “building a roadmap to see where they can go”. For example, the VCT developed execution plans for “PC8”, “PC15”, “PC16” and “PC19” as roadmaps to guide them (IFC Portfolio Report). Also, the VCT helped “PC14” in setting up financial and non-financial KPIs as a way to reach critical mass (IFC Portfolio Report). In addition, it set up operational and customer service KPIs for “PC2” (Value Creation Update Document).

An action plan comprises an outline of objectives, action steps, timeline, responsibilities, and resources. For example, the action plan for “PC11” included “looking to improve their private label selection through joint ventures with smaller designers, setting up return services for European markets, and expanding “PC11”’s operating basis: New central warehouse and opening of logistics centres in key regions” (IFC Portfolio Report, Slide. 33). The VCT prioritizes the action plan item based on two factors: impact on value versus ease of implementation. BT (Head of the VCT) indicates in his interview, “that's usually the decision matrix. So, we prioritize action items based on those two variables ease of implementation or timeline to see results versus economic impact”. Initiatives that have high impact and are easy to implement get the high priority. This an example of ‘rule’ in Schatzki framework.

Because the VCT works with several PCs, it needs to manage its time and allocate its resources effectively among its companies. Therefore, the VCT uses four criteria to help determine its
level of engagement with its PCs: investment amount, urgency of support, the stage of the company, and its potential to grow. These factors are shown in Image 5.2 (left-hand side). However, the decision for each individual company is explicitly decided over time within the team and is normally based on the investment amount and the potential impact, as illustrated in Image 5.2 (right-hand side).

5.2.4. Providing Support Practice: a detailed account

The VCT engages, collaborates and integrates with the PC team to help it execute the action plan and achieve its targets. TF (Director of Operation and Customer Experience) explains how close co-working of the VCT with the PC team creates a kind of peer relationship, “You integrate, you play part of the team, you become a part of their team, but you become invisible to them, but we are effective at the same time”. Providing support practice is linked to the due diligence practice (section 4.5.3) and the familiarizing, assessing and planning practices (sections 5.2.1 to 5.2.3), where the investment team and the VCT identified issues, areas of improvement and opportunities to grow around the PCs.

The ‘purposes’ of providing support practice is to improve the company’s performance, accelerate its growth and help it realize its potential. Horizon Venture provides support either directly, by imparting team knowledge, experience and connections, or indirectly, by
connecting the PC with people, companies, or organization who can support it as and when necessary. HV explains how the business connections VCs provide are a springboard to independence:

[We] open doors, introduce them, open networks. That's what we do until they've standing on their feet. They feel much more comfortable. They are more knowledgeable of the world. They learn the language of the business that they are in. And then they are able to fly without us. We deliver them from birth all the way up to let's say going to college...And then we hope that we're able to make these companies well, run. Help them well, run because it's always about the entrepreneur, we're just supports (HV, CEO, Horizon Venture).

The VCT has identified the main areas in which support is provided to PCs (see Image 5.3). It is important to highlight that support provision may evolve during the term of the fund, depending on the sector, stage, environment, the specific situation of the company, and other considerations.

![Image 5.3: Value Adding Proposition or Area of Support](Source: Horizon Venture’s Portfolio Management Activities Presentation (slide. 2)).

In order to organize the research findings, I classified ‘providing support practice’ as per the value-adding roles, following Sapienza, Amason and Manigart (1994), into three theoretical
categories: (1) a strategic role as financier, business advisor or as sounding board for strategic initiatives, (2) an operational role in recruiting management, providing network supports, and (3) a personal role as mentors and confidants to CEOs. Based on my observations, I have added a fourth practice to the value adding role, this is cultural practice. In the following subsections (sections 5.2.4.1 to 5.2.4.4), I will give examples of how the VC partners and VCT seek to add strategic, operational, personal and cultural value to their PCs directly and indirectly.

5.2.4.1. Strategic practices

The strategic practices, conducted by the partners and the VCT, focus on developing and implementing business strategies and initiatives to achieve the business goals and help the business grow. These include fundraising, restructuring, developing growth strategies, developing a business model, strategic planning and thinking. For instance, when I asked RS how Horizon Venture’s partners add strategic value to their companies, he responded with this:

*It is mostly around strategic thinking... What the company wants to do in general. What are the next steps? Do we expand to X Y Z market? How much do we fundraise? When do we fundraise? What valuation we should go after? Which investors to speak to? Do we reach out to this investor that investor? So, it's much more strategic much more high level* (RS, Partner, Horizon Venture).

In the following subsections, I provide examples of the ways in which Horizon Venture sought to add strategic value to their PCs. At times, I refer briefly to case examples using bullet points and PCs numbers (e.g. “PC18”) to provide an overview. At other times, to balance breadth with depth, I describe one or two cases in a more detailed paragraph.

**Fundraising**

One of the important roles of VCs is helping their PCs build successive rounds of financing, because, as highlighted by TS, Horizon Venture’s Partner, “*we understand that the money that we give this entrepreneur will take them to the 12 or 18 months or 24 months, and then they’ll need more money*”. They may need it to grow into a new market, to expand supply, to optimize operation or to hire senior management. The partners and VCT advises entrepreneurs on which type of investment is most suitable for them by assessing their financial and operation model,
understanding their goals (e.g. to get enough runway, to develop their operation, to expand into a new market), and evaluating alternative financing instruments (e.g. loans, convertible notes, equities). RS, Horizon Venture’s Partner, describes the financial needs analysis this way, “we study the financial model, we assess their ability to handle different cases of financing, we assess their needs, we stress the assumptions about why they need the money. Obviously, we assess their ability to return this money”.

Furthermore, the partners and VCT help the companies in securing additional funding in three ways. The first way is by introducing them to investors (such as strategic investors, VCFs, PE funds, high net worth individuals and family office) who are strategic to them and can add value, as highlighted by TS:

> It doesn't make sense for just money to come in what we call ‘dull money’ but does not actually help them in other things that they do. So, one of our core value adds is bringing in co-investors and building successive rounds of financing (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

According to Horizon Venture PPM Document, the VCT and partners helped these companies secure funding from investors:

- “PC7” to secure an investment from The Abraaj Group
- “PC2” to secure a follow-on investment from Saudi strategic investor, who also assists with market entry to Saudi Arabia
- “PC18” in the Series B round and secure investment from an American VCF.

The second way is by helping PCs obtain business loans from banks, which is normally difficult for early stage companies. For instance, for “PC2”, the team managed to secure a reduced rate loan from Arab Bank to give it enough runway (IFC Portfolio Report). The third way is by convincing Horizon Venture’s executives to provide additional financing for its PCs. For instance, I know of two meetings\(^\text{55}\), conducted by the Head of VCT with Horizon Venture partners, to convince them to provide follow-on investing to “PC8”. In a presentation titled

\(^{55}\) The meetings themselves were confidential, but I was able to review and analyse the presentation slides.
“PC8: Investment Consideration”, BT (Head of the VCT) began by declaring a poor state of affairs: “PC8” is at a stage of do or die”. This was followed by an explanation of the reason for follow-on investment, this being “to unlock enough funding for a 12-month period to bring “PC8” to a stage where it can successfully raise a larger round by showing unprecedented traction in 2018”. Following this, BT highlighted the business drivers, the strategic direction, the strategic priorities, the use of incremental funds and the proposed financing structure. The presentation concluded with a slide that answered the question: “Where will the funding take us?”. 

In addition to advising and securing, the partners and VCT provide other forms of fundraising support. These include reviewing the investment memorandum, evaluating the financial model, reviewing the business plan, negotiating the investment term sheet and discussing potential investments. It also includes work with the PC team, “on the appropriate messaging, the things to highlight” (BT, Head of VCT), to sell a story to the investors. Two documents provide evidence of the support given. The Horizon Venture Portfolio Management Activities Document reveals how they were engaged:

- in reviewing the pitch deck and financial model for “PC6”, “PC10” and “PC12”
- in model refinement and term sheet negotiation with “PC8” and “PC2”.

Horizon Venture IFC Portfolio Report shows how they were engaged in leading the discussion with potential investors to convince them to invest in:

- a luxury goods retailer and distributor in the MENA (“PC8”)
- a leading book retailer in the GCC region (“PC2”).

In some cases, the VCT joins the CEO in the fundraising meeting to give the CEO feedback and insights about its presentation. Attending the fundraising meeting brings mutual benefits. The VCT has the opportunity to build a relationship with potential investors, while the investors have the chance to follow up, and to more deeply understand Horizon Venture’s rationale. BT describes the way this unfolds:
after [the potential investors] meet with the company, they're saying okay we'll consider an investment. Then they'll call me or someone else from [Horizon]... and say we have like a list of questions. What do you think about the business? What you think the biggest risks are? Do you have any concerns about the team? (BT, Head of VCT, Horizon Venture).

The VCs provide support indirectly through introducing entrepreneurs to external financial advisors as discussed previously, in section 5.2.4. The actions performed by the financial advisors are quite similar to those the partners and VCT perform (as discussed previously). These actions include advising the PC on funding rounds, identifying potential investors, preparing investment memoranda, and securing additional funding. Horizon Venture IFC Portfolio Report shows evidence of the following VCT assistance:

- It introduced “PC10” and “PC2” to Delta Partners Group, an advisory and investment firm, to manage and help them in their fundraising process. Delta Partners Group helped “PC8”, “PC9”, “PC15”, “PC16”, and “PC19” gain access to a leading investment bank and, therefore, secure loans on affordable commercial terms.
- It prepared the investment memorandum for “PC2”, which helped to secure a Series B funding round from VCFs and investment companies.

Growth strategies
The partners and VCT help their PCs in initiating and implementing growth strategies to increase their business revenue. One of these strategies is establishing club deals with strategic partners. The IFC Portfolio Report records that the VCT enabled these deals for certain PCs.

- It managed to develop a strategic club deal for enterprise resource planning (ERP) with Oracle and a content management system (CMS) with HubSpot at a significant discount rate for “PC8”, “PC15”, “PC16”, and “PC19”.

The IFC Portfolio Report also documents how the VCT helped its companies initiate partnerships with courier companies to provide an affordable delivery rate, with governments to get a space at discounted rate, and with corporates to initiate strategic partnership.
• It assisted “PC2” in structuring a unique partnership model with Aramex\(^{56}\) in which the latter received equity-in-kind in exchange for preferred service, sponsorship, reduced rates, and operational support. Also, it helped “PC2” to negotiate agreement with Infofort\(^{57}\) to digitalize their e-books.

• It helped “PC10” to get support from the Dubai Government by negotiating a 3-year rent-free space in the Design District and to initiate co-production deals with regional digital media companies in Egypt and in Saudi Arabia.

• It helped “PC14” to find strategic partners (fuel oil companies) to give “PC14” drivers perks and discounts.

The partners and VCT play a vital role in helping their PCs to expand into new markets and increase their geographic reach. Without this backing, business expansion would be quite limited, as is acknowledged in this document:

*Start-ups in the region, even those with innovative or well-executed products and services, tend to operate on a local basis and have difficulty expanding outside their local markets. Many start-ups simply do not have the capital, resources or specific knowledge to expand into other markets in the region* (Horizon Venture Investment Process Document, p. 6).

Some cases of partner and VC help, gleaned from the IFC Portfolio Report, are detailed here:

• They helped “PC3” set the strategy to enter and approach a new market (the Middle East and GCC countries).

• They facilitated “PC6” and “PC9” regional expansion opportunities in Saudi Arabia by identifying distribution channels and entering licensing deals with a pre-existing company to commercialize their product and services.

• “PC7” leveraged HV’s presence on its board of directors to gain access to key locations, cities and markets and thereby unlock the path to regional growth.

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\(^{56}\) Aramex is an international courier, package delivery, and express mail service company, based in Dubai, UAE.

\(^{57}\) Infofort is a company that offers records and information management solutions, based in Dubai, UAE.
In addition to initiating club deals and expanding to new markets, growth strategy can be achieved by acquiring new customers, accessing new suppliers and maximizing supply. In regard to increasing customer acquisition, the VCT has played a role:

- It made introductions for “PC14” with universities to acquire students
- It offered, during the “PC19” C-suite meeting, to connect the founders to new clients (e.g. companies in remote areas and government bodies).

The VCT also helped the companies to sell their products across multiple platforms to reach new customers and boost company sales. For instance, TF highlights how they helped “PC2” to sell its products by seeking to identify distribution channels to increase company revenue:

> We also worked with them as well in opening up the marketplace so they can sell on Noon and Souq. So, these have become like a business wholesale customer to them. So, that's another chain of, supply... and then I'm going to feed Souq with the best seller of this, I'll feed Noon with the best seller, so I create more revenue (TF, Director of Operation and Customer Experience, Horizon Venture).

Moving on to accessing new suppliers, for instance, the VCT introduced “PC3” to the major toy suppliers and distributors in the MENA region. On maximizing supply, TF highlighted some of the actions that the partners and VCT perform in supply which are, “how to shift the thinking...identifying supply, how do we look at supply differently from others, how do you maximise supply, because now there's a correlation between supply and revenue”.

**Restructuring**

In some cases, the VCT engages with the PC team to restructure its company by reorganizing and modifying the legal, the ownership, the financial or the operational structure when there is a change in goals or a transfer of ownership, or to make it more profitable. For example, the VCT assisted “PC6” in restructuring the company after the departure of the CEO. In fact, the team went to Amman and spent four days with its executives to help restructure the company. Following on from that, to accommodate some of the changes, the company “[was] conducting
regular interviews to make sure the company [was] ready to replace any misplaced hire immediately and not fall for instability again” (Horizon Venture IFC Portfolio Report, p. 9).

Exit support
Because the aim of investing in PCs is to secure an investment, the VCs work with their PCs towards identifying and assessing potential exit strategies. Although, as highlighted in this chapter’s introduction, Horizon had no exits during my fieldwork, they do work with their PCs executives to identify potential exits scenario. To facilitate this, in the IFC Portfolio Report, there is a section titled ‘Path to Exits’ for each PC. Images 5.4 shows the potential exit strategies for “PC11”, an e-commerce (fashion) company.

<table>
<thead>
<tr>
<th>Path to Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Acquisition by a global eCommerce fashion company (such as Golden Days in China, ASOS.com in UK, Rocket Internet or Amazon) in order to establish regional presence, or and acquisition by a retailer who wants to get into eCommerce and is interested in the conservation fashion segment or by a private equity firm who wants to diversify by getting into e-commerce</td>
</tr>
<tr>
<td>• “PC11” has also the potential to be listed. The conservative Muslim fashion market is so large (estimated to be worth $200 billion) and “PC11” is today the most popular conservative fashion site in the world</td>
</tr>
</tbody>
</table>

Image 5.4: “PC11”’s Path to Exit
Source: Horizon Venture’s IFC Portfolio Report (slide. 32).

To shed light on possible future exits, examples of comparable global company exits are given to Horizon’s PCs. For “PC16” and “PC4”, examples from the United States and the United Kingdom are offered. To guide “PC16”, it highlights the successful exit of Geekatoo, which merged with competitor HelloTech in 2016 to form the largest on-demand tech support company in the US. To guide “PC4”, it gives two examples: “Gocompare.com in the UK was recently valued at £400 million and is currently looking at an IPO or private sale. Zoopla acquired price comparison site uSwitch for £190 million on a cash-free, debt-free basis in April 2017” (Horizon Venture IFC Portfolio Report, slide. 15).
5.2.4.2. **Operational practices**

Operational practices focus on improving business performance by developing the company’s operational functions. RS, Horizon Venture’s Partner, explains how providing operational support increases company value: “So, the operation value creation we add, it increases the efficiency of the performance of the company and hence, improves its financial performance and, therefore, reflects, in theory, positively on the valuation because of that increasing efficiency”. Horizon Venture has a dedicated VCT to support its companies in areas such as HR, finance, operations, and marketing (see Image 5.5).

![Image 5.5: VCT Main Area of Support Alongside Each Investment](Source: Horizon Venture’s PPM Teaser Presentation (slide. 11)).

Operational practices are important for PCs because most are early stage and may have little or no operating history, may have developed products or not, may experience failures or substantial declines in value, and normally have variation in their operating results. In the following subsections, I will give some examples of how the VCT seeks to add value to its PCs through providing operational support related to HR, finance, operations, and marketing.

**Human resources**

The VCT adds operational value to its PCs through offering insightful ideas and plans to develop the company’s HR system. To illustrate, the VCT engages with company executives to assess current HR capability and forecast future HR requirements. Outcomes of assessing and forecasting might include changing or reorganizing the management team, cutting salaries, identifying hiring needs and resolving compensation issues. The ‘purpose’ of human resources is to increase the professionalization of the companies, which ultimately drives company growth.
“PC8” is a good example because the VCT changed its management team, as TF (Director of Operations and Customer Experience) explains, “we helped them out, and changed the team, so we let go the head of customer service, the head of operations, the operations supervisor, and the customer service consultant. And we brought in new team to lead”. A change of management team can occur when the performance of a venture is poor or when the team lacks ability (as discussed in the Literature Review chapter, see section 2.3.1), or to adopt a performance-oriented culture (as will be discussed in section 5.2.4.4). The VCT also helped “PC8” formalize its hiring plan and proposed a salary cut for its warehouse manager. This is because, as TF said to the PC’s Head of Operations during the “PC8” operational meeting, “you need to consider his salary especially if we reinvested in the company, it is unfair for the other company to have a lower salary for the warehouse manager, such as “PC8”. The LPs will not accept that”. This rationale underlines how the VCT can use its power as an investor to reduce the salary of an employee.

One of the main challenges facing PCs is recruiting and retaining talent. Firstly, talented professionals are often afraid to work for startups due to the perceived high level of risk; secondly, hooking talent is expensive for startups. To attract, motivate and retain high quality employees, the VCT helps its PCs build and set up an effective ESOP and find ways to incentivize employees and executives by introducing equity compensation. An ESOP gives employees ownership and financial interest in the company and motivates them to grow the company business.

For example, the VCT helped “PC1”, “PC5”, “PC17” and “PC18” to structure their ESOP. Equity compensation can take the form of stock options, restricted stock, and performance shares. Stock options give the employee the opportunity to purchase shares at a fixed price, while restricted stock offers the employee the right to gain shares as a gift or buy them after meeting restrictions (e.g. hitting an employee performance target). Performance shares provide managers and executives with shares based on company performance metrics, such as earning per share (EPS) and return on equity (ROE) target, “to ensure that they are strategically aligned with the fund and sufficiently incentivized” (Horizon Venture PPM Document, p. 21).
The VCT helps and supports their PCs in the recruiting process (sourcing, screening, connecting, assessing, and negotiating contracts with candidates). They take advantage of Horizon Conglomerate’s network in searching for and identifying potential candidates for the company’s key positions. As TS proudly admits, Horizon has its ear to the ground:

*If they want specific key hires, we get a lot of CVs that we can help out with. We do a lot of events, we travel a lot, and we meet a lot of people around the region so we're always able to identify key people that could help our partners companies* (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

Another way of sourcing good candidates is through connecting the founders to recruitment agencies. For instance, in BT’s calendar (Head the of VCT), I saw an event connecting the CEO of “PC17” with a recruitment agency which deals with executive hiring in MENA. To help the PCs in the selection process, the VCT may become involved in candidate screening to determine whether a candidate is qualified for the job, passing the suitable candidates to the founders for the ultimate decision. This is because, as RS, Horizon Venture’s Partner, highlights, “that makes life a lot easier for the founder rather than having to go through thousands of applications”.

Founders do sometimes ask for the involvement of the VCT in assessing the candidate. For instance, BT (Head of VCT) paired with the CEO of “PC2” in interviewing a candidate for a business intelligence manager position. For technology recruiting, because the VCT lacks expertise in the technical side, it tends to seek help from one of its EIR to assess potential candidates. For instance, in the “PC21” meeting, the CEO asked the VCT for help in assessing the skillsets and knowledge of a candidate for a Chief Technology Officer (CTO) position. TF (Director of Operations and Customer Experience) replied that he would put him in touch with one of their EIR, who would be able to assess the candidates and give the CEO feedback. Previously, (in section 4.5) I highlighted the role EIR played in advising the fund (i.e. in evaluating potential investment), but it also has a role in supporting the fund’s PCs.
In terms of financial support, the VCT are heavily involved in assisting its PCs with financial modelling because, according to BT (Head of VCT), “this is an area that we see a lot of assistance is required with CEOs because they don't have a consulting or an investment banking background”. The financial model gives a summary of a company's expenses and earnings, and forecasts its future financial performance (what the business is going to be in the future). It is used as a tool to improve and support strategic planning and to make management decisions, such as hiring, fundraising, allocating resources and expanding. The Value Creation Update Document records that the VCT used a financial model tool to:

- test different revenue growth scenarios for “PC19”
- set the 2018 budget for “PC8”.

Financial models are also used to determine the PCs burn rate, track spending, estimate the cost for new project, manage PCs’ budget, estimate the company evaluation, and determine the financial impact of future events. The VCT has dedicated sessions with its PCs to support them in financial modelling. For instance, I captured two events in the Head of the VCT’s calendar:

- A “catch up skype call” between BT and the CEO of “PC15” to discuss financial model assumptions and progress to date
- A meeting between the CEO of “PC22” and BT to discuss the company’s financial model.

To help the PCs build a structured and dynamic financial model, Horizon Venture team constructed a Financial Model template in the form of Excel spreadsheets ‘material arrangement’. The template includes annual assumptions, annual financial statements (i.e. income statement, balance sheet, and cash flow statement), monthly assumptions, monthly financial statements, and a supporting spreadsheet of unit of economics, use of funds, hiring plan, forecast revenue and expenses. It also contains spreadsheets to calculate the estimated financial statements based on a company's assumptions and forecasts.
Operations

The VCT looks at ways to improve the quality and efficiency of a company’s operation by, for example, optimising business processes, and improving inventory management and logistics. The result of improving a company’s operation takes longer to be reflected in the company performance than improving the company’s strategy or marketing. This is highlighted by the Head of the VCT (RN): “If we make a revision to marketing and strategy, you can see results in two weeks. If we make a revision to operation, that could take months maybe even a year, right, before we see a result from that”.

To illustrate, I observed an operational meeting with the “PC8” Head of Operations at the company’s office in Dubai. The purpose of the meeting was to get an update on the progress of operational related tasks and to introduce ZA, the new member in the VCT, to “PC8” Head of Operations. Some of the actions I observed in the meeting included opening up the operational dashboards to show the VCT the past three months of data and to update it on its sales, discussing payment and logistics issues (e.g. delays in January orders), and discussing the advantages and disadvantages of an alternative payment method (e.g. cash on delivery). The Head of Operations asked the VCT for help in planning and designing the company’s new warehouse and TF (Director of Operations and Customer Experience) replied, “we have done this before, we can kindly ask [SM] to give us his feedback on the warehouse”. This quote showed that the VCT not only gives feedback directly to its PCs, but it can also add value by bringing in other people from within their network to learn from their experience. In this case, they intended to bring the COO of “PC2” to share “PC2” warehouse experience and to give insights and feedback on the new “PC8” warehouse.

Some parts of an operation can be transformed quickly with one step and others may meet with resistance for a time. After the meeting, and on our way back to the Horizon office, TF discussed with ZA how he helped “PC8” to improve its delivery performance from a four days average delivery to 50% same day delivery and 80% next day delivery for their UAE customers by integrating with a third party logistics company (i.e. outsourcing the logistics and fulfilment services). He reflected on how he tried several times to convince the “PC8” Head of Operations to improve the last mile efficiency to local customers in the UAE but “after several trials I said to him, ‘clearly you have to speed it up’” and worked with them to achieve this goal.
Another example of optimizing the company operation is the way in which the VCT helped “PC2” to improve its order realization and transit time. It achieved this by shifting the fulfilment strategy from back-to-back fulfilment to inventory-led fulfilment (Horizon Venture Portfolio Management Activities). The VCT helped “PC2” open a central warehouse in Riyadh to service their Saudi customers, since 55% of their revenue comes from Saudi Arabia. To select a suitable warehouse provider, the VCT assessed third-party logistics by visiting the different logistic companies’ warehouses. TF (Director of Operations and Customer Experience) explains that the team’s time-intensive actions matched the gravity of the decision to be made: “we went to Aramex warehouse, we went to Fetchr, we went to DHL, we went to SMSA, we visited all of them ... because you're giving them what? 50% of your business, it's a huge deal”. Also, the VCT helped “PC2” in writing and negotiating the service led agreement (SLA):

we went through, the whole negotiations with Aramex, the SLA writing of it, how it looks, what's the process. How many days a week are they going to work? And how many orders can they process? What is the delivery time agreed? We just went through all the SLA, and the agreement with Aramex, to make it happen (TF, Director of Operation and Customer Experience, Horizon Venture).

To help “PC2” identify which books would need to be stored in the Saudi warehouse, the VCT asked them to do a problem-solving exercise. TF explains how this task guided them to make the decision:

We asked them to do an exercise they hadn't done before, which is, what are the best sellers per country? ... So they said, we have data for what's been bought, and also we have data that is from the newcomers, the publishers (TF, Director of Operation and Customer Experience, Horizon Venture).

Furthermore, the VCT helped “PC2” to reduce shipment costs by creating smart regional hubs, using third party logistic providers to outsource elements of warehousing and fulfilment services. TF commented on the operational support for “PC2” by saying:
Another exercise that we set was we want to reduce the shipping costs by sending one shipment. This means that we need to grow another major hub, most probably in Lebanon, because most of the publisher are there. So, we feed Lebanon from Egypt, from Jordan, from everywhere, even the English books from London, we feed it, with also 80-90% of the world’s needs (TF, Director of Operation and Customer Experience, Horizon Venture).

Other activities that fall under operational support include developing production or service techniques, helping test and validate additional product lines and services, giving recommendations about the effectiveness of new technology, improving the shipping process, accelerating time-to-market, reducing turnaround time, and automating repetitive tasks. The VCT also helps the PC executives to measure, monitor and assess different parts of their business by encouraging them to introduce metrics (e.g. operational and financial KPIs), and systems (e.g. creating dashboards and a standardized reporting system). The outcome of these metrics and systems is mutually beneficial.

Marketing and sales
Marketing is an area where the VCT has broad expertise and can, therefore, provide support to drive PC sales growth. Marketing practices include developing a marketing budget, recommending marketing strategies, providing guidance on marketing and branding needs, building marketing analytics, and optimizing the site. For marketing spend, the VCT helps its PCs to decide how they should spread their spend across marketing channels, devices, and geography. These are two examples:

- The VCT encouraged “PC6” to use free marketing channels (social media and email marketing) to grow its client base. This had been a goal expressed by the PC: “Expecting to get good exposure and close ~30 clients by the end of 2017” (Horizon Venture IFC Portfolio Report, slide. 9).
- TF (Director of Operations and Customer Experience) suggested that “PC23” spend part of its budget on influencer marketing (collaborating with Middle Eastern influencers) to promote the business, gain new customers and, therefore, increase company revenue.
BT describes PC marketing meetings as “brainstorming sessions”, where marketing-related ideas and marketing experience (or that of other PCs) are shared, as BT highlights in his interview:

*Sharing of experience or I've done this before and this work or I've seen these done in some of the companies... So, a lot of my time is just like, CMO calling me and saying, “Hey, I'm thinking about doing this. What do you think?” Or “this is my revised budget, I want put a little bit more in this geography. What do you think?”* (RN, Head of VCT, Horizon Venture).

In regard to sales, Horizon Venture pays attention to customer service because most of its PCs are e-commerce companies and it understands that enhancing the customer experience can lead to an increase in sales. One activity the VCT conducts to improve customer service is to map out the customer experience. The following are two examples:

- The VCT mapped out the customer experience of “PC2”, from the time a customer entered the company website to see what they had in store, to the time that they actually received an order
- During the C-suite meeting of “PC21”, TF (Director of Operations and Customer Experience) suggested that ZA (Investment Associate) should map out her experience of ordering from the website.

5.2.4.3. Personal practices

Personal practices focus on developing an entrepreneur’s skills and knowledge, providing them with advice and guidance, offering support and encouragement, and generally alleviating pressure on them. These offerings ultimately boost the entrepreneur’s productivity and improve PC performance. To provide such individualized support, VCs need to have strong listening and communication skills, and an ability to read body language. They need to first understand the founder’s personality in order to know when to be a ‘mentor’, when to be a ‘coach’, when to act as a ‘confidant’, and when to ‘preach’. Indeed, HV highlights the range of roles VCs that need to be performed when he characterizes the relationship between VCs and entrepreneurs as comparable to the parent-children relationship.
We basically adopt them. So, we are their mother and their father at the same time for a certain period of time. You know you need to think of startups and entrepreneurs just like you think of human beings. When they get born, they need to be nurtured. They need to be helped. You need to be patient. And sometimes tough, sometimes tough love, sometimes very, very tough (HV, CEO, Horizon Venture).

Because entrepreneurs deal with uncertainty in their work, face the challenges inherent in starting a new business, and they are under great pressure to deliver on their promises, they learn to speak about their fears to their VCs rather than their team, as illustrated by GRF:

*It gets difficult for them to vent their frustration of any sorts or any kind of negative sentiment they have to a team member. As a CEO of a company, you don't want to go and whine to your employees. You want to keep positive. You want to have the drive. But then you might have your own reservations. Pick up the phone, call your investor, your board member, who you look at as a partner, and say “You know this is my promise here. What do you think I should do?”* (HV, CEO, Horizon Venture).

Mindful of this need, the VCs sometimes act as friend and confidant to entrepreneurs on company and non-company related issues because, as RS (Partner) highlights, “*they need just someone to talk to*”, or as TS (Partner) said, they need someone “*to take care of them*”. They might need someone to be their sounding board or share their worries, give them hope or find solutions.

For instance, in the “PC21” meeting the CEO of the company discussed some of strategic plans (e.g. expanding to Kuwait) with the VCT in order to gain insights and a sounding board for this idea. TF (Director of Operations and Customer Experience) said that it was too early to think of expanding and highlighted that they needed first to fix their operation. Also, the Business Planner of “PC21” went through the process flow. She suggested that acquiring a different perspective could be useful as, “*if* we are too close to the operation, we might not see something, and therefore we need help from the VCT”.

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Since start-ups are usually run by an inexperienced entrepreneurial team, as highlighted by HV, Horizon Venture’s CEO, they “have certain skills” but not all, so they need to have mentors who are successful entrepreneurs or who have business, operational or industry experience. Such mentors can offer business advice, provide consensus in decision making, share knowledge, experience and resources and head off crises. Their experience can be useful in developing the entrepreneurs’ knowledge and skills as managers, leaders, and strategists. The Head of the VCT highlights one particularly important aspect of the way it provides support:

An unspoken kind of secondary or tertiary aspect of our value addition is we expedite decision making. If you have two or three people in consensus, it's easier to make a decision than if it is one CEO at the top that has to come to play. This our decision, is it not? I think that you pick on this across the world. Like, it's easier to make a decision if you have consensus. So, we also, I guess I never thought of this, actually, but we help to provide a consensus, so [it] streamlines decision making (BT, Head of VCT, Horizon Venture).

HV gives examples of how mentors have long played a key role in helping entrepreneurs achieve their potential:

globally I think it's an issue in every entrepreneurial story, including Facebook and Google and others. They all need a big brother or big sister to come and help them in filling some knowledge gaps. So, every one of those guys will tell you stories about people that came in and were the mature people in the room in the company to make it grow. That's what we do (HV, CEO, Horizon Venture).

TS relates how he has witnessed the transformative impact mentoring can have on a company:

But the amount of times where I've seen that interaction propelled a company in a certain direction or help[ed] the founder in a certain direction through mentorship and through part of accessing our network, has been tremendous (TS, Partner at Horizon Venture and CEO of Horizon Enabler).
Interestingly, not only do VCs value the role of mentoring in developing startups, but so do the PCs’ management team. For example, in the “PC21” meeting, I heard the Operation Planner say, “We have you as consultant to help us”, and the CEO say, “It is nice to talk to you about our challenges”.

Mentoring support includes coaching the CEO on various areas that fall within the role, from learning the language (e.g. explaining terms), to strategic thinking and decision-making. It is also important to learn how to do the following: form and manage a board, conduct board meetings, give presentations, conduct roadshow meetings, and prepare fundraising documents. Help might be needed to develop the personal and professional skills and capabilities of the PC team members so that they can tackle their challenges confidently (e.g. clear communication, leading, dealing with people, managing dysfunctional relationships between team members, dealing with underperformance). Basically, mentoring involves the sharing of knowledge and experience with empathy.

Mentoring support offered varies widely but examples include occasions when the VCT:

- coached a PC team on a roadshow meeting. The VCT and “PC21” executives had agreed in the C-suite meeting to conduct a mock roadshow presentation to help the executives to practice and to get constructive feedback on their presentation
- assisted “PC1” in board meetings, and “PC8” and “PC5” in board dynamics (Horizon Venture IFC Portfolio Report)
- developed the leadership skills of the CEO of “PC8” by “coaching CEO” (Value Creation Update Document). They had an investor pitch feedback session to assess and give feedback on the CEO pitch deck presentation for their second round of funding
- shared experience, in a “PC21” meeting. TF (Director of Operations and Customer Experience) gave an example of how one PC increased its revenue by 20% by creating a niche, (a gift section, that other e-commerce companies choose not to focus on). The CEO acknowledged the value of this help: “it is useful to share similar experiences with your PCs”.
This last example highlights the benefits of identifying a niche area, such as growing the customer base and lowering advertising costs and, therefore, increasing company revenue. Horizon Venture provides mentoring support internally by directly mentoring entrepreneurs and by establishing positions for EIR. Regarding the mentoring of entrepreneurs, HV, Horizon Venture’s CEO, highlights his role: “I’m a mentor. I give them advice from my years of experience and how to do certain things”. In his mentoring, TS (Horizon Venture’s Partner) acts as a gateway for PCs entering the Saudi market because he built connections and knowledge in the operating environment of Saudi Arabia, and so is able to provide insight and advice (to be discussed later, in section 5.3.1). In the MENA region, as highlighted in the HC Investment Process document (p. 6), “entrepreneurs have limited access to mentors and knowledge-sharing”. In response, Horizon Venture has established EIR positions to provide mentorship and consultancy support to its PCs. For example, TY, one of Horizon’s EIR, have assisted “PC1” with defining its regional marketing strategy (IFC Portfolio Report, slide. 17).

Horizon Venture not only relies on providing mentorship support internally but also externally by connecting entrepreneurs with external advisors or experts. This is because they understand that mentors have varied skill sets and each PC is likely to need a different kind of support to address specific aspects of its business. These are some examples:

- Horizon Venture gave “PC2” access to Endeavor Global mentorship network to complement its knowledge and expertise
- During a meeting with “PC21”, TF (Director of Operations and Customer Experience) recognized that “PC21” management team needed help in learning the basics of strategy and operation. He offered to put them in touch with the Managing Director of Endeavor UAE to get support from its mentorship network.

Furthermore, Horizon Venture takes advantage of the Platform’s larger network of mentors (e.g. serial entrepreneurs, investors, lawyers and experts) to provide PCs with access to mentors (as will be discussed in section 5.4.3).

5.2.4.4. Cultural practices
Horizon Venture recognizes the importance of building a company culture which is driven by performance, employee feedback and documentation. Therefore, the VCT helps its PCs to
adopt a set of practices to achieve their objectives, increase their productivity, promote efficiency, and drive the growth of companies.

One such practice is the development of a performance-oriented culture that allows management to act and make changes based on individual and team performance to drive company growth. Some of the actions to cultivate a culture of performance include, setting objectives, defining performance metrics (e.g. KPIs to measure employee performance), as well as assessing and reviewing these metrics continuously. For instance, to address the operational team performance issues of “PC8”, TF (Director of Operations and Customer Experience) asked the Head of Operations of “PC8” to identify employee strengths and weaknesses, as well as to assess their output. For the employees who were underperforming, TF suggested to first have open conversations with them about it and give them a performance improvement plan to develop their skills (e.g. training courses). If that did not work, they should be let go. This is because, according to TF:

*If you’re a startup, you have to have good people. You cannot say that there are three people who are failing me always, but I'm keeping them... Startups, are the most, performance-driven companies. They cannot act like corporates and be lazy about change. They have to be faster, ten times in change, than corporates. They have to be vigilant about cost and efficiency more than anyone else* (TF, Director of Operation and Customer Experience, Horizon Venture).

Another practice is the incorporation of an employee feedback system. Its aim is to make the team members feel more valued and, therefore, boost their productivity. For instance, in the operational meeting with the “PC8” Customer Service Manager, TF try to inject the importance of empowering team feedback by suggesting sharing a Google sheet between members of the customer service team. Via this they would be asked to provide their feedback and suggestions on the company website and the app which would encourage the team members to contribute to the ongoing development of this technology. Also, it sheds light on the importance of fostering a collaborative culture in startups to ensure that employees feel part of the company and their voices are heard.
The VCT also employs a document driven culture with the start-ups to help them to grow. Some of the benefits of documentation are visible in the form of increased efficiency and reduced risk. The practice of documenting facilitates improvement and monitoring, supports decision making, and promotes professionalisation. In interview, TF reflected on how documentation is often not prioritised in startups but how they, as VCs, try to change the entrepreneur’s mindset, to promote its value to the company:

That's missing in most of our start-ups, by the way, don't get surprised... they don't document... . They say, it is always changing. Yes, it is always changing, but it is good to see iterations... you move them from this fully-manual environment, to a semi-automatic environment, to a full-automated environment, and you [show] them, the progress, the changes happen (TF, Director of Operation and Customer Experience, Horizon Venture).

What is evident in many of the PCs reported reactions to suggestions for change from the VCT is a certain defensiveness about some of their cultural practices. People can always justify their behaviour (e.g. about poor file-keeping) often retrospectively, sometimes to avoid embarrassment at their lack of knowledge about how something should be done. Disorganization of the kind mentioned above, is at odds with Horizon’s disciplined practices. It seems that although the PC can learn from the often superior, well-established practices of the VCT, meeting these high standards might initially be a daunting prospect for a new business, even if ultimately it is grounding and necessary.

5.2.5. Monitoring Practice: a detailed account

The VCT and partners closely track the company and the management team’s performance by reviewing company reports, by conducting regular meetings and visits, and by holding quarterly board meetings. The ‘purposes’ of the monitoring practice is to ensure that the CEO acts in the company’s best interests, to protect their investments, to ensure the companies are in line with their post-investment strategy and, as highlighted by BT (Head the of VCT), “to ensure that all resources are focused on the right initiatives”. Figure 5.6 illustrates the sub-practices that constitute the monitoring practice.
The VCT and partners have highlighted that the monitoring practice not only benefits them as investors, to oversee their investments, but it also teaches the company’s executives about the importance of adopting good corporate governance practices. It is acknowledged that these practices create value: “The Fund actively supports the long-term financial health of its [PCs] by helping them adopt corporate governance standards and best practices, including the use of appropriate reporting and accounting procedures” (Horizon Venture Investment Process Document, p. 6).

In the following subsections, I will explain and give examples of how the VCs monitor the company performance by reviewing reports, conducting regular meetings and visits, and sitting on the board of directors.

5.2.5.1. **Reviewing reports**

Horizon Venture has an information right to receive statements and reports from its PCs. What is required is outlined in the term sheet and includes monthly unaudited financial statements, a management letter, annual audited financial statements, and an annual budget. Image 5.6 shows details of the terms and conditions of this information right.
| Information Rights: | So long as the Investor continues to hold shares of Series A Preferred or Common Stock issued upon conversion, the Company shall deliver to the Investor: (i) monthly unaudited financial statements within 15 days of the fiscal month end in customary form and which will include comparisons to the prior year's comparable period and to the budget, (ii) on a quarterly basis a management letter within 30 days of the quarter's end, (iii) audited annual financial statements within 90 days of its fiscal year-end, accompanied by a management letter in customary form, and (iv) an annual budget at least 30 days prior to the fiscal year end. |

*Image 5.6: Information Right Terms and Conditions*

Source: Horizon Venture’s Term Sheet Template (p. 3).

Reporting to fund managers allows VCs to track, document and gain insights into the company’s progress, challenges, and accomplishments. Also, it allows them to assess the company’s performance and to measure the impact of the implemented initiatives, which, in turn, enables the PC to make adjustments to its action or execution plan if necessary, and to continue making improvements. According to ZA (Investment Associate), companies reports help them to “see what they've done, what they're initially set up to do, how they're doing, what challenges are facing, if there are some things specifically that we need to help them with etc”.

Horizon Venture requires a monthly report from each PC to update it about different aspects of the business. These include updates on KPIs (e.g. unit economics), finances (e.g. revenue, expenses, burn rate), traction (e.g. customer acquisition, orders per customer), operations (e.g. delivery performance), and business (e.g. new hires or fires, marketing strategy). The report also includes a timeline, issues or opportunities that emerge, and any important information. For instance, BT (Head the of VCT) highlights some of the items that the PC team should report on regularly: “they should have [a] timeline to complete, projected unit economic impact and actual unit economic impact, key takeaways something like that”. It is important to emphasise that the items monitored can differ between companies and might evolve during their involvement depending on the company sector, the company specific situation, and other factors. For example, in an operational meeting with “PC8”, TF (Director of Operation and Customer Experience) requested “remote access to dashboards, and Google doc to share documents”, so that the VCT could track and monitor the company’s KPIs.
The VC team has developed a monthly report template to standardize the flow of information in Horizon Venture, to reduce the processing time for both the VCs and entrepreneurs and thereby, lower VC monitoring and administration costs. The template was also developed to enhance the communication between the VCT and entrepreneurs and to ultimately reduce follow-up questions. Although the standardized approach helps to simplify the reporting process, there is no one size to fit all companies. Therefore, the VCT allows the PC team to share and add any relevant information to the monthly report. Appendix 11 shows the monthly report template.

VCs spend a considerable amount of time reviewing companies’ reports and financial statements. To illustrate, when I asked them, “What do you do in a typical day?”, the Managing Partner reported spending 10-15% of his day reviewing reports, whereas the Head of VCT said that his time is divided “between evaluating portfolio, operating due diligence, portfolio reporting, ongoing engagements with portfolios”. In some cases, if necessary, they conduct meetings at team level to discuss the company reports and reflect on which initiatives are working. For instance, in the VCT calendar, the team had a dedicated meeting scheduled to discuss and review “PC21” report and financial statements. Also, the VCT has meetings on the financial models and cap tables of their PCs.

Reviewing practice is interlinked with planning practice, in which the VCT sets goals and defines outcomes to be achieved. Some of the actions performed by the VCT in the reviewing practice include, assessing company performance by measuring metrics, evaluating whether or not the company achieved the goals and expectations, identifying which initiatives are going well and which are falling below expectations, and why. For instance, a comment found on the “PC6” sheet in the 2018 Horizon Venture’s LP Report states: “Business is underperforming against plan – [Horizon Venture] has deployed its VCT to support the business with results expected by Q1 2018”.

Furthermore, the VCT draws on the PC’s accounting and financial information in the review process to provide support, to monitor and assess the company’s performance and to guide decision-making. For instance, BT reflects on how they identify red flags by assessing the growth metrics:
the easiest red flags to identify are growth metrics. If quarter over quarter... growth becomes negative, that's an immediate flag... At which point, I look at various aspects of the business... I look at the reporting from a revenue and then a cost perspective. Revenues are generally easy to isolate, but from a cost perspective sometimes you have to dig a little bit deeper to figure out where the actual failure was and why there is a spike in given cost, to make sure that it doesn't happen again or to mitigate the risk of that happening again (BT, Head of VCT, Horizon Venture).

To measure the impact of the implemented initiatives, the VCT assesses the unit of economics, as explained by ZA:

unit of economics is part of the financial reporting as well, we are looking at it from a different eye, like how did our initiatives impact directly our unit of economics for that company? And [we are looking at it] from a cost perspective and efficiency and utilisation of money (TF, Director of Operation and Customer Experience, Horizon Venture).

5.2.5.2. Regular meeting and visiting

The VCT communicates regularly (formally and informally) with the PC team via email, phone conversations, meetings, and visits; as BM (Managing Partner) mentions: “We talk to the portfolio directly on directly, like twice a month”. The ‘purposes’ of conducting regular meetings and visits is to enhance communication, to exchange and process information, to assess company progress and implemented strategies, to identify opportunities and areas for improvement, to help the PC team to find ways to solve their problems and generally to support the company’s growth. The VCT recognizes the importance of building trust in the VC-entrepreneur relationship to facilitate the collection of information crucial for decision making, as BT highlights:

It's very important to have a high level of trust between the two of you. It makes things easier ... . It facilitates easier information flow, which in turn influences
better decision making and more inputs to make a decision. So, more qualified decisions, which in turn impacts a strategy, which in turn impacts the execution plan, which in turn impacts the value (BT, Head of VCT, Horizon Venture).

Employees of Horizon Venture, who spoke about the company formally and informally, describe their engagement with the PCs as “collaborative”, how they work with a PC “hand-in-hand”, and how, rather than forcing their agenda, they “try to find and navigate ways” to convey their points. They select their words carefully, for instance, they use the inclusive pronouns “we” and “us”. They suggest “let’s work on this together” and ask “what would you think if we did this?”, which enhances a “collaborative” approach and helps the VCs to integrate into the PC team. They view themselves as an extension of the PC team, as HV explains: “We actually go and do the work with them. So, we are part and parcel of that company”. TF echoes this belief and its value:

we are part of the team...It's like we're really part of the team, I'm an extension of operations, I'm an extension of customer service. I'm an extension of supply team. And that's what's hard to show in any value creation. And that's what you want to maintain (TF, Director of Operation and Customer Experience, Horizon Venture).

The VCT monitors the PCs by visiting the companies to inspect their records and to make sure that they retain their documents. This is a practice recommended by CDC Group (2010, p.54) report: “The fund manager may wish to check on an ad-hoc basis that its [PCs] keep all required permits, records, etc up-to-date and in good order”. For instance, in an informal conversation, Horizon’s Director of Finance told me that, from time to time, he visits the companies to review and check their financial documents. Another way of monitoring PCs is by conducting regular follow-ups with each department head and CEO, to ensure action plans are being implemented, to take updates and to exchange information. For example, in the VCT calendar, I made a note of the following phone call and meeting scheduled between the VCT and PCs:
Catch up call for “PC15”’s financial model (skype) - discuss assumptions and progress till date: RK and CEO” and “Weekly Catch-up/Brainstorming on the progress of operational related tasks and improvements “PC8”, office Dubai: Head of Operations (“PC8”), BT and TF.

For instance, the VCT conducted a video conference meeting with the “PC8” Customer Service Manager58 to review the company’s operational process. The meeting structure was similar to the C-suite meeting (see Figure 5.4), where they start with introducing each other to make sure that attendees know who they are talking to, followed by reviewing the project plan and asking questions, and concluding by giving them tasks and setting plans. To enhance the online meeting, the manager opened a shared screen to show the “PC8” project plan in an Excel file ‘material arrangement’. She went through the project plan with the VCT and discussed what she had done so far and what she was planning to do. She opened another Excel file to document her tasks (see Table 5.1). The VCT collected data by asking the manager to share the Excel file with them, asking which system they were using and whether they were happy with it, and asking the manager if she needed further software training.

Table 5.1: Customer Service Manager’s Documentation of Tasks

<table>
<thead>
<tr>
<th>No.</th>
<th>Category</th>
<th>Task name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hiring</td>
<td>Job description</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Empanel vendor, such as recruitment companies</td>
</tr>
<tr>
<td>2</td>
<td>Training</td>
<td>Creating training content</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Training planner</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Soft skills model</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Process guide luxury and brand training</td>
</tr>
<tr>
<td>3</td>
<td>Governance</td>
<td>Ask Ahmed and try to focus on which tasks she gave him</td>
</tr>
<tr>
<td>4</td>
<td>Automation</td>
<td>N/A</td>
</tr>
<tr>
<td>5</td>
<td>Data analytics</td>
<td>Reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>KPIs to measure performance on order confirmation</td>
</tr>
</tbody>
</table>

58 PC8 Headquarters is in Dubai, but they have an office in India where the Customer Service Manager is based.
Furthermore, the “PC8” Customer Service Manager shared some of the issues that the company faced (e.g. distributed and virtual teams) and how she was solving some of these problems. For instance, since the “PC8” team is distributed between Dubai and India, and each country has different e-commerce business days, six and five days respectively, the company has an issue with Saturday coverage. To solve this problem, she asked her team to be available via WhatsApp and email during the weekend. The VCT was able to ask specific questions, give feedback and provide suggestions to improve the company app and website because they had already reviewed the company’s material, website and app in the reviewing practice. For instance, TF (Director of Operation and Customer Experience) commented that there was “no option to change language in the app” and suggested asking the “PC8” team to identify similar issues around the app and the website and submit improvement ideas via a shared Google sheet. Also, TF suggested additions to the Response Time Excel file,\footnote{The Response Time Excel shows the response time of each employee to a customer. The purpose of the file is to improve the customer response rate by answering the customer questions quickly.} such as: “Add who is in charge of each department? What is the volume? And what is the number of tickets replied on the same day and next day?”. 

At VCT level, the team conducts regular meetings to discuss a PC’s report and financial statements (an example illustrated in the previous section), to debrief the VCT after a PC meeting, to discuss a PC meeting outcome, and to prioritize their engagement with PCs. For instance, TF (Director of Operation and Customer Experience) conducted a debrief meeting titled “PC6” Recap to debrief and review the main outcome of his four-day visit to Amman to restructure this company. In the debrief, TF shared some of the company updates and challenges facing the CEO, such as high turnover rate\footnote{The company turnover, across a certain time period, is high.}. Debriefing is a useful realignment opportunity for the team because each member might be working on a different project. It also allows team members to learn from each other and share their thoughts and experiences. The exercise specifically helped TF to reflect on what went well, what did not, and identify areas of improvement and further development.

A weekly meeting is held in the Managing Partner’s office, every Wednesday from 9 to 10am. The purpose of the meeting is for the VCT to keep the Managing Partner informed about its
engagements with PCs and the PCs’ progress. TF (Director of Operation and Customer Experience) highlights its unifying value: “we need to be aligned in front of everyone... . It's very important that everyone is on the same page, and everyone has the information. So that we can reflect one point of view”. The meeting also helps the Managing Partner to review and evaluate VCT-PC engagement. Also, because the Managing Partner normally sits on the PC’s board of directors (as will be discussed in section 5.2.5.3), he communicates what happens in the board of directors to the VCT and, on the other side, he takes the VCT feedback back to the board. In some cases, Horizon Venture’s senior executives meet the Head of the VCT to discuss issues related to a PC; for example, in the VCT calendar, there was a ‘‘PC24” - Internal Discussion’ meeting scheduled between the Head of VCT and Horizon Venture’s senior executives.

At firm level, Horizon Conglomerate conducts a monthly Portfolio Meeting, with both the Venture and the Enabler team. It takes place on the first Tuesday of each month in Horizon’s meeting room. Its purpose is to update the teams on the existing portfolio, to keep them informed, to share information, to review the PCs’ progress and performance and, most importantly, to gain feedback to help their PCs move forward. ZA (Investment Associate) highlights that the alignment meeting’s aim is: “to make sure everyone knows what's going on”. This is particularly important since the Horizon Conglomerate’s teams focus on different things (the VCT works with PCs, the fund team works on fundraising, deal originating and due diligence, and the Enabler team works on media, research, online content and advisory services). Before the Portfolio Meeting, the VCT prepares a high-level summary on all the PCs in the form of PowerPoint ‘material arrangement’, based on the monthly company report (discussed previously, in section 5.2.5.1). ZA highlights how, “[t]he monthly reporting is a feeder into this presentation”. The presentation provides a status review on each PC by highlighting the income statement, and including updates on company progress and information on the issues and risks being faced. Image 5.7 provides a screenshot of the Portfolio Meeting Presentation Template: PC monthly view.
Horizon Venture Portfolio: XX

Investment Date: 
Industry: 
Headquarters: 
Current total Equity Value

<table>
<thead>
<tr>
<th>Currency: USD</th>
<th>January 2017A</th>
<th>January 2018A</th>
<th>Variance (%)</th>
<th>Horizon Budget</th>
<th>Variance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPEX</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA margin</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash burn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Operational updates
Fundraising updates
Value Creation updates

Image 5.7: PC Monthly Overview
Source: Horizon Venture’s Portfolio Meeting Presentation Template.
5.2.5.3. Sitting on the board of directors

Horizon Venture requires a board seat in its PCs if they are the lead investor and are investing around one million dollars. TS highlights the long-term benefits of this inclusion:

*We would take a board seat because we want to be able to have access to information, we would like to be able to direct the growth of the company, and we're very much invested in the well-being of the company... board seats are typically where we can continue to influence the company... making sure that we are properly creating value in these companies as they grow* (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

Therefore, the ‘ends’ for having a board seat is to direct and guide the growth of the company, to supervise the execution of the investment thesis and plans, to assess and improve the performance of the company, to influence the company, to mentor the company’s executives, and to have access to business and financial information. A board meeting is normally held every quarter but may be held any time if an urgent matter arises. The directors are usually management team executives, VCF partners, and, sometimes, independent directors. Image 5.8 is a screenshot of the terms and conditions of the board of directors.

| Board of Directors: | The size of the Company's Board of Directors ("Board") shall be set at [number]. The Board shall initially be comprised of:

[At minimum one to go up depending on the size of the Board] director appointed by the Investor ("Preferred Director"), in addition to observer rights. |

*Image 5.8: Board of Directors Terms and Conditions*
*Source: Horizon Venture’s Term Sheet Template (p. 3).*

At Horizon Venture, the partner who leads the deal in the pre-investment stage, not the VCT, sits on the company board of directors. This is to avoid any potential conflict between the entrepreneurs and the VCT, as the Managing Partner highlights:
It is also important to keep a little bit of differentiation. Because the board member is looking to confirm... We try to always to be entrepreneurs aligned like, but we may have a disagreement. So, they may feel me [to be] in a different [corner] like, but I want the companies to view the [VCT] as purely as aligned, purely (BM, Managing Partner, Horizon Venture).

Then the partner engages the VCT to support the PC, as BM states:

That's where my role as board member, part of what I do is say, “Oh, okay this is something we can help. Let's see if I can deploy our value adding around fixing this issue or supporting you on this issue” (BM, Managing Partner, Horizon Venture).

In some cases, the VCT may have a “board observation right” to attend and participate in the board meeting but without having a “vote right”. Having an observation right helps the VCT to understand the company’s issues and, therefore, provide value-adding support to the company. Also, having an observation right allows the VCT to assist senior management by answering questions about its work, as highlighted by TF (Director of Operation and Customer Experience): “another positive part is that we sometimes help the C-suite in the board meeting answer some questions, of how we did things”. The Head of the VCT had an observation seat in “PC8”, “PC9”, “PC15” “PC16” and “PC23”.

The board meeting starts with company executives giving a quick update from the last meeting. Board members follow-up with action items from the previous meeting and discuss what has so far been accomplished. There is discussion of short and long-term plans and, most importantly, items that require approval from the board members. In the investment terms sheet, Horizon Venture defines the voting rights and sets out a list of reserved matters that require the approval of the Board of Directors. Such matters would include, hiring or firing a senior member of the PC’s management team, approving any merger, liquidation, dissolution or acquisition of the company, and making any change to the company auditors or bankers. Image 5.9 lists the term and conditions of voting rights and protective provisions.
The partner adds strategic value to Horizon’s PCs through their active board position by bring their network, experience, and knowledge, as TS describes:

we bring in a lot of value, we[’re] bringing [HV] experience, we[’re] bringing [HV] network, we bring the experience that we have in the region, we help them scale, we help them develop, we help them set criteria on how they need to grow (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

A Horizon internal document also reflects the gains TS speaks of: “[“PC7”] benefited from HV’s presence on its board of directors to gain access to key cities, markets and therefore unlock path to regional growth” (IFC Portfolio Report, slide. 17).

The VCT retains board meeting minutes, regular meetings minutes, visits, PCs’ reports and financial statements in the company folder on Dropbox. Meeting minutes are a useful record to track the company’s progress and service, as a reference point. The practice of retaining documents is part of the organizational level practice and the ‘end’ of retaining practice is to help the VC team to act based on evidence and, therefore, make better-informed decisions.

5.2.6. Continuous Improvement Practice
Continuous improvement comes from the understanding that, as the PCs grow and their processes evolve, there is always space for improvement. As highlighted in the previous section, monitoring practice allows the VCT to identify red flags, areas of improvement and opportunities for development. Therefore, as necessary, the VCT engages with its PCs to
update its strategy, action or execution plans against new conditions or opportunities, to make other adjustments, or to reduce risks.

For example, the VCT revisits and updates the company’s strategic plan from time to time. The actions in the strategy review practice include, identifying the drivers of the business and of growth, evaluating the company’s performance, and identifying areas of optimization or opportunities for growth. If necessary, a flowchart (see Figure 5.7) can be consulted for deciding whether to conduct a strategic review. To highlight, if the VCT identifies any red flags in the company strategy, it will conduct a strategic revision and follows the same approach as discussed previously (in section 5.2) to redefine the company strategy. First, the VCT reviews the company’s macro strategy with the company executives before conducting a micro-strategy review with the company’s functional groups (operation, finance, merchandising, marketing, and IT). After that, the VCT updates the company’s strategic plan and sets execution plans to scale and to expand. From then on it continues to provide support and monitor company performance.

![Figure 5.7: Decision for Strategy Review](image)

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5.2.7. Issues of Power

After discussing the findings of value adding at company level, it is clear that VCs are trying to add value to their PCs but, clearly, this brings with it issues of power. This is because VCs and entrepreneurs are not always aligned with each other, which can create tensions between the two parties. This subsection tries to open the “black box” by discussing how power becomes infused in value-adding practices, how it is part of the other practices that I have discussed previously, and how PCs are controlled by the VCF.

Clearly when startups raise capital from VCFs, their level of independent control over the company is reduced. VCFs, as a preferred shareholder in the company, are entitled to a range of rights\(^{61}\) and, as such, they have power over company decisions. Horizon Venture is aware that its main responsibility is to provide support to its PCs and not to interfere in the day-to-day business operation. But at the same time Horizon needs to protect its investments and to ensure that the CEO acts in (what it considers to be) the company’s best interests. Although Horizon Venture requires the founders to retain at least 50% ownership, it can still exercise its power over their PCs through its contractual arrangements. To illustrate, VCs hold preferred stocks which give them protective provisions rights. Protective provisions rights give the stockholders a veto right over certain matters that could adversely affect the value of their investment (see Image 5.9). This right is negotiated in the structuring practice (see section 4.5.4). The founders, on the other hand, hold common stocks, which give them less control rights over their company. In addition to the protective provisions right, VCs require a board seat in their investment, which gives them authority to control company matters through voting rights (see Image 5.9).

Control power is found to be infused in both providing support and in monitoring practice. In regard to the former, VCs have various approaches through which they exercise their power of control. One is by changing the PCs management team, including its CEO. Indeed, there was evidence of this at Horizon Venture. For instance, the VCT changed the “PC8” operational management team, and there was talk of removing the founding CEO of “PC2”, an intention\(^{61}\) The specific rights are outlined in the term sheet and shareholders’ agreement. For example, Horizon Venture has an information right to receive statements and reports from its PCs and voting rights to vote for the major decisions.
revealed to me during an informal conversation with TF (Horizon Venture’s Director of Operation and Customer Experience). Another approach in which VCs exert their power of control is by making HR changes in the company. For example, the VCT forced the Head of Operations of “PC8” to reduce the salary of the company’s warehouse manager. Specifically, TF warned that Horizon Venture would not participate in further rounds of financing if the company did not satisfy this condition. Startup executives are aware that it is not easy to raise funds in general and more specifically in the MENA region. Therefore, they accept the VCFs’ terms which afford VCs superior control rights and leave the entrepreneurs with little protection.

Moving to the latter, monitoring practice, the findings show that VCs have the authority to take decisions, make recommendations or take actions when necessary in their investments. To illustrate, under the protective provisions term outlined in Horizon Venture’s Term Sheet, there is a number of matters (called Reserved Matters) that require unanimous shareholder approval. The Reserved Matters consist of a two-page list of 23 matters in the Term Sheet. Examples include, selling the company, hiring/firing company executives, and issuing more shares. These matters are extremely important to the preferred stockholders (i.e. VCs) because they offer protection from unfair actions by the common majority (i.e. entrepreneurs). In other words, they give the VCs the right to veto critical decisions that could potentially affect their investment. In addition to the protective provisions right, VCs also have the right to acquire data and information from their PCs (see Image 5.6), through monthly and quarterly reports, meetings, and visits, in order to monitor their progress and assess their performance, and ultimately, to take decisions and make changes.

In addition to the controlling power that VCs have and exercise over their PCs, they hold another form of power, more clearly advantageous to the PCs, that is related to their resources. As highlighted in the Introduction chapter, entrepreneurs seek funding from VCs for multiple reasons, one of which is to gain access to VC resources. Hence, a VC can use its resources to exercise power by relying on its network, knowledge, and experience to signal its authority. I have observed how the VCT used its knowledge and understanding of the MENA local culture to empower its PCs. For instance, because the VCT knows that MENA citizens spend a long time on their social media platforms, TF (Horizon Venture’s Director of Operation and
Customer Experience) suggested influencer marketing to some Horizon e-commerce PCs in order to promote the PCs’ businesses, gain new customers and, ultimately, to increase companies’ revenue. HV (Horizon Venture’s CEO) stated how entrepreneurs use his name (i.e. reputation) as an access point when access might otherwise have been denied because of their relative newness: “they use me as their front line because I'm a known figure... Sometimes startups don't get the respect that they need... if one of our companies is struggling and they need my name ... I'm happy to put myself upfront”. Thus, power is gained by PCs via association with VCs, it is a known part of a power trade off.

The findings also show that entrepreneurs do not always accept recommendations from their investors. For that reason, a VC may need to divert from its preferred style, which could be in relation to its involvement or authority level, as well as the tone and vocabulary it uses. A good example is discussed in Section 5.2.1.4, where I observed a power imbalance between “PC19” executives and the VCT in the C-suite meeting. I witnessed how the startup’s CEO and COO resisted the VCT’s suggestions and recommendations, and how that led to the VCT’s closer observing of the PC management style and behaviour in order to better understand the executive mindset and build trust with the PC’s executive team.

VCs understand that building a trustful relationship with their PC’s team is needed for three reasons. One, it facilitates the amount and quality of knowledge exchange between the two parties. Two, it reduces the need for a monitoring mechanism. Three, it eliminates the need to hide confidential information. Following the “PC19” C-suite meeting, the VCT visited the company to help build a better understanding of how it operates. During the visit, TF (Horizon Venture’s Director of Operation and Customer Experience) impressed the operations team with, not only his deep knowledge and understanding of the operation, but also with his understanding of the local business context (i.e. MENA region). For instance, he gave examples of how the VCT has put great effort into helping other PCs find ways to increase their revenues. Also, he reassured the company that the VCT was there to work with it and provide support rather than to interfere in its business. By understanding the preferred work style of “PC19” and adopting the appropriate tone and vocabulary, the VCT was able to gain the trust of the company executives.
To this end, the findings shows that VCs do sometimes use their control and resources power to signal their authority. However, other examples highlight the importance of not being heavy handed, but instead seeking to gain the confidence of their PCs team by figuring out and adapting to their preferred work style.

5.3. VALUE ADDING AT THE PORTFOLIO LEVEL

The previous section identified the practices that the partners and the VCT conduct to add value to their PCs directly. This section will focus on indirect practices, that is, the value adding at portfolio level (see Figure 5.1) that the partners and the VCT conducts to build its knowledge and connections. Value adding at portfolio level comes from the understanding that for the partners and the VCT to add value at company level, it is important to first build its knowledge and connections. Then it can leverage this knowledge, experience and network that has built, to enhance its PC’s performance.

Value adding at portfolio level consists of two practices: building connections and learning. Figure 5.8 shows the practices that constitute value adding at portfolio level and how the outcome of these practices is linked to value adding at company level. The following two subsections provide a detailed account of each practice, supported by empirical evidence.
5.3.1. Building Connections Practice

Horizon Venture executives understand the important role of the network and, therefore, encourages its VCs to invest their time and effort in building beneficial connections. These are sought with individuals (e.g. investors, academics, experts, lawyers, potential customers and strategic buyers), with companies (e.g. service providers and corporations), with organizations (e.g. trade associations, industry bodies and commerce chambers), and with countries. TS, Horizon Venture’s Partner, described the purpose of his job in this way: “my job, specifically, is really to ... make as many connections as possible that could be valuable to the startups”.

To illustrate, I have observed how the VCT invested in outside relationships, spending time networking with service provider companies over the phone or in meetings. For instance, in the VCT calendar, I documented meetings scheduled with a business growth specialist, a payment solution agency, a digital marketing agency, a marketing analytics advisory, a MENA
recruitment consultancy and a search and selection consultancy. These relationships have helped the partners and the VCT in providing support to their PCs, as highlighted previously in the providing support practice (see section 5.2.4).

In chapter 4 (section 4.4), I identified how the VCT sources deals in three main ways: by participating in third party events, via the Platform’s arms, and through mentoring entrepreneurs. It is important to note that these channels help them not only to source potential deals but also to establish and maintain relationships. For instance, the VCT and the partners engaged in and sometimes organized the Enabler events, where they had the opportunity to build relationships with the ecosystem stakeholders (as will be discussed in section 5.4.3).

Furthermore, to enhance ties with leaders in the VC context, Horizon Venture joined the Draper Network, a global network of investors and entrepreneurs. Belonging to the Draper network gives them the opportunity to build and expand their network with VC investors and industry leaders, to learn from other VCFs and from events, to access information, and to source opportunities. Another advantage of joining this select network is that it offers professional recognition, since Draper invites chosen VCFs to join. Image 5.10 illustrates the services that Draper Network offers its members.

![Image 5.10: Draper Network Members Services](source: Draper Network (2020))


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Horizon Venture has built connections from CD Fund, co-investing with other VCFs and, from there LPs. To illustrates:

*[CD Fund] has co-invested with some of the most renowned investment funds in the world, such as Khosla Ventures and Omidyar Network...and has built a unique global network of thought leaders... including Joi Ito from the MIT Media Lab, Jeff Bezos from Amazon, Reid Hoffman of LinkedIn, Brad Feld from Foundry Group, among many others (Horizon Venture PPM Document, p. 63).*

According to Horizon Venture IFC Portfolio Report, “PC3” co-invested along with leading global US-based VCs, such as DFJ and Khosla Ventures, and investing in “PC7” gave them the opportunity to co-invest with leading VCFs in the MENA region, such as STV ventures and Endure Capital, as well as with other corporate companies, such as Al Tayyar group. Co-investing with investment funds and building a relationship with thought leaders has brought forth valuable connections to Horizon Venture.

At country level, TS, Horizon Capita’s Partner and CEO of Horizon Enabler, reflects on how he spent an entire year, from February 2017 to February 2018, in Saudi Arabia to scale Horizon Conglomerate there, to build connections with key stakeholders, to unlock investment opportunities, to understand and gain insights on the rules and regulations of the country and, most importantly, to facilitate the PCs’ entrance to the Saudi market. Regarding scaling the Horizon Conglomerate, FZ and the Enabler team built an activation proposal for King Abdullah Economic City (KAEC) to drive the entrepreneurship and employment agenda in Saudi Arabia. They also intended to build partnership with Mohammad bin Salman College of Business and Entrepreneurship (MBCS), to enrich their educational curriculum by offering research, case studies and job placement opportunities. In terms of facilitating PC access to the Saudi market, TS helped achieve this for “PC2”, from getting a licence to open in Saudi Arabia to setting up a regional hub, by leveraging his connections and knowledge.

One of the important activities that TS was involved in during his stay in Saudi, was working with the Monshaat to set up the VC/PE Association, which is responsible for developing and nurturing the SME sector. In an informal discussion, TS told me that he sat on the steering
committee of the Saudi VC/PE association. There he helped other steering committee members identify the main issues facing VC and PE firms and suggested initiatives to promote the growth of private investment. Another important activity was building relationships and partnerships with potential investors (e.g. Wa’ed VC, STC ventures, OQAL Angel Investor), with large family offices, and with corporate and government organizations (e.g. King Saud University, King Abdullah University of Science and Technology (KAUST) and Misk Innovation). His message to them was invest in early stage companies.

The decision for TS to spend a year in Saudi Arabia was driven by a few key factors, including the substantial potential growth for start-ups in the Saudi market, the investment opportunities, and the aim of the government’s ‘Vision 2030’ to encourage and promote economic diversification from oil.

5.3.2. Learning Practice
Horizon Venture executives understood that establishing a VCF in the MENA region would not be easy, and that they would have to build the necessary team skills and knowledge internally, as TS, Horizon Venture’s Partner, acknowledges: “In the Middle East we really had to build our own kind of knowledge base and capacity”. Learning at Horizon Venture is achieved by self-study, by learning from others, and learning from past experience. In the following subsections, I will explain how learning is achieved and provide empirical evidence as support.

5.3.2.1. Learning by self-directed study
The VC team learns by self-directed study and by monitoring trends. In this way the team seeks to broaden its perspective and align with the VC team’s knowledge. Its goal is also to understand the PC’s business, its industry or sector, its markets, countries and ecosystem. Learning in the VC context is vital because the field is always evolving, and the rate of technological change is rapid. As TS, Horizon Venture’s Partner, explains, “we constantly have

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63 Wa’ed VC is the VC arm of the Saudi Aramco Entrepreneurship Centre (Wa’ed).
64 STC ventures is the VC arm of the Saudi Telecom Company (STC).
65 Misk Innovation is a non-profit foundation that provides support for Saudi youth and empowers them to be active members in the future economy.
to educate ourselves and be on the cutting edge of what’s happening in technology to understand the start-up around us and what they're doing and how they are doing it”.

Regarding self-study, TF reflects on how he uses this method (and peer learning) to build his knowledge of the banana trade:

“I did some studies [before going] to the company that we invested in, in Kenya, “PC12”, it’s all about banana growing. I spent some time understanding bananas, and I talked to some companies here who are dealing with banana transportation. [This is to avoid asking the basic questions such as] what is ripening time? What is a score chamber? (TF, Director of Operation and Customer Experience, Horizon Venture).

Moving on to monitoring trends, the VC team monitors the VC industry as a whole and pays particular attention to the MENA region, in order to spot and predict trends in VC activity, to keep track of VC industry developments, to identify investment opportunities, and to gain insights into the region’s entrepreneurship ecosystem and evolving challenges. In addition, because Horizon Venture invests in technology startups, and since the technology sector changes rapidly, the VCT constantly monitors the technology sector to understand what is happening there, and to identify opportunities and threats that might have an impact on its PCs’ performance.

The partners and the VCT monitor trends by reviewing regional, country, industry and company reports and publications as well as by reviewing research, attending conferences, analysing data, and observing competitors. They benefit from the Platform’s research arm by learning from the studies it conducts about the MENA entrepreneurship ecosystem (as will be discussed in section 5.4.3.2).

During my time at Horizon, I read various reports stored in its Dropbox database. One report provided information and data on frictionless payments (‘Frictionless Payments: A Disruption
Going Mainstream\footnote{Arab Financial Services Company (2015) is a report from the Arab Financial Services Company, a provider of outsourcing electronic payment services in the MENA.}. A second, ‘All Tied Up MENA: Working Capital Management Report 2017’\footnote{EY (2017) is report from Ernst & Young, which is part of a series of WC management reports based on EY research.}, reviewed, examined and compared the performance of the working capital (WC) of the top 326 companies in the MENA region in 2017, at company, regional, industry and country levels. A third report, ‘Breaking New Ground: the Americas Alternative Finance Benchmarking Report’\footnote{Wardrop et al. (2016) is a study conducted by the Cambridge Centre for Alternative Finance, the University of Cambridge Judge Business School and the Polsky Centre for Entrepreneurship and Innovation at the University of Chicago Booth School of Business (Chicago Booth), in partnership with KPMG and with the support of the CME Group Foundation, the Inter-American Development Bank (IDB), the Business Development Bank of Canada (BDC) and CP America.}, provided a comprehensive study and data on the alternative finance market in the US. Also, Horizon Venture have subscribed to a variety of relevant databases (e.g. CB insights, Crunchbase and Thomson Reuters) to gain access to research data on private markets, VC and start-ups.

Moving on to attending conferences, the VC team attend regional and industry conferences to keep them up to date with trends. For instance, they attended Fintech Abu Dhabi 2017, where industry solutions to the challenges faced by financial services businesses were discussed. In addition, the partners participated in the Future Investment Initiative 2017, an annual investment forum held in Riyadh to discuss the world economy and investment trends.

5.3.2.2. Learning from others

To build team talent, Horizon Venture runs in-house sessions designed to introduce, educate, and enrich the skillsets of their team on relevant topics and areas. For instance, in the VCT calendar, I spotted a dedicated session called ‘Venture Terms, Term Sheets and Shareholder Agreements’. The Managing Partners sent an invitation to Horizon team members with the following explanatory note: “Overview of the mechanics of venture investing - informational session for whoever is interested. Will go through a standard term sheet + convertible note as well as long form agreements”. Horizon executives not only rely on internal training to educate and strengthen their teams’ skillsets, but they also encourage them to participate in external...
training. For instance, TF describes how he took advantage of his alumni links to continue learning:

> Because I have a master’s degree from Hult International Business school. So, Hult opens up electives for all alumni, [where] I can take ...courses. Today I was looking at design thinking, data visualisation, big data...I can attend classes in Dubai, in London... So, I can actually learn a course, I can attend events for networking (TF, Director of Operation and Customer Experience, Horizon Venture).

Another way to build team talent is by sharing relevant materials (books, reports, articles, studies). For instance, TF forwarded ZA (Investment Associate) and me an email from Delta Groups containing an annual report titled, ‘State of Tech: 2017 Review’. This report gave a high-level summary of most relevant trends in VC investing, and their implications for investors and investees. RS, Horizon Venture’s Partner, also recommended the book, ‘Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist’, to the investment associates, analysts, and interns at Horizon Venture. ZA explained that the book had helped her:

> to understand a lot more about venture deals ... the technical terms on the term sheet and what goes into deal structuring. But the reason that I brought it last week was because of a conversation that I was having with someone in the [VCT] ... around cap-table capitalization tables for one of the deals that we are working on and there was some sort of clarity that I needed on some aspects of the term sheet (ZA, Investment Associate, Horizon Venture).

Informants have described the learning environment at Horizon Venture positively. It is, as TF (Director of Operation and Customer Experience) explains, from personal experience, “a super-fast learning curve...So I can say that, in the last couple of months of working with [Horizon], I really learned much more like five years with Aramex. One-year equals to five with Aramex”. ZA (Investment Associate) appreciated the spirit of enquiry that it fostered: “I like the fact that is a very open culture here and you know nothing’s ever is a stupid question”.
In addition to learning from the VC team, Horizon Venture employees learn from the experiences and best practices of pioneer VCFs in the world, from VC and PE associations and from their investors, among others. For instance, Horizon Venture has adopted the philosophy of Andreessen Horowitz (having a dedicated VCT to help their PCs). HV explains the reason for this:

*It’s a global trend. All the big VCs now look at Andreessen Horowitz, they have a massive team for value adding... And I like that because, I mean, that’s why they are the trendy VC. We want to be something like that for the region* (HV, CEO, Horizon Venture).

In regard to learning from investors, Horizon Venture has built its understanding on the environmental, social and corporate governance (ESG) standards from the CDC Group (2010) toolkit. The toolkit provides practical recommendations for fund managers investing in emerging markets in developing countries to manage risk, identify opportunities and implement ESG standards. It also helps fund managers to identify the questions that they should ask and the documents that they need to collect from their PCs. Horizon Venture complies with the ESG standards because, as BM, Horizon Venture’s Managing Partner, highlights, “*IFC is one of our largest investors. They stipulate that we are to be compliant with environment social and government guideline, which is ESG toolkit*”. Image 5.11 illustrates the practices that fund managers implement to integrate the ESG standards into their investment process.
Furthermore, Horizon Venture has adopted some of the best practices advocated by the Institutional Limited Partners Association (ILPA) which were established to improve the PE industry. These best practices promote both the GP-LP partnership and standards in the PE industry, including ILPA Private Equity Principles⁶⁹ and Quarterly Reporting Standards⁷⁰. From the ILPA Private Equity Principles, the VC team learned the importance of the three principles (alignment of interest, governance, and transparency) in maintaining the LP-GP partnership. They also learned about the GP reporting best practices to update their LPs about a PC’s performance. For the Quarterly Reporting Standards, the VC team has benefited from the reporting guidelines, sample quarterly packages and sample supplement management reports. For instance, it has used the Quarterly Reporting Standards PC update sample (see Appendix 12) to build its own LPs Report template⁷¹ (see Appendix 13). In the Recent Events & Key Initiatives section of the LPs Report, the VCT provides information on what is going well, what is not going well (e.g. underperforming against plan), the upcoming investment

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⁷¹ LPs require reports on the progress of their investment.
needs (the company’s emerging needs), and how much it is able to fund. This information not only helps the LPs to get an update on the PC’s performance, but it also helps the VCT to learn from reflecting on and assessing its PC’s performance, and ensures that the PC continues to achieve its target and investment thesis.

### 5.3.2.3. Learning from past experience

Horizon Venture’s team have learned tremendously from their past experience of managing two funds (CD Fund and in Fund I). For instance, investing in CD Fund:

> has brought forth valuable knowledge, expertise and insight into the Venture Capital world and using best practices for sourcing, negotiating, structuring, and transactions as well as taking seed/startup companies throughout the entire growth business cycle to exit (Horizon Venture PPM Document, p. 64).

The team reviews, assesses and records the lessons they learned from investing in Fund I. There is a ‘Lesson Learned’ section in the IFC Portfolio Report, where the team identifies what it has learned and gained from investing in each of the PCs. For example:

- From “PC3” they gained insights into trends pertaining to the internet of things (IoT) and hardware businesses
- From “PC7” they gained insights into the regional dynamic of the sharing economy
- From “PC12” they gained exposure to a new geography (East Africa)
- From “PC14” they learned the importance of local dynamics when replicating a global model.

Furthermore, Horizon Venture take advantage of the huge amount of data and information, amassed from previous investing to understand, predict and gain some analytics of new and current markets, VC activity, and start-up behaviours, with which to help their PCs. This is highlighted by BM and TF respectively:

> Aggregating our knowledge. You know because we see a lot of companies. We have a lot of data and a lot of information, as I am sure you have seen. So, it is finding
good ways to take learnings from the data so that we can use it in our [PCs]. I think that's the big thing (BM, Managing Partner, Horizon Venture).

For example, we met like 1200+ startups last year, so we need to determine what kind of analytics we can have. It's like, what is the major industry, what was the issue of funding... where they are based. So, there is a lot of data that we can actually process from these things, from these people (TF, Director of Operation and Customer Experience, Horizon Venture).

5.4. VALUE ADDING AT THE VCF LEVEL

This section focuses also on the indirect practices, that is, value adding at the firm level (see Figure 5.1) that both Horizon Venture and Enabler team conduct to build the group reputation, to build the knowledge and network of their PCs, and to build and grow the MENA entrepreneurship ecosystem.

Value adding at firm level comes from the understanding that the VCs need to add value through other means (building reputation, conducting PC events, and offering online and offline support and engaging entrepreneurs, relevant stakeholders and key players in the ecosystem). The following three subsections provide a detailed account of each practice accompanied by empirical evidence. Figure 5.9 is a representation of the practices that constitute value adding at firm level and how the outcome of these practices is linked to value adding at company level.
Figure 5.9: Value Adding at Firm Level and Its Relationship with Company Level
5.4.1. Building Reputation

Aware that a positive reputation draws further business, Horizon Venture executives engage in practices to build and maintain its reputation. One way to build reputation is by highlighting the healthy financial performance of its PCs. For instance, the PPM Document highlights the aggregate value and aggregate revenue of its PCs and shows, numerically, how the value of each PC has been increased by calculating the MOC.

Reputation is also built by taking on board member roles for organizations and participating in conferences. For instance, the CEO of Horizon is a member of the advisory council at MIT media lab and a founding board member of Endeavor Jordan. It is important to highlight that the VC team attend conferences for multiple reasons, including to source deals, build connections, gain recognition, and disseminate the firm’s name across the region. The VC team improves the firm’s reputation by conducting and participating in CSR activities. For instance, the VCT has coached university students in the process of building their social impact startups, as highlighted in Chapter 4 (section 4.4.3). By conducting such social activities Horizon aims to build its name and reputation in the community.

Horizon Venture’s reputation plays a key role in raising funds and sourcing deals (see sections 4.3 to 4.4 respectively), as well as in supporting its PCs (see section 5.2.4). On a personal note, HV highlights how some PCs use his name as a gateway for them:

*So, they use me as their front line because I'm a known figure. So, I use that to the max. I don't like it all the time, but I have to use it... my job is to act like the elder statesman in the company that helps them get [what they want]. Sometimes startups don't get the respect that they need... if one of our companies is struggling and they need my name ... I'm happy to put myself upfront. I mean that's what I do!* (HV, CEO, Horizon Venture).

5.4.2. Portfolio Companies’ Events

Horizon Venture organizes regular events for its PCs, in the form of educational workshops or social and networking gatherings, to facilitate information exchange and learn from each other’s experience in an informal setting, as GRF describes:
If someone we know in our wider network is coming to Dubai, we introduce them... We just bring them in to mingle... it is just valuable. Bringing portfolio together is valuable. They benefit from each other more than they benefit from us sometimes, so we do that (RS, Partner, Horizon Venture).

Educational workshops work well to fill knowledge gaps common in PCs. For instance, having discovered a common lack of financial modelling knowledge across PCs teams, the VC team offered a ‘Do’s and Don’ts of Financial Modelling’ session to develop PC team understanding of the subject by sharing the best practice. The VC team also hosts talks by business leaders, seasoned investors, and prominent entrepreneurs. For instance, they hosted Mike Arrington, the founder of TechCrunch, and Natalia Karayaneva, the CEO of Propy, which gave their PCs a valuable opportunity to gather insights from experts.

5.4.3. The Enabler
Horizon executives understood that in order to grow and nurture the Region’s entrepreneurship ecosystem, there was a need to offer online and offline help to support and engage entrepreneurs, relevant stakeholders and key players in the ecosystem (e.g. governments, corporates, communities), as TS highlights:

We understand that if we want to invest in technology in the Middle East, in the political turmoil that we are living in, we have to do a lot of work. So other than just helping the entrepreneurs to structure, to seed them, to finance them, we had to get the community on board as well. Because if you're trying to grow something but everything around it [is not supportive,] it's not going to succeed and it's not going to scale. So that's why the Horizon Enabler has a very wide net, and a lot of international and regional collaborations and partners to be able to create that environment (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

The Enabler offers support via four arms: media content, community-building programs and events, research, and corporate and government advisory services. The aim in building the Enabler was to raise awareness about the importance of entrepreneurship in the MENA region, to develop an environment in which MENA entrepreneurs could thrive, and to create and share
knowledge in the ecosystem. It sought to educate, inspire, and empower MENA’s entrepreneurs and to connect them with relevant stakeholders.

In the remainder of this section, I will explain the aim of each arm, identify the practices each arm conducts, and explain how these arms help the Venture PCs.

5.4.3.1. Media arm

The Media arm offers online content on the MENA entrepreneurship ecosystem in the form of articles, reports, research, infographics, newsletters, podcasts, and videos, in three languages (Arabic, English, and French)\textsuperscript{72}. The online content covers a range of subject matter designed to inspire and educate entrepreneurs and relevant stakeholders, from telling startup stories to providing coverage of regional trends, challenges, and opportunities. Indeed, the underlying aim of the media is to dispel two major fears: the fear of entrepreneurial failure and the fear of investing in political instability. It seeks to achieve this by offering a different narrative of what is happening in the region and highlighting the strength of the MENA people in terms of education and potential investment opportunities. Image 5.12 provides data on the number of publications, start-ups and players covered on the website, the average daily publications, and the type of the media content.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{image5.12.png}
\caption{Figures on the Enabler’s Media Arm}
\end{figure}

Source: Horizon Conglomerate’s Deck Presentation (slide. 25).

\begin{itemize}
\item Publication and coverage
\begin{itemize}
\item 11,000+ pieces on MENA Entrepreneurship
\item 1,000s of startups & ecosystem players covered
\item Average 4 pieces published daily
\end{itemize}
\item Various forms of content published
\begin{itemize}
\item Long form & OpEds
\item Video Reports
\item Announcements & news
\item Data & Infographics
\end{itemize}
\end{itemize}

\textsuperscript{72} English and French were chosen because they are the second language in the majority of MENA countries.
To increase engagement with the Media audience, the team uses a variety of media, such as the website (to stream news and event coverage), Sound Cloud (to host its podcasts) and YouTube (to publish its interviews and videos). Its Sound Cloud account offers around 49 tracks and has a modest 523 followers, whereas its YouTube channel offers 881 videos and has 5.91k subscribers. Although the Media arm is run by six employees, the Enabler executives understand that it is beneficial for their audience to bring experts, business leaders and seasoned entrepreneurs to contribute to the Enabler website and give them the opportunity to express their opinions, thoughts and recommendations on a particular region, country, sector or industry. For instance, they have shared their opinion on the attractiveness of telehealth for investors, on investing in Iraq, and on lessons for new founders. According to the PPM Document, the media website has twenty contributors from thirteen countries.

The media arm benefits entrepreneurs in general and Horizon PCs in particular by highlighting its news (e.g. raising funds, expanding new markets, launching new services, partnering with leading companies), sharing stories and being a stage for entrepreneurs to publicize their startups and achievements. TS highlights a few media coverage benefits:

> When you actually have a start-up that's started, even if it just newly born, to have them featured on [Horizon] was for them a badge of honour. Someone can read about it. An investor might say, “This is interesting!” A supplier might wake-up and say, “Wow, I didn't know that this country had this person who's doing this, I can help them, I want them to help me” (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

To understand the impact of featuring a business on the Enabler website, the Media team launched a survey and asked both entrepreneurs and readers about the benefits of being featured. For entrepreneurs, 54 percent reported that featuring on the Horizon website gave them credibility, and 23 percent indicated that it helped them to acquire new users. For readers, 63 percent reported having gained new knowledge about an entrepreneur or a startup.
5.4.3.2. **Research arm**

The Platform’s Research arm focuses on producing research to improve the MENA entrepreneurship ecosystem. It achieves this by educating entrepreneurs and relevant stakeholders; by informing investors, decision makers and other relevant stakeholders on present challenges and opportunities; and by offering recommendations to policymakers. The Research arm has a dedicated team to conduct research, but it also collaborates with external international and regional partners to develop research. These partners include consulting firms (e.g. OC&C), research institutions (e.g. Knowledge@ Wharton), companies (e.g. General Electric, Google), corporations (e.g. IFC), and startups (e.g. PayFort). Image 5.13 shows the number of reports published, the number of people surveyed and interviewed, the institutions that featured the research, and the report categories.

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**Research**
The go-to publications on the state of entrepreneurship in the region

1. **Research Lab in figures**
   - 15+ reports since 2014
   - 3,000+ people surveyed and interviewed
   - 200+ ecosystem players mapped

2. **Featured in**
   - Massachusetts Institute of Technology
   - Wharton University of Pennsylvania

Reports are divided into four main categories

1. *Industry focused studies*
2. *Country focused studies*
3. *Ecosystem trends analysis*
4. *Collaborative entrepreneurship*

*Image 5.13: Figures on the Enabler’s Research Arm*
Source: Horizon Conglomerate’s Deck Presentation (slide. 27).

For instance, the Research arm developed in-depth research with General Electric on cleantech in the MENA region to identify the barriers for cleantech startups to scale and to offer
recommendations to policy makers on how to promote MENA’s cleantech entrepreneurship ecosystem. The research team also developed a study with Bayt.com, Beirut Digital District, and IFC to understand the processes, strategies and challenges of talent hiring and retention within MENA’s startup ecosystem, and to offer recommendations for ecosystem stakeholders on overcoming the hiring and talent retention challenges. Also, to give insights into MENA’s online grocery retail, the research arm put together a regional report that explains the differences in online grocery business models (pure play, marketplace and Omni-channel) and analyses the performance of key players in MENA online grocery.

5.4.3.3. Community arm

The Community arm focuses on delivering workshops (online and offline) and events targeted at bringing entrepreneurs, industry experts and investors together to grow the MENA entrepreneurship ecosystem. These include mentorship events, speaker series, skills workshops, and hackathons. HV highlights the value of running mentorship events:

> So, we do mentorship events. Why do we do that? Because in mentorship events we see pipeline, we see companies, we see new startups, we engage the community, we engage government, we engage regulators. Because they all, you know, in nascent ecosystems, you need everybody’s involvement and everybody’s education and awareness of what’s happening (HV, CEO, Horizon Venture).

The Enabler runs annual mentorship events across six to ten key cities in the MENA region, including Amman, Beirut, Cairo, Casablanca, Dubai, and Riyadh. These events provide a space for MENA entrepreneurs to learn, seek advice, share information, engage, and collaborate with start-ups and strategic partners. The mentoring events normally start with three one-hour mentorship sessions, where mentors provide guidance and find solutions for entrepreneurs.

Mentoring is followed by an open networking session, offering the chance for entrepreneurs to socialize, talk, and foster their local entrepreneurial communities. TS highlights the different forms these events take:
[we have roundtable sessions], we have one-to-one mentoring, we have fireside chats, we have some of our strategic partners, like Facebook, would come in and talk about new things that they're releasing. So, there's a lot of information for the entrepreneurs... And those events were a great way for us to interact with the community in the different cities (TS, Partner at Horizon Venture and CEO of Horizon Enabler).

PC entrepreneurs attend mentorship events either to be mentees or mentors. For instance, “PC7” and “PC9” have been invited to sit on a panel and to be mentors in some of the mentorship roundtables.

Collaborating with entities to develop workshops is another successful form of engaging with the community and the ecosystem. For instance, in an informal conversation with NS (Ecosystem Relations Manager, Horizon Venture), she told me that, in summer 2016, the Community team hosted an MIT Media Lab Workshop along with Community Jameel. Its aim was to bring designers, engineers, scientists, artists, and entrepreneurs together to develop innovative approaches to urban planning, design, architecture, mobility, and agriculture.

5.4.3.4. Advisory service arm

The Advisory Service arm offers services to corporates, organizations, and governments to engage and support MENA startups and entrepreneurs and, therefore, unlock MENA’s entrepreneurship potential. Some of these services include customizing entrepreneurship programs, building acceleration and membership programs, and building incubators. Corporates and governments seek help form the Enabler because of its experience in the entrepreneurial ecosystem and its greater efficiency, as TM (Head of Operations and Partnerships at Horizon Enabler) highlights, “because these are big entities, so it's difficult for them sometimes to do things internally, and it takes a lot of time due to bureaucracy and red tape”.

Corporates recognize the importance of collaborating and engaging with startups to accelerate their business growth, to expand their influence, and to achieve their strategic goals. They, therefore, seek advice from the Advisory Services arm to build entrepreneurship programs. For
instance, according to the PPM document, Zain Group sought advice from the team in customizing a two-year entrepreneurship program to support start-ups and entrepreneurs in the MENA region (thereby unlocking their path to scale). The advisory team also built an Abu Dhabi-based acceleration program in 2018 to foster innovation in the tourism and travel sector of Abu Dhabi.

The Enabler has also extensively collaborated with governments to build initiatives to support and catalyse the entrepreneurship ecosystem. For instance, the Enabler assisted “the National Fund for SME Development in Kuwait in building an entrepreneurship ecosystem by developing an online portal for entrepreneurship events and advisory services” (Horizon Venture’s PPM Document p. 56). Also, I saw a proposal titled ‘Self Employment Support Program for Saudi Arabia’, in the Dropbox database, in which the Enabler team proposed a dedicated program to train entrepreneurs in Saudi Arabia.

Last but not least, since the Enabler team has been accumulating its knowledge and experience in the start-up ecosystem and working with a number of entrepreneurs and key players across the Platform’s various engagements, the Enabler has supported the Venture, in sourcing deals (as discussed in Chapter 4, section 4.4), and the Venture PCs, through media, events, programs, research, partnerships, and network affiliations (as discussed in earlier in this chapter, section 5.2.4). Image 5.14 illustrates how Venture and Enabler benefit one another.
Horizon Venture and The Horizon Enabler –
the region’s largest entrepreneurship enabler

<table>
<thead>
<tr>
<th>Horizon Venture</th>
<th>Horizon Enabler</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Thought leadership</strong> – Leverage investment team and portfolio companies to provide impactful thought leadership content to the community</td>
<td><strong>Accessibility and deal-sourcing</strong> – Drives pipeline and lowers cost of deal sourcing and pre-investment due diligence</td>
</tr>
<tr>
<td><strong>Collaboration</strong> – Media partnership opportunities through affiliations with leading ecosystem events</td>
<td><strong>Publicity</strong> – Publicizes entrepreneurs and startups of portfolio companies</td>
</tr>
<tr>
<td><strong>Contribution</strong> – Successful entrepreneurs behind portfolio companies give back through guided mentorship and industry expertise</td>
<td><strong>Network</strong> – Matches portfolio companies with strategic, long-term corporate and government partners</td>
</tr>
<tr>
<td><strong>Strategic advisory and 360° support</strong> – Investment team advises entrepreneurs on fundraising approach and provides comprehensive support throughout the startup journey</td>
<td><strong>Community</strong> – Provides a space for innovation and collaboration in key cities across the region</td>
</tr>
<tr>
<td></td>
<td><strong>Capacity-building</strong> – Builds talent for recruitment through Horizon’s vast reach and network</td>
</tr>
</tbody>
</table>

**Image 5.14: How Venture and Enabler Benefit One Another**
Source: Horizon Venture’s PPM Presentation (slide. 14).

### 5.5. CONCLUSION

This chapter unpacked the value-adding practices of a VCF, in this case Horizon Venture, in the MENA context. Figure 5.10 provides a visual representation of the value adding practices at three levels (i.e., company, portfolio and firm). Section 5.2 unpacked the practices that the VCT conducted to add value to their PCs (value adding at company level). I identified an ongoing value adding approach consisting of five main practices (familiarizing, assessing, planning, providing support, and monitoring). These practices were conducted by the VCT to build its understanding of the PC’s challenges, strengths, and processes, in order to provide the PC with suitable support.

To recap, the VCs first familiarize themselves with the PC in two ways: indirectly by reviewing the company’s materials and pre-investment documents, and directly by meeting the company’s senior executives and group head as well as visiting the company. Then the VCs
assess the company strategy, operation, team, and resources. After that, the VCT and the PCs’ senior executives collaborate to develop action plans, set goals, and benchmark. As understanding emerges from the familiarizing, assessing, and planning practices, the VCT (with help from the partners) provides strategic, operational, personal, and cultural support to its PCs. This helps enhance PC performance and helps it to achieve its goals. Subsequently, the VCT and partners monitor the PC by reviewing its company report, arranging regular meetings with it, and sitting on the company’s board of directors. Monitoring plays a strategic role in the company’s development because it helps the VCT and the partners ensure that the PC continues to achieve its goals while allowing it to recognize areas for improvement and opportunities to add value (through continuous improvement and active board engagement).
Figure 5.10: Visual Representation of Horizon Venture’s Value Adding Practices
Moving to value adding at portfolio level (section 5.3), I identified two indirect practices (building connections and learning) that the VCs conduct to build their connections and knowledge. I explained how these practices help VCs add value to their PCs. They build connections with individuals, companies, and organizations through different means, such as participating in events, summits, or conferences, joining networks, and co-investing. In regard to building knowledge, the VC team learn through self-study, from others and from past experience.

Subsequently, in section 5.4 I identified further indirect practices (value adding at firm level) that the Venture and Enabler teams conducted to build the following: group reputation, knowledge and network of their PCs, and the MENA entrepreneurship ecosystem. These include building reputation, conducting PC events, offering online and offline support, and engaging relevant stakeholders in the MENA ecosystem through the Horizon Enabler.

The next chapter, therefore, proceeds first to discuss some of the organizational level practices and then to understand how investment practices vary across other VCFs in the MENA context (i.e. outside Horizon Venture).
Chapter 6: AN ORGANIZATIONAL COMPARISON OF VCFS IN THE MENA

6.1. INTRODUCTION

The previous two chapters discussed investment level practices at Horizon Venture, a prominent VCF in the MENA region. Chapter 4 (Identifying the social site of venture capital) discussed the practices that the VC team conducts to build a VC fund and to select an investment, whereas Chapter 5 (Opening the “black box” of value adding) focused on a specific practice – the value-adding practices. Reflecting on the investment level practices at this specific VCF presents an opportunity for comparison with two other VCFs in Jordan, which featured in the December 2017 study discussed in the Chapter 3. This enables me to understand how investment practices vary across organizations and to identify contrasts with the organization that I have studied in detail.

The purpose of this chapter is two-fold. First, it will discuss some of Horizon Venture’s key organizational practices that help it to function successfully as an organization. Second, it will reflect on some of its investment practices in a broader context, in this case comparing Horizon Venture investment practices with those of other organizations in the region to investigate in what senses they are similar and dissimilar. The structure of this chapter is as follows. Section 6.2 discusses Horizon Venture’s organizational practices. Section 6.3 highlights three challenges faced by VCs and identifies the different practices that VCFs undertake in response, to overcome these challenges. Section 6.4 presents my reflections on the VC activities in the MENA region and section 6.5 concludes this chapter with a summary of the main findings.

6.2. ORGANIZATIONAL PRACTICES

Horizon Venture has the same organizational practices as other comparable organizations, such as those relating to strategizing, firm management, HR and accounting. Although in previous chapters I discussed organizational practices that were more directly related to value-adding practices (i.e. meeting and knowledge retention practices), in this section I will focus on the two remaining organizational practices: continuous improvement and onboarding.
Continuous improvement practice is an effort to reflect and improve on the practices as they exist, whereas onboarding practice relates to bringing in outsiders to familiarize them with practices as they exist. The following two subsections provide a detailed account of each practice accompanied by empirical evidence.

6.2.1. Continuous Improvement Practice

The Horizon Venture team looks at ways to improve its existing practices and material arrangements and it does this on both organizational and team levels. Although continuous improvement practice was a practice that it used for its PCs, the one discussed here is similar in spirit but oriented towards the overall organization rather than the PCs. TF (Director of Operation and Customer Experience) stresses that, “it's very important that as we do it externally, we do it internally as well”, and by this he means that because they work to develop and improve their PCs ‘externally’, it is necessary that it develops its work as a VC ‘internally’.

On an organizational level, the Director of Operation and Customer Experience engages with the Venture team to review and assess the internal operations of Horizon Venture, from the deal flow to exiting a deal. This is to define touchpoints with entrepreneurs, and to understand how the team processes investment applications, what is involved in the process, and who is responsible for each activity. It is to manage the information flow, identify its needs, put more structure in the investment process, and ultimately improve its investment process practices. Although Horizon Venture had identified the investment process stages (and activities within each stage) in 2015, it was later important for them to go back to review, assess, and look for ways to improve efficiency and professionalism. This is because its work as a VC is still evolving, the team is expanding (addition of the VCT), and it was fundraising (for Fund II).

They set up several sessions to map out the investment process. For instance, in the Director of Operations and Customer Experience’s calendar, I made note of a meeting titled ‘Process and Governance Brainstorm/Review’, scheduled with the partners, the VCT, the associates and the analyst. In this meeting they assessed the investment process and redefined its stages (Initial Screening, Thursday Partner Pitch, Pre-IC Meeting, IC Meeting, and Long Forms & 3rd Party DD). Within each stage they identified the activities involved, giving a description of each activity, the responsible person, and the outcome. Image 6.1 shows the identified actions,
responsible person, and the outcome for the Thursday Partner Pitch stage. This session provided a detailed understanding of the process, people, inputs, controls, and outputs.

2. Thursday partner pitch
   - Thursday pitch will continue to be 30 min. Associate to send the company coming in a template email on what we expect them to present during the 30min pitch
   - Company one pager to be sent 48h before the pitch. Also try to send invites a week before the pitch
   - At least one of the partner has to be in the meeting. 1 has to champion. If not, the associate can present the company to another partner before we pass on the company
   - **Outcome:**
     - Minutes to be circulated by email by the Analyst
     - if the deal has a champion: the champion has to sit with the associate leading and prepare a commercial DD

   ![Image 6.1: Thursday Partner Pitch Activities and Outcome](source: Horizon Venture Pipeline Activities (p. 1).

They also identified action points for each person. For instance, the Managing Partner would identify the travel and insurance policy and initial screening criteria template, while the associates would produce pitch meeting minutes and IC presentation templates. To follow up, they had a meeting to present and discuss the pipeline templates, followed by several meetings dedicated to each investment stage and to discuss the initial screening and due diligence stage. The outcomes of the mapping process included pipeline templates, an investment process map and a flowchart representing investment workflow. Some of these documents have been used as evidence in Chapter 4 and Chapter 5.

Regarding material arrangement, the VC team regularly looks for tools to improve its work, as TF highlights:

> That's another thing we're looking at in terms of process mapping, using some tools as well to report internally and externally, automate processes, create projects and task lists, for everyone to manage their time, and effectively manage the customer experience (TF, Director of Operation and Customer Experience, Horizon Venture).
For instance, in the VCT calendar, I noted two meetings scheduled between the Head of VCT, the Director of Operation and Customer Experience and the Managing Partner. Its purpose was to review Asana, a project management tool with the capacity to help teams organize, assign, and track their work. Also, SB highlights how they were trialling Zapflow to document their deal flow and retain potential investment information:

_We were trying out tool called Zapflow, which is like a CRM for VC, so helps to capture on the basic information, the contact details... where the company’s from, what they're doing... I think tools are extremely useful. Whether or not this is the right tool, I think we need to figure out. But in general, we're trying to implement a lot of tools as the team is growing_ (SB, Investment Associate, Horizon Venture).

Moving to team level, during my time at Horizon Venture, the VCT was in the process of building its VCT structure. The VCT wanted to identify what it was doing, what it could offer to its PCs and how it added value because, as both ZA and TF highlight:

*everyone knows we add value, we work with portfolio companies, but how do we do that?* (ZA, Investment Associate, Horizon Venture).

this whole auditing or processing is for us to figure out our priorities, figure out how to make our days more efficient, because remember, we create our work, we create job description, there's nothing given to us (TF, Director of Operation and Customer Experience, Horizon Venture).

Defining their engagement with PCs and identifying how they allocate their time and resources across the PCs is important. The VCT believes that building the structure of its work is crucial at this time because the VCT is growing and they are expecting to invest in more companies as result of Fund II. Therefore, managing higher numbers of PCs would be more efficient.

The VCT conducted several meetings together to build its structure. Before the first meeting, TF (Director of Operation and Customer Experience) sent ZA (Investment Associate) and I some documents (e.g. investment process map and flow chart) to help us understand Horizon
Venture’s investment process. In the meeting itself, the team engaged in a brainstorming activity where each member stepped back to reassess and think about what they do (they defined their roles), what they offer, and what entrepreneurs need. They used the whiteboard ‘material arrangement’ to map out the whole investment process, discussed how and where it, as a VCT, engages in the pre-investment stage, determines the steps in the PCs engagement process, identifies the value-adding activities, and chooses the most knowledgeable person to handle each activity (see Image 6.2). From this activity they agreed that, because they are investing in tech startups, an IT expert should join the VCT to accelerate the technology of these startups. Because most PCs need help in hiring, TF suggested the need for an HR person in the VCT, who would be given commission from the PCs on every person that they hired. This shows how the brainstorming activity helped the team identify its need for hiring in expertise in IT and recruiting, which led it to ask the Managing Partner for hiring to develop and grow the expertise of the VCT. Before closing the meeting, TF asked ZA to work on a detailed presentation for the VCT explaining its role, process, and its engagement approach.
The purpose of the second meeting was to discuss the VCT’s presentation. ZA (Investment Associate) started the meeting by presenting the slides to which both BT (Head of the VCT) and TF (Director of Operation and Customer Experience) gave her constructive feedback. For instance, BT pointed out that “we have to make sure that we spend our time wisely to make money” and he suggested adding a diagram to show how it prioritizes its engagement and allocates its time and resources. She was also asked to add a slide to show the impact that it had on some PCs (by presenting numbers for how many PCs it had actively worked with and the specific ways it had impacted positively). Some of the slides from this presentation have been used as evidence to support my finding in Chapter 4 (see Image 4.7) and Chapter 5 (see Images 5.1 and 5.2).

The VCT also discussed the need to understand entrepreneurs’ expectations to build a reciprocal relationship, as ZA remarks:

> We’re trying a little more to understand not just dictate in terms of where we think we should be adding value but try to understand from these [PCs] what they think about us. Also, what did they want from us that maybe we haven’t offered until now, so just getting our own customer feedback (ZA, Investment Associate, Horizon Venture).

### 6.2.2. Onboarding Practice

Onboarding practice relates to the process of integrating newcomers into the firm and its culture to ensure that new employees adopt to its ways. Learning plays an important role in the process of onboarding, and Horizon Venture facilitates learning by providing the new employee with reading materials and opportunities for shadowing the VC team, as well as by conducting meetings with the VC team or PC’s team if they are working in the VCT. In the following subsections I will explain and provide evidence of the onboarding practice in detail.

I observed the onboarding practice with ZA, who joined the VCT to work as a full-time investment associate after completing a three months internship at Horizon. To build her knowledge and skills about the work of a VCF, RS, Horizon Venture’s Partner, gave her the book ‘Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist’. According to
ZA, this book helped her to understand venture deals, how investors think, and what they look for. From the Head of VCT she was given access to the firm’s database, which includes materials on investments (e.g. investment criteria, valuation policy, PPM document, PCs reports), and on the organization (e.g. investment process map, organizational chart). Access to the firm’s database gave her the opportunity to familiarise herself with the firm and understand how it worked.

Shadowing the VC team (i.e. observing people’s various activities) can speed up the learning process for newcomers. Therefore, the Head of the VCT, suggested that ZA shadow not only VCT work, but also Fund and Enabler work. For instance, she attended some Thursday pitch meetings and shadowed the investment associates responsible for pipeline activities to learn how they evaluate potential investments (i.e. due diligence). She also attended Enabler events (e.g. mentorship).

Onboarding requires one-to-one meetings with newcomers to help them prepare for what is ahead of them. For instance, TF (Director of Operation and Customer Experience) met with ZA to explain her role, update her on the current PCs (because she had worked with some of them during her internship) and to prioritize the VCT focus in the next three months. The meeting helped ZA to understand the role of the VCT and the ways in which it engages with the PC team. In another such meeting, where TF was explaining Horizon Venture’s process map, ZA raised two concerns about the challenges of working in a VCF: the absence of a clear task list to accomplish and the evolving nature of the work (i.e. reacting to the PCs’ changing needs). TF reassured her by reflecting on his own feelings when he first joined Horizon, coming from a senior position, he said “I felt some days that what I did was useless, my anxiety level was relatively high, and there was a pressure to build my reputation in the ecosystem”.

ZA’s conducted several meetings with PC teams as it was her responsibility to support the development of the PCs:

*to understand the engagement that we have with them and the challenges that they're facing right now. So, if it meant, like, conversation with either the C-suite level or, you know, the team that's already met them before and just try to*
understand what's going with the company: are there any specifics that they are looking at... to get like a flavour of what was going on with the company.

(ZA, Investment Associate, Horizon Venture).

Furthermore, to build her knowledge and understanding about the PCs, to understand how to integrate with the PC team, and to familiarise herself with the previous engagement that the VCT had with the PCs, ZA read through the PC folder on Dropbox to review some documents:

In terms of ongoing engagements, sort of reading board presentations just to understand what the company was doing then, and how they overcame some of their challenges, what the investors on board are primarily looking for. So, it was a fair share of, you know, all these things, but I think most of the time when I have you know some sort of free time these are the few things that I like trying to focus on

(ZA, Investment Associate, Horizon Venture).

Meeting a PC is, however, rarely sufficient to gain a thorough understanding of the company’s business and operations. Therefore, ZA planned visits to some of the PCs to spend an extended period with PC teams to help deepen her understanding of company operations. In TF’s interview, he speaks about why they needed to onboard ZA:

Before we work, ZA has to be brought up to speed, of understanding the operation. Because I know the operation, [the operational manager] knows the operation, ZA doesn't know operation. So, ZA has to go there three or four days, to get herself acquainted with everything else, and then we come up together and say, this is the new dashboard for KPIs, this is what they want to see (TF, Director of Operation and Customer Experience, Horizon Venture).

For instance, during a “PC8” operational meeting, “PC8”’s Head of Operations and TF agreed that ZA would work with the “PC8” team to develop its customer service. But before she could work with the team, she would need to build her understanding of the company’s operation. As a result, “PC8”’s Head of Operations suggested that she spend three to four days in the company, and a solid 3 hours with the customer service team. “PC8”’s Head of Operations
commented that by spending time with the team “[only] then you can know how our business works, because it is very difficult”.

Although learning applies to the process of onboarding, there is an element of unlearning too. Unlearning is defined as “the process of reducing or eliminating pre-existing knowledge or habits that would otherwise represent formidable barriers to new learning” (Newstrom, 1983, p.36). SB reflects on how he had to unlearn some elements of his previous job, in consulting, to adopt to the work of VC in the MENA region:

   So, for me I had to unlearn a lot of things that came from, kind of, my professional upbringing in corporate America and just learn to be a little bit more fluid and dynamic, and more of a soft start rather than following the process and kind of checking things off the list, and that's something I still work on (SB, Investment Associate, Horizon Venture).

To conclude, onboarding is an important practice in the MENA region because newcomers arrive from other backgrounds (e.g. corporate, banking and consulting). They may come with ideas which are inappropriate for their new context and they may have little knowledge of how a VC works. Also, given the specific value-adding approach that Horizon Venture takes, people who join the organization, need to be attuned to all the practices that have been discussed in Chapter 4 and Chapter 5 to be able to participate fully and effectively in the work.

6.3. DIFFERENT APPROACHES TO VC IN THE MENA REGION

The aim of this section, as indicated in the introduction, is to discuss some of the challenges that VCs face in setting up a VCF in the MENA region and identify the practices that they undertake to overcome some of these challenges. Although I had limited access to the two VCFs (Circle Venture and Triangle Venture), I managed to see a good deal of how they operate. It is clear that all three VCFs face the same challenges in the region, but they have responded to these challenges differently. In the following subsections, I will identify what the two VCFs do as a reflection of the three identified challenges (section 6.3.1 to section 6.3.3). Then, I will draw comparisons across the three VCFs.
6.3.1. Starting a VCF in the Region

One of the challenges that Circle Venture faces is starting something new in the MENA region (establishing a VCF). To overcome this challenge, it relies on two practices: learning by itself and educating service providers. This is highlighted by KE:

*Coming very early as a venture investor into an ecosystem that had not yet been developed, was a real challenge. We had to teach ourselves everything. I remember like doing a due diligence on a company, even auditors, lawyers, all service providers, at that time they had no experience. Nobody had done these types of deals. Term sheets and transactions or the legal documents. Everything was a challenge... . Teaching a service provider in front of us what it is that we are looking for was very interesting, and also a challenge, because we were learning ourselves. It's not like we could give it to a lawyer, if it has done 50 venture type transactions and it comes and tells us this is how we do it. We're both essentially doing it for the first time together. It taught us a lot. It taught us how to be resourceful, how to be dynamic, how to find solutions, how not to make excuses (KE, Managing Partner, Circle Venture).*

This shows how a VCF in the region has to do so many things that are sometimes outside the scope of their work, such as ‘teaching service provider’. It also highlights that the ecosystem was immature in comparison to other mature ecosystems, such as Silicon Valley, where VCFs are in a more developed environment and, in this case, service providers know how to structure VC deals.

Since raising a VC fund is difficult in the MENA region and because Triangle Venture have no track record, its Managing Director decided not to set up the company in the usual VC structure (a limited partnership). Instead the company was set up as a private partnership between three individuals who could afford to establish a VC fund (as discussed in section 3.6.1). The decision that guided OS, Triangle Venture’s Managing Director, to build a private partnership is based on his observation on the VC scene in the MENA region. In his interview he speaks of the harsh conditions for VCFs:
I have seen VCFs in the region that have remained stagnant and frozen for two to three years, where they [could not] make any investments when they were fund raising. It took Circle Venture around two plus years to raise thirty-five-million-dollar fund. It took almost three years for Horizon Venture to raise their fund. The aim initially was a hundred million dollars and they closed with $70 million. They couldn't even hit [their target]. It's not easy. And you are talking about [HV, CEO, Horizon Venture], who I believe is the godfather of startup investing and angel investing in the Middle East. He is an icon in this industry, and [ZF, CEO, Circle Venture], who is a pioneer Arab technology VC, who started in 2006 when people didn't even know what VC was (SO, Managing Director, Triangle Venture).

OS gives the example of how the two pioneer VCFs in the region (Horizon Venture and Circle Venture) took longer than expected to raise their funds and how they have struggled to hit their fund’s target despite their positive track record from previous funds and their strong profile in the region. He compares his position to that of the leading VCs and highlights the underlying reasons for deciding to take a new approach:

If these two reputable and highly respected individuals are having such a tough time raising capital, you think [SO] is going to raise capital? No, I have to do it in a different way. Kind of leverage my experience... my knowledge, and my name and reputation... . Our aim right now is to build a decent track record. Then hopefully go out and start becoming fund managers and raise funds in the typical GP-LP structure that VC funds are normally structured (SO, Managing Director, Triangle Venture).

He decided to establish his firm as private partnership and his aim was, once he built its track record and had successful exits from its PCs, it would be easier for him to raise a fund. Furthermore, OS reflected on some of the disadvantages of the GP-LP partnership and how it could sometimes restrict the VC investment behaviour:

For example, many of the DFIs like the IFC or the EBRD that invested in many of these funds, they will support specific countries, like Jordan, Lebanon, Palestine,
Egypt and the money cannot go to Dubai or Saudi Arabia. However, today some of the most vibrant ecosystems in the region are that of Dubai and Saudi Arabia. So, if your mandate [from LPs don’t allow you] to allocate funds to [these countries], you are missing out on a huge opportunity. At the end of the day, it’s very important in an environment that changes year by year. It's very important to be able to go with the flow and to make these necessary changes and that's what makes us I believe unique to any other VC today in the ecosystem (SO, Managing Director, Triangle Venture).

The explanation highlights the point that the majority of the fund investors (LPs) in the MENA region are leading Development Finance Institutions (DFIs), with an intention to support and help developing countries to address key challenges in their countries. Triangle Venture’s Managing Director’s point is, that although these investors benefit the VCF by committing capital, it might come at a cost by restricting VCF investment strategy. Normally DFIs give their fund managers a mandate that needs to be followed. For Triangle Venture, having a private partnership allows them to be flexible in their investment strategies because they do not have to follow a mandate in making investments, as they would if they raised a fund from LPs. They have the freedom to invest in different countries, industries, or ticket sizes based on the ecosystem trends and investment opportunities.

6.3.2. Lack of Equity Investments

The other challenge that VCFs in the MENA region face is the lack of equity investment. Because the ecosystem is relatively new (started in the 21 century) and it is still developing, there is a need to encourage and support investors and entrepreneurs to increase their equity investments. Consequently, Circle Venture launched a $10 million joint fund called AB Venture with Endeavor Jordan and backed by United States Agency for International Development (USAID) in an effort to advance and build the Jordanian entrepreneurial and investment ecosystem. The joint initiative supports emerging fund managers to launch their first VC funds by offering support programs to enhance their capabilities, providing them with seed capital, and giving them access to both Endeavor’s and Circle’s network. In addition, it offers entrepreneurs a two-year support program that includes advice, mentoring and capital support which would usually be unavailable to them. In general, the joint venture fund aims to
mitigate the challenges that Jordanian entrepreneurs face. It aims to foster the capabilities of first-time fund managers and angel investors to launch and be able to manage their funds. SD reflects on the reasons why they co-launched the AB Fund:

We recently launched [a fund] called AB Fund in partnership with Endeavor and with strategic funding from USID. That's basically for us to invest in finance entrepreneurs, for people that want to start funds. It's actually a very interesting project because we've been working since 2005 and the CEO and the Managing Partner have vast experience in this and want to be able to transfer this experience for people that could potentially operate new funds. So, we want to be designing training programs for these people. We're going to be giving them seed money so that they can go and raise more money for their fund. So, we do a lot of giving back, both on the entrepreneurs’ side and on the potential fund manager’s side (SD, Investment Associate, Circle Venture).

This shows how Circle Venture played a wider role in developing the MENA ecosystem and a particular role in the Jordanian ecosystem. Having more VC funds in the region will unlock potential investment opportunities and help to realize capital expansion and, ultimately, develop an environment in which MENA entrepreneurs can thrive.

Another difficulty Circle Venture has faced is obtaining follow-on investing for their PCs from the MENA investors. Therefore, it has decided to target international investors to co-invest with them, and to set up a US fund. KE, Circle Venture’s Managing Partner, persuaded Intel Capital, a VC arm of Intel Corporation, to co-invest with Circle Venture for the opportunity to gain insight into emerging markets. This is highlighted in the interview with KE:

[when] a company needed follow up funding and there were no investors in the region that were looking at technology or looking at scalable solutions …. We had to go globally and try to convince investors to come in from outside. I remember working with Intel Capital bringing them into deals with us (KE, Managing Partner, Circle Venture).
Furthermore, Circle Venture’s senior executives have set up an American VC fund that invests in US companies. Establishing a US fund gave them the opportunity, on the one hand, to co-invest with international investors and build their network and, on the other hand, to convince these international investors to invest in Jordan, as KE highlights:

*Setting up a fund in the U.S. so that we can build a network of global investors. Because we got tired of ourselves going and telling investors globally, “Hey, we’re from Jordan, please have a look at this company.” No, we wanted to be equals on the table and [to] be equals on the table was to co-invest with them. In life, you have to give and take. By investing with them we can now call them and tell them, “Hey, we are co-investors in this company,” can send you another company to look at and it does not matter where that companies from... You're creating a level playing field (KE, Managing Partner, Circle Venture).*

This demonstrates how Circle Venture thinks of creative ways to build its network and, therefore, help their PCs by securing follow on investing from their investors network. The American VC market, as referred to in the introduction, is the most active market. Choosing to set up a US focused fund gives it the opportunity to learn, as fund managers, from the more mature and developed VC industry. Consequently, Circle can leverage its knowledge and experience to its PCs across the MENA region.

### 6.3.3. Accessing the Pipeline

Access to pipeline is a further challenge faced by most VCFs in the MENA region. As KE, Circle Venture’s Managing Partner, complains, “There isn't enough pipeline”. This is because there is a lack of investment opportunity at the pre-seed and seed stage, and companies and entrepreneurs need more support to launch their startups. To overcome this challenge, Oval Venture executives73, with other Jordanian leaders, have encouraged policy makers to establish accelerators, incubators and a mentorship program to support and develop early stage startups in Jordan, which can ultimately become a potential source of deal flow for VC investors.

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73 Oval Venture the predecessor of Circle Venture.
Based on these recommendations, and after the largest and most successful tech acquisition event in the MENA region (Maktoob.com, a Jordanian startup, by Yahoo.com), Square was established in 2010 as an accelerator and seed stage fund manager. EK, Circle Venture’s Managing Partner, acknowledges how Oval Venture partners helped initiate Square: “so we helped catalyse the creation of Square. Square the business plan was written on that disk right there and putting it together and helping it come to fruition”. Oval invested in Square and it became one of its PCs. Oval Venture’s partners chose HF, who was senior associate at Oval Venture, to represent Oval Venture on Square’s board of directors and after four years he was appointed to be the CEO of Square. This shows that Circle Venture (through its predecessor) not only acts as a VCF but also plays a major role in building and catalysing the entrepreneurial ecosystem in the MENA region.

Square plays an important role as business accelerator and fund managers for pre-seed and seed stage startups. As a business accelerator, it runs a six-month accelerator program that provides specific and wide-ranging support to help startups build their products or services (idea stage) or subscribers/clients (post-idea stage), attracting investors, enhancing the entrepreneurs’ skillsets and, most importantly, validating the startups. HF highlights:

*a big part of what we add, beyond the initial seed investment that we offer, is the fact that we validate these companies and we more or less offer a rubber stamp of approval that this company has been vetted and validated by Square. So, it becomes slightly more reassuring to whoever is investing after us. So that also, it adds value and that value is built up* (HF, CEO, Square).

The program is based on the Kauffman Foundation tech venture curriculum. HF explains how Square’s staff were trained to be accredited trainers through a local partner:

*there is a local partner in Jordan that is deploying the Kauffman curriculum. So, we've more or less outsourced the training and the dissipation of the Kauffman curriculum to them. We've built a mezzanine or a hybrid model with them, where our staff will attend the training sessions with them. And by the end of the first*
cohorts our staff become accredited trainers themselves and we start deploying ourselves (HF, CEO, Square).

As fund manager, Square has three funds that invest in ideas and businesses in the tech and creative industries. Fund I invests in the technology sector, has invested in 128 companies and now is in the divestment phase. The Creative Industry Fund invests in non-tech sectors predominantly (e.g. textiles, gastronomy, film and audio production, design and publication) and has invested in 15 companies. Fund II, a 20-million-dollar fund, is expecting to invest in around 120 companies. The investors of these funds include King Abdullah II Fund for Development, Arab Bank Group, and Zain Jordan, as well as individual investors of successful entrepreneurs who want to develop the ecosystem and give back.

The acceleration program offers office space and managerial services, including accounting, auditing, and legal support, plus they equip entrepreneurs with guidance and mentorship both internally and externally. HF explains the double value of having external mentors:

we offer a lot of guidance, but we don't just rely on what we have internally. Because ultimately you want subject matters experts, and it is almost impossible that we 10 employees within Square, as you know, cover the full spectrum of expertise that you need... It's not always us as investors, we actually advocate that that relationship remains formal to some extent. We want it to remain formal because there is a parameter which we need to maintain as investors with our start-ups (HF, CEO, Square).

At the end of the program, Square supports its startups to attract follow-on investing by helping them in their pitch deck and by introducing them to potential investors. Square’s assistance involves:

window dressing and polishing of the business and displaying it in a manner that would attract investor interest and appetite...[because] being investors, we understand what an investor would look for in a company that is graduating from Square...My role as CEO is to ensure that after Square, we continue to support and
push these companies to grow to attract investment and ultimately arrive at a point where they become targets for acquisition (HF, CEO, Square).

6.3.4. A Comparison between the Practices of the VCFs
Both Horizon Venture and Circle Venture have recognized the difficulties of establishing a VCF in the MENA region and have emphasised how they built their knowledge. However, Horizon Venture did not face the same challenge of educating its service providers (lawyers and accountants) as Circle Venture did. This is because Horizon Venture had been dealing with international service providers, who knew how to conduct VC transactions, instead of local service providers:

The fund is standard kind of a GP-LP model. It is in a Deutsche offshore fund and local operating entity [in Dubai], and our lawyers were Foley Hoag, the U.S based firm, our auditors, EY. It was pretty straight-forward ... It's globally well known. So, you don't use service providers locally, like our lawyers are from Boston, for example (BM, Managing Partner, Horizon Venture).

In a similar way to Circle Venture, Horizon Conglomerate engages in practices through the Enabler to support and increase the region’s equity investments (as discussed in Chapter 5, section 5.4.3). To illustrate, the Enabler Advisory Service arm helps corporates and governments to build their own VC funds, and the Enabler Research arm offers research and recommendations for policy makers about the importance of increasing the equity investments.

Moving on to the pipeline access challenge, Horizon Venture, like Circle Venture, understood that establishing accelerators, incubators and a mentorship program in the region would benefit it, as a VCF, to have a higher quality pipeline of startups. To illustrate, the CEO of Horizon Venture has supported Square, not through developing the accelerator program, but by being one of the individual investors in its funds, and that shows how Horizon Venture’s CEO plays an important role in the broader ecosystem. Furthermore, Horizon Venture engages through the Platform’s Advisory Service arm to build accelerators, incubators, and a mentorship program to support and develop MENA early stage startups (as discussed in Chapter 5, section 5.4.3.4).
In addition, Horizon Venture’s executives, realizing that building external programs was insufficient, decided, in 2018, to create a separate entity, called Horizon Space. This acts as a business accelerator for ideas to seed stage startups and offers co-working space. According to HV, Horizon Venture’s CEO, the reason for establishing the Space is that: “We are in a phase, if you want to call it, a birth explosion in the region of startups. There are probably 10 times more startups that are at idea stage than there are startups [at post-idea stage]”.

As the person responsible for initiating the Space, RS (Horizon Venture’s Partner) is the best placed to explain the reasons for its generative capabilities:

“We anchor our activities and offerings from both the Fund as well as the Enabler and wider offering. We want to anchor that in a physical space so that its impact can be a lot more sustained, repeatable, and much broader than what we were able to offer ourselves. By creating a place that brings people together, who are of the same calibre, of the same intent, of equal stature, in a sense, they are an attempt to disrupt an industry, and putting them together in the same room, in of itself, creates value. So, doing that on sustaining basis creates a lot value ...It helps us generate a proprietary pipeline for the fund, which is where our upside sits (RS, Partner, Horizon Venture).

By initiating the Space, the aim of the Horizon Conglomerate was to add value at various stages of the startups cycle, from idea stage to Series B and, obviously, to have early access to potential investment for the Fund.

6.4. REFLECTION ON VC ACTIVITY IN THE MENA REGION

VCFs in the MENA region have a shared ‘purpose’ which is, as KE (Circle Venture’s Managing Partner) describes, “to create a sustainable high growth ecosystem for the Middle East”. This shared aim comes from the understanding that to achieve their goals and be successful firms, they need to add value to the ecosystem individually (by supporting the region’s startups) and collectively (by supporting each other). Together, on a regional level, they can build a sustainable VC industry that will stimulate the value they harvest. SO explains the extent of this support:
You do whatever it takes to help the ecosystem because there's a triple effect. Everything that you do comes back and everything that you do in the ecosystem is repaid in one way or the other (SO, Managing Director, Triangle Venture).

This takes us back to the main argument of the practice theory, where actions do not happen in isolation, instead they are part of the wider ecosystem. With regard to the notion that ‘everything that you do comes back’, personally I experienced this notion when I first contacted both Triangle Venture and Horizon Venture and asked them for permission to conduct my study. Although I did not have any connections in the MENA VC industry, Horizon’s Chairman and Triangle’s Managing Director were both extremely happy to help and support my study. In fact, the following response to my first email shows evidence of and personal gratitude for exactly this kind of generosity:

When I conducted my MBA dissertation back in 2009 on how MENA Private Equity funds add operational value post-investment, I sought the guidance of several regional fund managers, who were extremely helpful, to this day I can’t thank them enough for their support. It’s my turn to give back, and so I am more than happy to support (SO, Managing Director, Triangle Venture).

This gave me an indication of how the VCs in the region are willing to help anyone with an interest in and commitment to developing the ecosystem, because they believe that when they give, it will be repaid, either directly or indirectly.

In the following section, I would like to discuss, reflect on, and provide evidence of the activities that the VCFs conduct to support their ecosystem and achieve their common goal of building the ecosystem. Ultimately, VCs operate in a context. They depend on the state of the entrepreneurial firms and they depend on other investors who provide them the capital, they are part of a cycle. For that cycle to work they need to support and grow the ecosystem. Therefore, a lot of what VCs do is oriented towards developing and having a healthy ecosystem that has longevity. VC is a long-term business; it cycles capital from investors to startups and then to exit, and the cycle continues (meaning that it cycles further capital from investors to
startups). This is linked to what has been discussed earlier in the different approaches to setting up something new. In this case, we have firms that want to establish a new type of activity in the region and, therefore, they are pioneers and a lot of what they do is directed towards supporting and creating the ecosystem.

6.4.1. Supporting Startups

VCFs in the MENA region believe that their role goes beyond supporting their PCs (providing capital, network access and managerial support) and achieving their LPs targets. For them, they believe they have a responsibility to the broader ecosystem to support and accelerate the growth of the region’s startups. For instance, HV (Horizon Venture’s CEO) describes their “pathfinder” role at Horizon Venture with clear intention: “Our job, if we are true to our mission of impact, is to open all these doors so that the next [entrepreneurs] find it so much easier than us”. SO explains the broader role of Triangle Venture to support startups in the region beyond the basics:

Our job is to support ... and to help develop the ecosystem, not just by investing in the various startups but supporting numerous initiatives, whether it is non-profit organizations, whether it's start-up competitions, hackathon events, bringing people together and building community, helping grassroots initiatives.... attending the conferences, going and sitting on the judging panels, being a mentor for Endeavor Jordan, Square, Mowgli, SeedStartup in Dubai and Gaza Sky Geeks. Just giving back and providing advice to all of these different initiatives (SO, Managing Director, Triangle Venture).

In regard to supporting ecosystem initiatives, I have seen how the VCs in the three firms play an important part in building the ecosystem through launching NPOs that support the entrepreneurs in the region, or serving as a board trustee in these organizations. For instance, Triangle Venture’s Executive Director is a board member of Endeavor Jordan and Microfund for Women⁷⁴, while Horizon Venture’s CEO is one of the founding members of Endeavor

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⁷⁴ Microfund for Women is a private non-profit company that provides financial support for Jordanian women entrepreneurs and empowers them to be active members in the community.
Jordan. Interestingly, Horizon Venture even has the post of Ecosystem Relations Manager, and this employee’s role is to focus on “*working on outreach and partnerships with multiple stakeholders in the MENA startup ecosystem*” (Horizon Venture’s PPM Document, p. 53). This demonstrates how highly Horizon executives value the building of the ecosystem.

To create a sustainable ecosystem, VCs believe in the significant contribution of higher education in innovation and entrepreneurship. As a result, they support universities by serving as board trustees in universities or by providing grant to university research centres. Triangle and Horizon offer plenty of example of this, some of which have been referred to briefly earlier in this thesis. For example, Triangle Venture Director serves as a trustee at several universities across the world (e.g. Babson College, AUB, and Jordan University of Science and Technology). He has also supplied funding for the establishment of a leading university research centres for Innovation Management and Entrepreneurship in the MENA region. Horizon Venture’s CEO serves as board trustee at the AUB (as mentioned in Chapter 4, section 4.4.2) and Horizon Enabler produces research to serve, inform and educate the wider entrepreneurial community in the region and offer recommendations for policymakers to improve the ecosystem (as mentioned in Chapter 5, section 5.4.3). Its collaboration with different educational and research institutions (e.g. Knowledge@ Wharton and KAUST) to deliver research studies worthy of mention here.

Another form of supporting startups is by offering feedback to entrepreneurs when they initially make contact, even informally, or when they pitch to the VCFs: “*when people reach out to us through e-mail, LinkedIn, Facebook, the phone ... Even if we pass up the opportunity, we always try to give them feedback... even if we’re not investing in them*” (JS, Investment associate, Triangle Venture). This is a practice shared by SD, Circle Venture’ investment associate “*Many times, I know that this particular startup is not a fit for investment from [Circle Venture] ... but I will build a relationship with them. I will coach them, I will mentor them, and I will help them get to a stage where they may be investable by us or by others*”. In addition, I have seen how Horizon Venture adopts an open-door strategy, where it opens its doors for university students or entrepreneurs and gives them feedback and advice (as discussed in Chapter 4) and holds events that are open to the public to support the ecosystem. It also runs its own podcast channel (different from the Enabler podcast channel discussed in
Chapter 5). The podcast channel focuses on spreading knowledge and awareness about the tech issues (e.g. e-commerce and payment) and startups in the MENA region by interviewing entrepreneurs, investors, and tech industry leaders.

Other forms of startup support include participating in the region’s summits, conferences and events, providing mentorship support, building or helping catalyse the creation of entrepreneurship programs, such as Square and Horizon Space (see Chapter 6, sections 6.3.3 and 6.3.4), building and helping catalyse the creation of new funds, such as AB Venture (see section 6.3.2), and offering online and offline funding and scaling support to startups, such as Horizon Enabler (see Chapter 5, section 5.4.3).

6.4.2. Supporting Other VCFs

In addition to supporting startups, the region’s VCFs provide support to each other by, for instance, co-investing, referral, collaborating, giving feedback, and sharing skills and expertise with others. I have seen how the VCs in the region play their role as if they are building the same initiative, and how they rely on each other to develop. This is because they understand that by supporting each other they will develop and foster the growth of the VC industry. The CEO of Square recognizes this and welcomes further movement in that direction:

> what we are doing will never ever succeed if we, as participants at this market, do not talk to each other, do not collaborates, do not engage with each other. So, I would like to see more engagement and more collaboration between players in the VC industry and more importantly more collaboration engagement between the market players across the Arab World (HF, CEO, Square).

Similarly, SO reflects on the necessity of providing support to other VCFs and gives the example of how he helped Circle Venture by giving it feedback on its fund, AB Venture:

> There is no such thing as competition here. One day there will be, when the ecosystem is much more developed, like in the US. If we don’t help each other to build the ecosystem, neither [Circle Venture] nor myself will exist. We have to help each other, and we have to help the ecosystem to make sure it develops. (SO, Managing Director, Triangle Venture).
This reflection is an acknowledgement that VCs value, even depend upon, collaboration with other VCs. It also highlights the behavioural differences in the MENA region in comparison to the US: it is less competitive and more collaborative.

Delivering successful stories of startups that created value is one of the fundamental building blocks to enhance the ecosystem. This is because it creates visibility and credibility around the value of startups, especially in a region of high geopolitical risk. KE highlights how, in their role as VCs in the region, they are expected to deliver companies that create value:

> Our goal collectively, as an ecosystem, is to deliver companies that create value. If we do not do that, then the ecosystem that we see today will be nothing compared to the potential of what it will be tomorrow. But until people see a constant stream of successes, that is not going to happen. So, my role for Jordan is to build a success story... . My commitment is to help anyone, who is trying to get there to get there, because it is going to help us all... Because success begets success. If you look at all the major ecosystems globally, it is success in venture that has brought more and more investment (KE, Managing Partner, Circle Venture).

Last but not least, it is important to highlight that part of developing the VC industry is to develop the expertise of VC practitioners, who can then set up their own equity financing firms (e.g. VC, angel investment, crowdfunding, or accelerators). While this is a well-recognized activity in Silicon Valley, it has also been known to happen elsewhere: in the MENA region. In fact, Oval Venture (the predecessor to Circle Venture) was the place that the Managing Partner of Horizon Venture, the Managing Director of Triangle Venture and the CEO of Square all started out in VC. This reinforces the point that part of the way the ecosystem develops is that people gain experience in one organization and then they leave it, taking with them what they learned, to start a new firm.

### 6.4.3. Different Meaning of Value Adding

Both Horizon Venture and Circle Venture are structured in the multiple GP-LP structure, where there are multiple partners who handle the deals. Triangle Venture, however, adopts the sole GP structure, where there is only one partner, who handles all the deals with the support of the
associate and analyst. Although Horizon Venture and Circle Venture share similarities in terms of the multiple GP-LP structure, they adopt different approaches to how they handle deals. To illustrate, in contrast to Horizon Venture\textsuperscript{75}, Circle Venture adopts the individual approach, where the partner who leads the deal handles it from selection to exit, and he or she is responsible for adding value.

Although each VCF provides different support to its PCs, based on the company needs and on its capacity as a VCF, there are three common areas of support that cut across these VCFs. These common areas are found in the need to provide introductions, personal coaching and supporting the founders, and finding and training talent. For instance, KE, Circle Venture’s Managing Partner, highlights that he takes a theme each quarter to deepen his knowledge about a topic that is related to all his PCs (e.g. business development, how to think of HR, building culture), then he passes this knowledge on to the PCs to help them build themselves. To illustrate, the last theme that he took was about compensation. Here he explains his activities and what is involved in this practice:

\begin{quote}
So, compensation. I would deep dive into compensation. I would really understand what’s happening in the compensation of our [PCs]. I would try to understand what is the best practices that are out there, and I would be asking myself, are we doing enough to incentivize really smart people in these companies to put their life behind us, and what does that mean? How do we use compensation to hire the best? How do we eradicate mediocrity and create the right incentive to make mediocrity have a cost to these organizations? So that they’re focused on being really capable people, and what does that mean?...So as an example, that compensation work, I champion an effort within all of our [PCs] to rethink how we give stock options to employees and kind of take it from there. How you look at it. There is no one size fits all. So, it looks completely different in each and every company but you’re giving them the principle that they need to think about in terms of how to approach these
\end{quote}

\textsuperscript{75} Horizon Venture adopts the institutional approach, where they have two teams; one is responsible for dealing with the selection process and the other for dealing with adding value to their PCs.
things, and, for a lot of them, it's a revelation, and we forget what a revelation it is (KE, Managing Partner, Circle Venture).

The first-hand description gives an example of the practices that Circle Venture conducts to train its PC’s team. An example of how the ‘meaning’ can differ is clear when I asked the VCs “What does value adding mean”. One Managing Director responded in the following way:

*Adding value to a company can mean removing risk. We believe that our role is not to add value. [Founders] have to add the value...We help them remove and mitigate the risks...Before we invest, we have to see clear paths or ways or methodologies for us to remove that risk...If we can help a company recruit an executive team, where we have now limited or lowered execution risk, we added value to the company. If we can introduce the company to a customer that will buy and start generating revenue for the company, we slightly mitigated or limited the financial risk of the company, because we've helped them improve market demand or product market fits that somebody is willing to pay for your product (SO, Managing Director, Triangle Venture ).*

Whereas for EK, to add value means, to “*protect them from making stupid mistakes. We keep them honest and we challenge them to achieve their full potential*”.

To conclude, all three VCFs say that they are “adding value” and this creates the impression that they are doing the same thing, because they are using the same words, when in fact they are doing very different things. Therefore, it was important to go beyond the mere phrase and seek to comprehend what stands behind it, and what stands behind it is the specific way in which they do it the practices.

6.5. CONCLUSION

Using Schatzki’s social ‘site’ analysis, this chapter first discussed Horizon Venture organizational practices that the firm conduct to operate as an organization. Specifically, in section 6.2, I unpacked two organizational practices (continuous practice and onboarding practice).
After that, to improve our understanding on how investment practices vary across organizations, I reflected on Horizon Venture investment practices in a broader context by comparing Horizon with two other VCFs in Jordan. In section 6.3, I identified three challenges that face VC practitioners in starting a new VCF in the region and highlighted how each VCF responded to these challenges. Although the VCFs under investigation shared the same challenges, the findings showed how each VCF responded, to some extent, differently to these challenges. Then, in section 6.4, I drew my reflections on the VC activity in the MENA region and highlighted how the three VCFs in the region shared a common goal (building and nurturing the MENA entrepreneurship ecosystem). Specifically, I have discussed how they add value by supporting the region’s startups and by supporting each other.

I have concluded this chapter by referring back to the main argument of my thesis, that is, although VCs say they “add value” to their PCs, each VCF attributed and defined value slightly differently. This shows again the importance of and benefits gained by studying social activity. In this thesis that means, value adding activity within the context in which it operates. The following chapter summarizes the key findings of this study and outlines its theoretical contribution and practical implications. The chapter then concludes by acknowledging the research limitations and suggests the avenues of future research in the field of VC.
Chapter 7: DISCUSSION AND CONCLUSION

7.1. INTRODUCTION

The aim of this thesis has been to identify the everyday and socially-situated nature of VCs’ value adding. Specifically, it has sought to explore two research questions: (1) What do VCs actually do in practice to add value to their PCs? and (2) What is value and how is it manifested in value-adding practices? As VC practices are considered to be socially contextualised, and VCs operating in different contexts do different value-adding activities, it is necessary as Schatzki (1996,2002) advocates, to understand practices within their contexts. Therefore, insights from Schatzki’s site ontology analysis approach (1996,2002) were used to further explore VCs’ value adding practices.

According to Schatzki (2005), in order to understand a social site, we must undertake three tasks. First, identify the actions that comprise a site. Second, identify practices and material arrangements of which these actions are part, which involves discovering whether the practices and their material arrangements cohere or compete. Third, identify other nexuses of practices and material arrangements, to which the nexuses composing the site studied are highly interconnected. In light of these three tasks, this thesis also aims to answer four questions derived from Schatzki’s site ontology analysis approach (1996,2002): (1) What is the social site of VC? (2) What are the practices that constitute the site and how do these practices fit together? (3) What are the practices associated with VCs value adding? (4) and How investment practices vary across organizations in which they operate?

By employing two case studies to unpack the VCs’ value adding activity in the MENA region, this study contributes mainly to the VC post-investment stage literature, specifically through providing a deep understanding of the VC value adding activity. Also, it proposes and adopts a more dynamic paradigm (i.e. a practice-based approach) that appreciates both the individual activity and the social force (Whittington, 2006). This approach is among the first to be extended to the VC context.

The aim of this chapter is to address the research questions raised previously by synthesizing the main findings derived from the three findings chapters that were thoroughly reported in
Chapters 4, 5, and 6. The first case study includes data collected from a VCF in Dubai totalling 176 pages of transcription, 70 pages of field and meeting notes, and 27 pages of other primary data, as well as an extensive collection of VCF’s related documents. The second case study includes data collected from two VCFs in Jordan totalling 97 pages of transcription and notes from one-day observations in each firm. This final chapter proceeds as follows. First, a brief summary of the theoretical framework is reviewed. Then, the key findings related to each of the five research questions are outlined. Finally, the study’s limitations and directions for future research are presented.

7.2. OVERVIEW OF PRACTICE APPROACH

A review of the VCs value adding literature, discussed in Chapter 2, showed that the individualistic ontology is the dominate assumption in previous studies. Although these studies have contributed to our knowledge around the VCs value adding work (i.e. roles, determinates and consequences of VC involvement, and the role of content and process), we still lack a clear understanding of the roles of social, cultural and institutional contexts in shaping the VCs value adding activities.

Moving beyond the traditional approach adopted in previous VC research, I offer an alternative approach to investigate the VCs value adding activity. The alternative approach (i.e. practice-based approach) focuses on the social practice perspective instead of the individualistic or static perspective of social phenomena (Reckwitz, 2002). The practice-based perspective is believed to provide distinctive insights into VC value adding activity, which in turn improves our understanding of the value adding phenomena. In particular, the uniqueness of adopting the practice-based approach is that it sheds light on the importance of context (site) in shaping VC behaviours. Although the aim is to illuminate value adding practices, the practice perspective also has the potential to appreciate other practices that are tied to the site and outside of it.

Schatzki defines practices as “organized, open-ended spatial-temporal manifold of actions” (Schatzki, 2005, p.471). Each practice is organized through (1) understanding- knowledge of what to do and say and knowing how to do an activity, (2) rules- procedures and instructions on how things are done, and (3) teleoffective structure- a range of ends, tasks and beliefs (ibid).
Hence, the aim of this study has been to examine VCs’ involvement in the post-investment phase using a practice-based approach as a theoretical lens, which means identifying VCs’ value-adding practices within their organizational and institutional contexts and exploring how value is actually added in VCFs. By adopting this approach, this study overcomes the limitations of the individualist approach commonly taken in this research stream and offers a rich methodology that not only acknowledges individual actions but also accommodates that which arises outside of it and goes beyond these actions, that is the wider social context.

7.3. OVERVIEW AND DISCUSSION OF FINDINGS

7.3.1. What is Value and How is it Manifested in Value-adding Practices?

Since the focus of this thesis is on understanding what VCs do to add value to their PCs, there is a need to understand what value means. The concept of value is central to this thesis.

As mentioned previously, in Chapter 2, there is a traditional understanding of value within financial theory and models. To illustrate, the value of an asset could be determined based on potential earning and systematic risk associated with the asset using finance theory methods (e.g. DCF or NPV). However, through what I have done, I have shown that value lies in what people do in the practice because they understand it to be valuable. Specifically, I have shown that value adding is shaped by activities and practices that aim to increase the PC’s potential returns or mitigate its risks. In other words, Horizon Venture has translated the meaning of value into the activities and practices that they are involved with. Horizon has a specific value-adding approach and a dedicated VCT. It adds value not only at company level (i.e. through the value-adding approach) but also at portfolio (i.e. building connections and learning), and firm level (i.e. building reputation and Horizon Enabler).

The question about value is important because it shows that to understand value, we have to understand what VCs are doing. To understand what VCs are doing, we need to understand their social site, and to understand that, other things (e.g. artefacts, and the norms and values that underpin the actual doings) need to first be understood. This shows that everything is interrelated and anticipates the need to address the four research questions. These questions are: What is the social site? What are the practices within the site? What are the specific value-adding practices? How do practices vary across organizations? Value becomes similar to
meaning, that is, it is contextual and embedded in human activity. Thus, it becomes clear that value adding is, by nature, contextual, social and practice-related. In the following subsection, the four research questions will be unpacked.

7.3.2. What is the Social Site of VC?

The social site for this study was Horizon Venture, composed of a nexus of practices and material arrangements. Although my focus was on specific investment practice (i.e. value-adding practice), it was vital to consider the other practices performed within and outside the site. This was because I was drawing upon Schatzki (2005)’s social site analysis approach to theorize my findings. Accordingly, social practices are better understood when observed as part of the site and considered in their interconnectedness with other practices performed outside the site (ibid.). The practices performed within the site included investment level practices (i.e. fundraising, deal originating, screening, evaluating, structuring, and value adding) and organizational level practices (i.e. onboarding, continuous improvement). Whereas the practices performed outside the site included the other nexuses of practice and material arrangement with which the site was connected (e.g. other VCFs, VC associations, industry bodies and governments).

Therefore, I sought to answer research questions that derive from Schatzki (2005)’s social site analysis. That is, I started by unpacking first the investment level practices then the organizational level practices (i.e. within the site). After that, I moved to identify the practices comprising the value-adding practice. Finally, I explored how the investment practices interconnected with other investment practices performed by other VCFs in the MENA region (i.e. outside the site).

7.3.3. What are the Practices that Constitute the Site and How are these Practices Related to the VCs Value-adding Practices?

In this study I have categorised the practices that constitute the site (i.e. Horizon Venture) into investment level practices and organizational level practices. As discussed in Chapters 4, 5 and 6 (section 6.2), several practices and a number of interrelated projects and tasks were employed by Horizon Venture to function as a VCF and as an organization. In regard to the former, and based on the Tyebjee and Bruno (1984) investment model process, this study categorised the
investment practices into fundraising, deal originating, pre-investment and post-investment practices. Moving to the latter, this study identified two main organizational level practices: onboarding and continuous improvement. In the following subsections, each of these categories are outlined.

7.3.3.1. Fundraising practice
There were found to be three practices in the fundraising practice that were employed to secure commitments from prospective investors, namely, preparing a PPM, making presentations, and pitching to investors. Although the obvious aim of raising funds is to secure commitments from investors and reach the fund limit, the study found that the underlying aim is to bring strategic investors who can provide distinctive insights and considerable additional value to the operations of the fund.

I discussed in Chapter 4 (section 4.3) how Horizon Venture was selective when hiring its fund investors. For instance, based on the VC’s previous experience, research and data, Horizon understood that the potential market for any PCs in the MENA region to grow, involved accessing the GCC market. The VC team recognizes that Bahrain has no restriction on foreign ownership, instead it permits foreigners (not only local nationals) to own 100% of a company. As a consequence, the team identifies potential investors (LPs) from Bahrain with the intention that these investors can help their PCs to register and operate in Bahrain and thus use Bahrain as the PCs’ gateway to the GCC market. In addition, Horizon Venture senior team recognizes that within the GCC, Saudi Arabia has the most potential opportunities. Therefore, to encourage wealthy individuals and institutional investors to invest in Fund II, the senior team proposed the fund lead spend an entire year in Saudi.

The above discussion makes it clear that other people, in this case LPs, were involved in the value-adding practices. Also, it shows how Horizon Venture’s fundraising practice was connected to, and formed a net with, the value-adding practices. Furthermore, not only did fundraising practices form a net within the site, but they also formed one with players and entities outside the site. To illustrate, as part of raising the funds, the VCF interacted with other players in the financial marketplace (e.g. pension funds, sovereign wealth funds, insurance
companies) to form a net. Overall, fundraising practice meshed and interwove with the VC investment practices (i.e. value-adding practices) and with financial marketplace practices.

7.3.3.2. Deal originating practice
As deal sourcing is a vital part of the VC investment process, the VC team put a considerable amount of effort and resources into finding high-quality potential companies through involvement in five different deal-sourcing channels. These were Horizon Enabler, third party events and parties, CD Fund and Horizon Venture PCs, network building and co-investing, and proactive research. Although the intended aim of this practice was to source potential investment opportunities, the VC team was found to add value to these potential investments even before investing, via activities such as giving feedback and providing mentorship. This shows how VCFs in the region play a wider role in the entrepreneurship ecosystem and highlights how they contribute to increasing the quality of their deal flows.

7.3.3.3. Pre-investment practice
In this study I have identified sixteen pre-investment practices that were employed to evaluate and select an investment opportunity. Based on understanding, rules and teleoaffective structures, these practices were further organized into four broad categories: (1) screening, (2) partner pitch, (3) due diligence, and (4) structuring. Next, the practices employed in each category will be summarized.

The first three categories are described here, beginning with screening. Screening practices are those focused on assessing whether the opportunity fits the Fund’s investment criteria. These comprise four practices, namely, reviewing, conducting discovery meeting, writing screening memo, and conducting a partner meeting. Partner pitch practices are those employed to decide if the investment deal passes to the due diligence stage or not. These include three practices, namely, sending materials, conducting partner pitching, and conducting internal reviews. Due diligence practices are those employed to gauge the company financial and commercial attractiveness before investing. These consist of four practices, namely, interacting with the target company’s team, plus the conducting of a reference check, of commercial and financial analyses, and of a partner meeting.

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The fourth category, structuring practices, requires greater detail. Structuring practices are those employed to establish and negotiate the type of the investment agreement. These comprise five practices, namely, negotiating terms, conducting an IC meeting, structuring and registering, performing legal and tax evaluation, and closing. In regard to structuring and registering practice, this study showed that the Horizon Venture executive team identified four issues in the corporate regulatory framework in the MENA region (i.e. business taxation, restriction on foreign ownership, permission on different classes of shares, and restriction on VC investors’ rights). Also, it showed how the VC team engages in practices to overcome the structuring and legal issues in the MENA region (i.e. registering its companies in an offshore jurisdiction). The structuring practice provides a convincing example of the importance of the context in studying VC activity. That is, it shows how VCs in the MENA region employ practices that are relevant for their geographical context, in this case, to overcome some of the issues and challenges they identified in the corporate regulatory framework.

While the aim of pre-investment practices is to gauge and select an investment opportunity, I found that, similar to deal sourcing practice and fundraising practice, pre-investment practices also contribute to (or have a relationship with) value adding practices in different ways as the following four examples show.

• The investment deal team provided insights and feedback to entrepreneurs on how to develop their companies (e.g. via feedback in the pitch meeting) even when it was not considering investing in them.

• Determining the value of the company before investment (a sub-practice of conducting commercial and financial analysis) is useful to the VC team, in the post-investment stage, to calculate how the VCs involvement in providing financial and non-financial support appreciated by the company value.

• The VC team employs a number of structuring techniques (e.g. registering the companies in an offshore jurisdiction) to overcome some of the obstacles known to limit startups in the region from growing. The structuring techniques are considered by the team as the first activity of value adding.

• The pre-investment practices succeeded in helping the VC team to build an understanding of the potential company and identify the areas in which it could add non-financial support.
Overall, these findings demonstrate that value-adding activity did not start in the post-investment stage per se, instead it started before the investment had been made in a company (i.e. in the fundraising, deal originating, and pre-investment practices). This finding is contrary to most previous studies discussed in Chapter 2 (section 2.3) which considered value adding to be an activity limited to the post-investment stage (e.g. De Clercq and Manigart, 2007; Manigart and Wright, 2013; Proksch et al., 2017; Gompers et al., 2020).

7.3.3.4. **Organizational practice**

There were found to be two practices within organizational practice that the VC team conducted, namely, continuous improvement and onboarding. Continuous improvement practices are those focused on reflecting and improving Horizon Venture’s existing practices and material arrangements, whereas onboarding practices are those focused on familiarizing newcomers with existing practices and material arrangements.

The onboarding findings showed that learning (by providing the new employee with reading materials and opportunities for shadowing the VC team, as well as by conducting meetings with the VC team or PC’s team) and unlearning (practices from previous employment) plays an important role in the process of onboarding. Furthermore, the findings highlighted the importance of the onboarding practice in the VC context, specifically in the MENA region because of the limited knowledge and experience of newcomers to VC work. Also, onboarding is specifically important in Horizon Venture because it has a unique approach to value adding. Therefore, for newcomers to participate fully and effectively in the work, they need to be attuned to all value-adding practices.

Overall, the organizational practice increases our understanding of how the VC practices are interconnected with not only the investment practices, but also with the practices that help a firm to work as an organization. Furthermore, this study has also shown that the VC’s practices involve elements of already existing practices, such as financial performance analysis practice, return analysis and valuation methods practice, market research practices, meeting practices and networking practices.
7.3.4. What Are the Practices Associated with VC’s Value Adding?

Value-adding practices are those focused on enhancing a PC’s value by providing a complex bundle of value-adding services. The services aim either to increase the earnings of a company’s returns or reduce its risks. As discussed in Chapter 1, VC value-adding activity has been called a “black box” and the aim of this study has been to open that box and understand how VCs add value in Horizon Venture. I have classified value-adding practices by level: company level, portfolio level and firm level. Next, value adding practices in each level are summarized.

7.3.4.1. Value adding at company level

At company level, value adding relates to the direct practices that the VC engages in to add value to its PCs (see Chapter 5, section 5.2). The value-adding approach at Horizon Venture is systematic and consists of five main practices: familiarizing, assessing, planning, providing support, and monitoring. The ‘purpose’ of the value-adding approach is for the VCT to understand a company’s challenges, strengths, and processes to then be able to identify how to add value.

Familiarizing, assessing, and planning are the three early stage practices adding value at company level. Familiarization practices are those that focus on knowing the PCs business and collecting data and information. These comprise four practices, namely, reviewing, C-suite meeting, group head meeting and visiting. Assessing practices are those employed to isolate and prioritise the company areas that need further support. Planning practices are those that focus on identifying the required actions, resources, measurements and timeline to reach the company goal and improve company efficiency.

Providing support and monitoring are later stage, and ongoing practices that add value. Monitoring practices are those related to protecting the VC’s investments and ensuring that the PC is in accordance with its post-investment strategy. These include three practices, namely, reviewing company reports, conducting regular meetings and visits, and sitting on the PC board of directors. However, practices providing support, are worthy of a closer examination at this point.
Practices providing support are those employed to improve the company’s performance, accelerate its growth, and help it realize its potential. Support provision will vary and may evolve during the term of the fund depending upon the sector, the stage, the environment, the specific situation of the company, and other considerations. Support is provided to PCs either directly, by imparting the VCs knowledge, experience, and connections, or indirectly, by connecting the PC as and when necessary with relevant outside supporters (e.g. experts, investors, recruiting agencies). While providing support practice is divided by Sapienza, Amason and Manigart (1994) into three classes - strategic, operational and personal - my analysis suggests a new fourth role - a cultural role - something not reflected in the previous literature. The literature speaks of VCs’ value-adding roles (see section 2.3), and I have shown what underlies these roles, which is all the practices that I outlined in my results (see section 5.2.4). In other words, I have attempted to unpack what these roles mean in a practical sense.

It is worth highlighting that the value-adding approach is iterative rather than linear and can incorporate many back-and-forth moves. It is also a continuous approach rather than a one-time approach that happens only when Horizon Venture invests in a company. This continuous approach of reviewing, assessing, planning and evaluating ensures that the company is on course to succeed. For instance, if the VCT identified issues or areas of improvement in the monitoring practice, they might re-engage in assessing, planning and providing support practices to make adjustments or update its strategy, action or execution plans against new conditions and opportunities, or to reduce risks. Furthermore, it is noteworthy that the value-adding approach is interlinked to the pre-investment practices discussed earlier. For example, providing support practice is related to the due-diligence practice, where the investment deal team and other members of the VCF, identify issues, improvement areas and opportunities to grow around the PCs during the due diligence phase.

It is clear that not all PCs in Horizon Venture are afforded the same weight of priority in terms of VC time and resource allocation. VCs are known to prioritize their engagement with PCs depending upon the investment amount, urgency of support, the stage of the company, and its potential to grow. Similar to the literature on factors influencing VC involvement, my study’s findings confirm that value-adding support varies based on the PCs’ characteristics, VCs’ characteristics, and the geographical region or institutional context (discussed in Chapter 2,
section 2.3.2). In particular, I have added to the literature that examines the role of geographical region or institutional context on VC involvement by providing insights into the role of the MENA context on the behaviour of VCs. Additionally, I have contributed to the literature on the role of PCs’ characteristics on VC involvement and added two new factors which had not previously been identified: VCF level of investments and the company’s specific needs.

7.3.4.2. Value adding at portfolio level

Value adding at portfolio level relates to indirect practices (i.e. building connections and learning) that VCs undertake to expand their knowledge and connections (see Chapter 5, section 5.3). The outcome of these practices becomes the input for providing support practices (e.g. finding a strategic buyer, identifying key people for hiring). Building connections practice is achieved by investing VC time and effort in forging beneficial links with potential supporters (e.g. investors, service providers, trade associations), whereas learning practice is achieved by self-study, by learning from others and past experience. The findings of value adding at the portfolio level is related, to some extent, to the literature that focuses on the content-related issues (see Chapter 2, section 2.3.4.2).

7.3.4.3. Value adding at the VCF level

Similar to value adding at portfolio level, value adding at firm level relates to indirect practices but not at Horizon Venture level but at Horizon Conglomerate level. That is, it focuses on how the VCs add value through the Group (see Chapter 5, section 5.4). These comprise three practices, namely, building the group’s reputation, building the knowledge and network of their PCs, and building and growing the MENA entrepreneurship ecosystem. In regard to the third practice, Horizon executives understand that in order to stimulate the MENA entrepreneurship ecosystem, there is a need to have an entity (Horizon Enabler) that acts as an ecosystem enabler. The Enabler focuses on educating, inspiring, and empowering MENA’s entrepreneurs and connecting them with relevant stakeholders. It does so via its four arms: media content, community-building programs and events, research, and corporate and government advisory services. The Enabler was devised to spotlight entrepreneurship in the MENA region and to provide a fertile environment for MENA entrepreneurial growth and knowledge exchange.
To sum up, these value-adding practices demonstrate that Horizon Venture has a unique way of adding value, this is captured in the value-adding approach. Such an approach is affected by various elements, especially the MENA entrepreneurship ecosystem and the business culture. Interestingly, the study revealed the VCs’ value-adding practices to be enmeshed with participation in other practices, such as co-investing, mentoring, and expert advising. The study also found that value-adding practices were spread across time (i.e. fundraising, pre-investment, and post-investment stages) and across entities (i.e. Horizon Venture and CD Fund). The value adding was not just one action, but a variety of different actions taken by the VCs, their team members, and other individuals that eventually fed into one another.

7.3.5. How Investment Practices Vary Across Organizations in Which They Operate?
By comparing the investment practices of Horizon Venture with other VCFs in the region, namely Circle Venture and Triangle Venture, the findings (section 6.3) revealed that the three VCFs faced the same three challenges in setting up their firms in the region: difficulty of starting a VCF in the region, lack of equity investment and difficulty in accessing the pipeline. However, they responded differently, to some extent, to these challenges. In regard to the first challenge, the difficulty of starting a VCF in the region, Circle Venture employed the two practices of learning by itself and educating service providers and Horizon Venture dealt with US and UK service providers as they were familiar with VC transactions. At Triangle Venture, the executives understood the difficulty of fundraising in the region and, therefore, set up their firm as a private partnership between three individuals.

With regard to the second challenge, the lack of equity investment, Circle Venture engaged in two practices to increase equity investment in the region. It launched a joint fund with Endeavor Jordan (backed by USAID) to encourage and support investors and entrepreneurs and increase their equity investments as a result. It also set up a US fund to secure follow-on investing for its PCs and to gain insight into the US market. Similarly, Horizon Venture engaged in practices through the Platform, such as building corporates and governments, to increase the region’s equity investments.

In meeting the third challenge, gaining access to the pipeline, Circle and Horizon Venture engaged in setting up an accelerator and seed stage fund manager (called Square) to support
and develop early stage startups in Jordan. However, each supported Square in a different manner. To illustrate, Circle Venture supported Square via developing its accelerator program whereas Horizon Venture supported Square via being one of the LPs in its fund (i.e. the CEO of Horizon Venture is one of the investors in Square). The study showed that Horizon Venture not only overcame the challenge of access to pipeline by building external programs but also by building an internal program and running it as a separate entity, called Horizon Space. The aim of the Space is to have early access to potential investment for the Fund.

Furthermore, this study has discussed, reflected on, and provided evidence of the activities that the VCFs conducted to promote the MENA entrepreneurship ecosystem (see sections 6.4.1 and 6.4.2). These activities involved showing support for both the region’s startups and other VCFs. Supporting the region’s startups specifically involved supporting and accelerating the growth of the region’s startups. Activities included supporting ecosystem initiatives (e.g. launching NPOs that support the entrepreneurs) and universities (e.g. providing grants to university research centres). They also included offering feedback and advice to MENA entrepreneurs, participating in regional summits, conferences and events; providing mentorship support; and building, or helping catalyse, the creation of entrepreneurship programs. Supporting other VCFs specifically involved helping other VCFs via co-investing, referral, collaborating, giving feedback, and sharing skills and expertise with others.

The three VCFs claimed to do the same thing, “add value”, and yet they conducted different practices in doing this. Therefore, it was necessary to understand how the three VCFs added value, to explore first how VCs interpreted what value was and did not simply rely on providing understanding of how it was achieved. Indeed, how VCs perceived the idea of value impacted how they organized their value adding activities.

7.4. LIMITATIONS OF THE STUDY

In acknowledging that all studies have limitations, in this subsection, I will firstly, explain how I endeavoured to mitigate any limitations through careful planning and accurate documentation and secondly, acknowledge and discuss the limitations of my study.

In section 3.7.1, I discussed the research quality of this thesis by explaining how I dealt with credibility and confirmability. To illustrate, I used various tactics suggested by Lincoln and
Guba (1985) to ensure the credibility and confirmability of the research output. One of these tactics was triangulation, where I used multiple sources of evidence (i.e. observations, interviews, other primary data and archival material) to capture the topic in full and strengthen the research outcomes. Another, second, tactic used was peer debriefing, which involved discussing and presenting the research process and the emerging analytical models with my supervisors and research colleagues to enhance the degree of confirmability. A third strategy was used to enhance confirmability. For this I recorded my full journey from the beginning to the end of the five-week fieldwork period, I documented my methods in detail, and I explained how the analysis was conducted.

Whilst the quality measures of transferability and dependability are absent from this study, and might, therefore, be viewed as a limitation, an explanation of this might be timely here. Transferability and dependability measures were not relevant to this thesis because the aim of this research was to provide a rich understanding of the VCs value-adding phenomena by adopting the practice-based perspective. Practice perspective is ultimately a holistic approach through which activity can only be understood by understanding the role it plays in its context. As VCFs are always located within a context which shapes what occurs within it, to understand a VC’s actions, we need to understand them in their context. This is because these actions make sense in the context of what the organization does. For instance, a VCF in Dubai conducts, to some extent, different practices from a VCF in Silicon Valley. In other words, if we put VCs in a different context their activity changes. For these reasons, there is no need to to apply the study findings to other contexts (transferability) or to replicate the research outcomes (dependability). Instead it would, in future, be interesting to conduct a comparative study to understand how VCs practices vary across different contexts (e.g. in Silicon Valley or Boston, USA) to investigate in what senses they are similar and dissimilar, and thus provide insights into the various blends of practices that exist in these locations.

Although I managed to secure field access to a VCF for five weeks, which was a significant period of time, I believe that a longer immersion (i.e. of six months or more) in the field could have provided me with even deeper insights into VC value-adding phenomena. Also, because there were no exit events for PCs during my field study at Horizon Venture, I was unable to see and to understand how VCs add value during the exit stage, which would have been
interesting. This would also have given me the opportunity to understand how value-adding practices affect the post-money valuation. Furthermore, in this thesis I conducted interviews with just the VC team. In hindsight and with more time, it would have been interesting to, additionally, interview entrepreneurs, in order understand how different entrepreneurs perceive the VC’s value-adding activity. This would indeed add another level of knowledge around this phenomenon.

If I went back to my fieldwork, I would focus on building case files on a number of PCs for the purpose of cross comparison on how VCs add value. In addition, I would like to have another set of interviews with the VC team to ask specific questions that emerged from my analysis. Indeed, a further study could be conducted to compare the VC’s value-adding activity across two different time frames (i.e. compare the study that took place in 2018 with a future study) to investigate whether VCs conduct the same practices or to what extent they differ. This would add insights on the importance of what Sandberg and Tsoukas (2011) refer to as the practitioner’s experience of time. Also, having more time to spend with the two VCFs in Jordan would enhance the findings and compare the different VCFs. Despite the limitations outlined, which stem from a desire to always want to know more and delve deeper, I believe that this thesis contributes to the VC post-investment stage literature.

7.5. **FUTURE RESEARCH**

This study has conceptualized VC activity as a set of social practices (Schatzki, 2002). This conceptualization serves as an alternative theoretical approach for studying VC activity. Specifically, I have focused on investigating a particular practice in the VC investment process (i.e. value-adding practice). Although I have explored other VC practices (e.g. screening, fundraising, and pre-investment), I considered these outside the scope of this study so they were explored only in enough detail to understand how they relate to the VCs value-adding practices.

Hence, I hope that this thesis strongly encourages other researchers to engage in further practice-based research to help further people’s understanding of other aspects of the VC investment process. For instance, further research could examine in more depth other VC practice bundles of the VC investment process, such as fundraising, due diligence, or exiting.
In addition, future studies could extend the practice perspective to different contexts to build comparative case studies of the variability of value-adding practices in differing contexts. Also, it could extend the approach to examine how other types of VC (e.g. CVC and business angels) deliver value-adding services and whether the VC type leads to novel approaches to VC value adding.

The aim of this study was to understand the VC’s value-adding activity, thus the focus was on how these activities are held by one dimension of practice organizations (i.e. teleoaffactive structure). However, the other three elements of practice organizations (i.e. practical understanding, rules, and general understanding) were not explored in detail due to time and resource limitations. Hence, it would be worthwhile exploring how value-adding activities are held together by these other three elements.

The study identified the VCs value-adding practices as well as several practices related to a VCF in a particular context (i.e. the MENA region). Future studies could explore which value-adding practices produce the greatest impact on PC value and under which conditions. This thesis has indicated that VCs play an important role in providing value-adding support. It also, suggests that certain actors or entities outside the organizational boundaries (e.g. investors, mentors, experts, consultants, or service providers) provide value-adding support to PCs. However, it has not been explored in detail. Actors and entities may have different types of expertise or connections that could enhance the company value. Hence, further research could investigate how different players or entities add value, and the subsequent impact on venture value. It would also be interesting to understand how the whole range of external players or entities adds value to the PCs.

Driven by the COVID-19 pandemic, a future study could explore how the pandemic distributes VC activity, and more specifically, the way VCs add value to their PCs. It would be interesting to explore whether VCs are adapting their normal approach of adding value in response to the pandemic and whether their allocation of time and resources across PCs has required change.

To conclude, this thesis sought to provide a fuller picture of VCs value-adding phenomenon. In particular, it has contributed to our understanding that VCs value adding only makes sense
in the specific context in which practices are conducted. When we say that all VCs add value, that tells us nothing about the diversity across VCs. In addition, this study has showed that value adding is connected (or forms a net) with other people, other practices and other entities or organizations and is manifested in many other things. This takes us back to wherein I argue for the need to develop a holist understanding of VCs value adding. This will continue to be necessary as its contexts, activities and relationships continue to change and grow, as do the markets and, most importantly, the visions of successive generations of VC founders, investors and entrepreneurs.
REFERENCES


272


MAGNiTT, 2019. *2019 MENA venture investment summary* Dubai: MAGNiTT.


APPENDIX

Appendix 1: Research on Value Adding in Venture Capital

Research on Value Adding in Venture Capital

Although the dominant assumption of the venture capital (VC) literature is that VC involvement adds value to portfolio companies, a review of this literature reveals that studies to date have treated VCs’ value-adding role as a “black box” (Manigart and Wright, 2013). Generally, the literature provides no understanding of how value is added, instead focusing on explaining the causes and consequences of VC involvement (e.g. Bottazzi et al., 2008; Knockaert and Vanacker, 2013). Furthermore, it does not show how VCs undertake these roles in practice, but merely focuses on the nature of the roles (e.g. Sapienza et al., 1996).

Therefore, instead of seeking the determinants and consequences of adding value, this research project will investigate the meanings of VCs’ actions (i.e. practices). A practice lens will be adopted in conjunction with a case study to determine what VCs actually do in practice to add value to their portfolio companies in the empirical context of VC firms. Therefore, the aim of the research project is to examine empirically the process of VC involvement in the post-investment phase using a practice-based approach, i.e. identify VCs’ value adding practices within their organizational and institutional contexts and explore how value is actually added in VC firms.

By adopting this approach, this study overcomes the limitations of the individualist approach commonly used in this research stream and offers a rich methodology that not only acknowledges individual actions but also accommodates that which arises outside and goes beyond these actions, i.e. the wider social context. A cross-sectional single case study design based primarily on qualitative data, especially interviews, is chosen for the research project. The study’s findings are expected to contribute to the entrepreneurship-as-practice field by extending practice theory to the VC context, and to contribute to the growing literature on VCs in the post-investment stage by investigating everyday value-adding activities, i.e. in the wider social context.

The research team

This project is contacted by team of trained entrepreneurship research from the University of Bath, School of Management. Mainly responsible for this research project is Norah Almubarak, a Doctoral researcher, who has worked in academia before starting her PhD in 2015. She will be supported by senior academics of the University of Bath -Prof. Dimo Dimov (Professor of Innovation and Entrepreneurship) and Dr. Sergio Costa (Lecturer in Entrepreneurship). Both have extensive experience in conducting research in the entrepreneurship context.

How the research will be conducted?

The research would involve semi-structured participant interviews of about 1 hour each with members of the VC firm. In addition, other types of interaction with the members of the VC firm and some observations will be conducted to ensure a comprehensive investigation of the topic. The methods used will be flexible, based on the participants’ responses in interview (Creswell, 2014).

How the project is funded?

Saudi Arabian Cultural Bureau in London are funding this research.

If you would like further information about this study please contact:
Norah Almubarak Email: NA464@bath.ac.uk
Research Title: “Value Adding in Venture Capital: A Practice-Based Perspective”

1. Confidentiality and anonymity
Any data the researcher extracts from this project for use in reports or published findings will not, under any circumstance, contain names or reveal the identity of the firm or participants. If direct quotations are presented, the identity of the participant will be anonymised.

2. Data collection
All interviews will be audio recorded and transcribed. In the written transcript, the research participant as well as all other densities (people, places, firms) will be anonymised. If the research participant requests it, he/she will be supplied with a copy of his or her own interview transcript so that he/she can comment on and edit it as he/she sees fit.

3. Data storage and analysis
The research team will hold all interview transcripts confidentially with no access provided to third parties unless required by law. All identifying data (e.g. participant name, firm name and contact details) will be stored in a separate spreadsheet, which will be used to generate a participant ID for each participant. This ID will contain the anonymised name of the firm, the participant’s gender and numerical identifier in this category. Only the unique participant ID will be used in data storage, analysis and coding.

4. Presentation of data findings
   a) Presentations to firms
The firm will receive a written summary and a presentation of the findings. The summary and presentation will not, under any circumstance, contain names or reveal the identity of the firm or participants. If direct quotations are presented, the identity of the participant will be anonymised.
   b) PhD thesis
Any data that the researcher extracts from this project for use in her PhD thesis will not, under any circumstance, contain names or reveal the identity of the firms or participants. If direct quotations are presented, the identity of the participant will be anonymised.
   c) Publications
Any data that the researcher extracts from this project for use in reports or published findings will not, under any circumstance, contain names or reveal the identity of the firm or participants. If direct quotations are presented, the identity of the participant will be anonymised.

5. Consent form
All research participants will be asked to fill in and sign a consent form declaring their willingness to participate in the research project. The consent will contain the same guidelines as stated in this document including the possibility to withdraw consent at any time by contacting the researcher.

If you would like further information about this study please contact:
Norah Almubarak  Email: NA464@bath.ac.uk
# Appendix 2: Interview Guide for VCs Interviews

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<th>Question Category</th>
<th>Interview Questions</th>
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| **Opening Questions** | • Could you please tell me about yourself, your personal background, education, work experience, and your length of employment in this VC firm?  
• How did you become a venture capitalist?  
• What is the role of your VCF? And what is your role?  
• In your opinion, what is the role of VC? Dose VC have different roles and procedures?  
• Since the concept of VC is new in the region, could you tell me how you manage the VCF?  
• While entrepreneurs are concerned about the value of their PCs, what is your concerns and aims? |
| | • What do you do in a typical day?  
• What forms of assistance do you give your PCs?  
• Can you describe what is involved in… ? And what tools you use in… ?  
• Do you have different strategies/ activity for different PCs?  
• How do you know what form of assistant will work/ won’t work?  
• From your point of view, what are the most important activities of VCs?  
• Did you apply any of your knowledge/education to your work?  
• How do you see your broader role in the MENA Ecosystem?  
• What are the unique characteristics of Middle Eastern entrepreneurs? |
| **Venture Value** | • How do you know when to exit a PCs?  
• What does value add mean?  
• How does the value adding activity affect the companies’ value?  
• How does your relationship with PCs help or affect the venture value? |
| **Closing Questions** | • Do you have anything to add?  
• May I contact you if I have any further questions? |
## Appendix 3: Data Source and Use in the Analysis

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1. Fundraising practice  
2. Originating practice  
3. Pre-investment practice  
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6. Value adding at firm level  
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8. Material arrangements  
9. Rule  
10. Understanding  
11. Teleoffective structure  
12. Value  
13. Context
## Appendix 4: Interview Guide for PC Founder or CEO Interviews

<table>
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<tr>
<th>Question Category</th>
<th>Interview Questions</th>
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| **Opening Questions** | • Could you please tell me about yourself, your personal background, education and work experience?  
• How do VCs add value to your company?  
• Do VCs follow a daily routine with your company?  
• What does venture value mean?  
• What are the forms of assistance VCs give to your company?  
• What are the most effective forms of assistance? And what are the least effective?  
• Is VC intervention valuable to your company? And how? |
| **Closing Questions** | • Do you have anything to add?  
• May I contact you if I have any further questions? |
Appendix 5: Screenshot of Horizon Venture’s Investment Process

**INVESTMENT PROCESS: 3-4 MONTH PROCESS**

Pre-investment activities

Source: Horizon Venture PPM Document (p. 31).
Appendix 6: Horizon Venture’s Criteria Checklist

Criteria Checklist

☐ Stage: fits our investment strategy
  ☐ For Seed: product launched and has significant traction in the market

☐ Team: Founders must be full time and fully dedicated to the company

☐ Founders equity: how much equity do the founders have – are they getting too diluted?

☐ Geography: MENA Region and Turkey is our focus
  ☐ We review companies in Pakistan and Sub Saharan Africa also

☐ Industry: Digital Tech – sector agnostic

☐ Market size: Make sure space is not too crowded and market is large enough in the region

☐ No conflict of interest with portfolio companies
  ☐ Take all the information

☐ Valuation: reasonable valuation depending on the stage and performance of the company

☐ Any red flags in the business: could vary from dispute between co-founders to very low margins to a high valuation.

Source: Horizon Venture’s Screening Checklist Document.
Appendix 7: Horizon Venture’s Extended Screening Memo

Extended Screening Template:

1. Overview:
   A. Business Summary:
   B. Location:
   C. Pros of the Investment/Reasons to Invest:
   D. Cons/Key risks:

2. Product

3. Market
   A. Market Value:
   B. Competition:

4. Team
   • CEO:
   • Co-founder / co-inventor:
   • Co-founder / Co-inventor / Chairman:
   • Co-founder:

5. Traction (financial)
   A. Revenue
   B. Burn rate

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<tr>
<th></th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Q4 2016</th>
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<tr>
<td>Burn (COGS &amp; SG&amp;A)</td>
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<tr>
<td>As % of Revenue</td>
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6. Traction (non-financial)
7. Funding requirements & Valuation
   A. History
   B. Current Round

C. Summarized Financials

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<th>2015 FTE Actual</th>
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<th>Q3 2016</th>
<th>Q4 2016</th>
<th>2016 Totals</th>
<th>FTE 2017 Projection</th>
<th>Dec 2017 Profit Burn Rate</th>
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<tr>
<td>Gross Profit</td>
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<td>Total SG&amp;A</td>
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<td>Net Profit/(Loss)</td>
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</table>

Source: Horizon Venture’s Extended Screening Memo Template.
Appendix 8: Screenshot of Horizon Venture’s Due Diligence List

Due Diligence List
Operational Entities

Definitions
Terms used in this Legal Due Diligence Request List:
Accounts Date = date of the latest annual audited accounts
Business = business carried out by the Company
Affiliate = any entity by which the Company is controlled or which is controlled by the Company, or any company which is controlled by any other Affiliate of the Company

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<thead>
<tr>
<th>1.1 Company Business</th>
<th>Not applicable</th>
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<tbody>
<tr>
<td>1.1.1 Internal Organizational Chart</td>
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<tr>
<td>1.1.2 List of Company name, authorized and paid share capital amounts and registered offices/main places of business (indicate if any Company is dormant or in a dissolution/liquidation process)</td>
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</tr>
<tr>
<td>1.1.3 List of branches and places of business where Company are located</td>
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</tr>
<tr>
<td>1.1.4 List of the Company’s shareholding interests or other investments in equity of other companies, partnerships or entities</td>
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<tr>
<td>1.1.5 Description of the activities of each Business within the Company</td>
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</tr>
<tr>
<td>1.1.6 Copies of all documents relating to changes in the corporate structure of the Company</td>
<td>—</td>
</tr>
<tr>
<td>1.1.7 Copies of all deeds of incorporation, constitutional documents and articles of association/by-laws of the Company</td>
<td>—</td>
</tr>
<tr>
<td>1.1.8 Copies of up to date excerpts of the commercial/company register and filings with the commercial/company registry for the Company</td>
<td>—</td>
</tr>
<tr>
<td>1.1.9 Details in relation to the Company of any steps taken in any jurisdiction in respect of:</td>
<td>—</td>
</tr>
<tr>
<td>(i) any compromise or arrangement with creditors;</td>
<td>—</td>
</tr>
<tr>
<td>(ii) the appointment of a receiver or other enforcement of security over any property; or</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: Horizon Venture’s Due Diligence Checklist (p. 1).
Appendix 9: Horizon Venture’s Evaluation Report Table of Content

OPERATIONAL DILIGENCE REPORT
TABLE OF CONTENTS

SECTION (I): EXECUTIVE SUMMARY

Section (II): INVESTMENT RATIONALE
A. Introduction to the Business
B. The Market Opportunity
C. Fundraising Background
D. Co-Founders and Team
E. Operational Model
F. Traction and Year-to-date Financials
G. Other Models and Case Studies

SECTION (III): CAP TABLE AND VALUATION

SECTION (IV): COMPETITION

SECTION (IV): RISKS AND MITIGATION

SECTION (V): EXIT

Appendix References
Appendix 10: Horizon Venture’ Legal DD Report Table of Content

LEGAL DUE DILIGENCE REPORT
TABLE OF CONTENT

SECTION (I): CORPORATE ORGANIZATION
A. History
B. Incorporation, Share Capital and Prior Rounds
C. Subsidiaries
D. Management of the Company
E. Financial Matters
F. Acquisitions

SECTION (II): TAX MATTERS

SECTION (III): CONTRACTUAL OBLIGATIONS
A. Service Agreements
B. Financial Agreements
C. Other Agreements

SECTION (IV): INSURANCE

SECTION (V): INTELLECTUAL PROPERTY & INFORMATION TECHNOLOGY
A. Trademarks, Patents and Trade Secrets
B. Domain Names
C. Information Technology Matters

SECTION (VI): FACILITIES AND PROPERTIES

SECTION (VII): HUMAN RESOURCES
A. Employees’ Status
B. Key Employees
C. Policies & Procedures Manuals
D. Payroll Records
E. Bonus and Allowances Scheme
F. Health Insurance Coverage
G. Health and Safety Rules

SECTION (VIII): LITIGATION

SECTION (IX): REGULATORY FRAMEWORK
A. Licensing

SECTION (X): ENVIRONMENTAL MATTERS
A. Regulatory Structure
B. Environmental Approvals and Permits
C. Other Environmental Matters

Source: Horizon Venture’s Outline of Legal DD Report.
Appendix 11: Horizon Venture PC’s Monthly Report Template

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<td>Revenue</td>
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<tr>
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<td>Cash at bank</td>
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Operational updates

KPI

Please send us your suggested non-financial KPI’s

Other Updates:
Appendix 12: ILPA Portfolio Company Update

ILPA BEST PRACTICES

Portfolio Update and Supplemental Schedules

Portfolio Company Update

Portfolio Company 3

<table>
<thead>
<tr>
<th>Investment Date</th>
<th>Fund Ownership %</th>
<th>EV at Closing</th>
<th>Management Ownership %</th>
<th>Ticker Symbol</th>
<th>Source</th>
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<tr>
<td>9/17/2007</td>
<td>12%</td>
<td>60.0%</td>
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<td>(2011b, p.31)</td>
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<td>Industry</td>
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<tr>
<td>Management</td>
<td></td>
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</tr>
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</table>

INVESTMENT BACKGROUND

Company 3, located in Brooklyn, NY, is a top eldercare referral services company that provides more-ten for the senior housing industry. Founded in 1992, the company offers personalized information to eligible facility operators to tens of thousands of families each month. To do so, Company 3 generates leads primarily from online marketing sources and converts them to move-ins through its nationwide network of 750 eldercare advisors.

On September 15, 2007, RP led a consortium, which completed the acquisition of Company 3 for a total enterprise consideration of $60 million excluding third-party transaction fees. RP II invested $5 million for a 12% equity stake in a transaction that included $15 million of debt. In October 2009, RP II provided $10 million of debt as part of a restructuring, following a covenant breach.

INVESTMENT THESIS / EXPECTATIONS

- **Steady Growth:** Organic revenue growth of 6.5% for the five years prior to RP II’s investment versus 3% for the industry.
- **Fragmented industry presents opportunity for scalable, bulk-acquisition opportunities at accretive multiples.
- **Management:** New CEO started on November 1, 2016, and has implemented a 180-day plan including a new budget process.
- **Sales Growth:** Signed a new five-year contract with major eldercare facility which will drive sales growth in 2017.

INVESTMENT STRUCTURE

<table>
<thead>
<tr>
<th>Investment Structure</th>
<th>Units/Pct</th>
<th>Fund Ownership Value</th>
<th>Fund Proceeds</th>
<th>Capitalization</th>
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<th>Coupon</th>
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<td>2,800,000</td>
<td>2,800,000</td>
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<td>Series B Preferred</td>
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<tr>
<td>Total</td>
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<td>4,000,000</td>
<td>4,000,000</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

FINANCIAL RESULTS

| Date             | As Closing | 12/31/09 | 12/31/08 | 12/31/07 | 12/31/10 | | Above Plan |
|------------------|------------|----------|----------|----------|----------| | | |
| Revenue          | 52,000,000 | 50,000,000| 49,000,000| 48,000,000| 48,000,000| 52,000,000| 42,000,000| |
| EV/EBITDA        | 6.300,000  | 4,900,000 | 4,760,000 | 4,520,000 | 3,950,000 | 6,090,000 | 6,090,000 | 6,090,000 |
| EBITDA Marg      | 7%         | 5%       | 4%       | 4%       | 4%       | 7%        | 5%       | 7% |
| EBITDA Margin    | 4%         | 8%       | 8%       | 8%       | 8%       | 4%        | 8%       | 8% |
| Valuation Multiple | 4x       | 5x       | 6x       | 7x       | 8x       | 9x        | 10x      | 11x |
| Total Revenue    | 11,000,000 | 18,000,000| 18,710,000| 17,310,000| 15,310,000| 13,310,000| 13,310,000| 13,310,000 |
| Total Leverage    | 2.5x       | 2.9x     | 3.5x     | 5.5x     | 7.5x     | 9.5x      | 11.5x    | 13.5x |


Valuation Methodology

To value out-interest in Company 3, we aligned Company 3 to a multiple of EBITDA basis and a discounted cash flow approach. For the multiple of EBITDA approach, we used an 8% multiple on 2.37% EBITDA as of YE 2006. We kept Company A’s multiple flat to last quarter as a result of the wide range and inter-quarter volatility valuation multiples for the med tech companies. To determine the discount rate, we calculated the WACC using the industry comparables as guidelines. Using the discount rate of 15% and with val multiples ranging from 7.5 to 8.5x, we calculated a risk equity value in the range of $126.8 million to $154.6 million. This analysis implies a mid-point value of $128.4 million or $77.6 million in equity value for the Fund. Evaluating Company A using these two methodologies implied a valuation range of $12.9 million to $77.6 million for the Fund’s interest in Company A. Given this analysis, the increase in multiple and positive EBITDA trend in the business, we believe it is appropriate to value Company A at $42.3 million or 58% of cost.

Risk Assessment/Due Diligence

Given the declining amount of eldercare referrals in our target region coupled with rising online marketing prices, the company’s covenant headroom remains tight and will be an area of significant focus over the coming months.

Version 1.0 – Released October 2011

31
Appendix 13: Horizon Venture’s LP Report

<table>
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<th>Investment Date:</th>
<th>Fund Ownership %:</th>
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<td>Board Representation:</td>
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<td>Current total equity</td>
<td>Board Members:</td>
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### INVESTMENT BACKGROUND

### INVESTMENT THESIS / EXPECTATIONS

### RECENT EVENTS & KEY INITIATIVES

### INVESTMENT STRUCTURE

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<th>Series A Round</th>
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### FINANCIAL RESULTS

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<td>Gross margin(%)</td>
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### Value Creation Update

### RISK ASSESSMENT/UPDATE

Source: Horizon Venture’s LP Report Templet.
Appendix 14: Horizon Venture’s IFC Portfolio Report

Source: Horizon Venture’s IFC Portfolio Report Templet.