

EUROPEAN BUSINESS UNIVERSITY OF LUXEMBOURG

EXPLORING POSITIVE ILLUSION IN VENTURE CAPITAL INVESTMENT  
DECISION-MAKING IN THE UAE

By

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## Abstract

This qualitative research focuses on the complexity of the decision-making process of professional venture capital investors in the United Arab Emirates. The research aimed to study the potential influence of self-enhancement, understood as positive illusion, on the venture capital decision-making process.

It seemed useful to look at professional investment decision-making through the lens of positive illusions, as it adds new knowledge to the complex and under-explored area, especially considering the different dynamics faced by venture capitalists in this young, yet fast growing and globally impacted entrepreneurial ecosystem in the United Arab Emirates. From a social point of view, the relevance of this research is twofold. The insights benefit all stakeholders within the entrepreneurial ecosystem since venture capital investors act as smart money enablers and connectors between limited partners and founders. Beyond, it emphasizes on the complexity of decision-making and stresses on the requirement of educating the general public and all professionals alike.

Data collection was conducted via semi-structured and individual interviews with venture capital investors operating in the United Arab Emirates. This research is based on grounded theory as a method of analysis of the collected data, with the aim to deepen the object of the search beyond the simple descriptive analysis.

Foremost, the results provide a deeper understanding of the challenges faced by professional investors in this nascent entrepreneurial ecosystem in relation to investment decision-making, interactions and thought processes directed at various stakeholders. Secondly, the results emphasize on the relationship between individual susceptibility towards self-enhancing, positive illusion, the individual context each individual investor is in and the required dynamics in investment decision-making whilst operating in this nascent entrepreneurial ecosystem. Thirdly, the results also revealed mechanisms how investors suppress or even potentially eliminate positive illusion from influencing the decision-making process.

Finally, a model emerged from the data highlighting the interplay and relationship between the different forms of positive illusion and its potential influence on investment decision-making, detailing how ecosystem-relevant variables impact decision-making. The ending of this thesis consists of a conclusion with recommendations to professionals as well as suggestions for further avenues of research.

#### Keywords


Venture capital, decision-making, positive illusion, entrepreneurship

## DECLARATION

I Nicholas A. Böhnlein declare that

- (i) The research reported in this dissertation, except where otherwise indicated, is my original research.
- (ii) This dissertation has not been submitted for any degree or examination at any other university.
- (iii) This dissertation does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
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Signed:

N. Böhnlein  


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## **Introduction**

American Research and Development (ARD) was the first professional venture capital firm, established in 1946 by MIT President Karl Compton and Harvard professor General Georges F. Doriot (Gompers and Learner, 2001). Ever since, research surrounding the decision-making process of venture capitalists has undergone various approaches over the past almost fifty (50) years.

Academics from all around the globe employed a range of methodologies to create a comprehensible picture of the complex and dynamic thinking process behind investment-decisions. A few of these techniques were interviews and questionnaires to learn about decision-making factors (Poindexter, 1976; Tyebjee and Bruno, 1984; Gompers, Gornall, Kaplan and Strebulaev, 2020), questioning investors on their most recent investments (Fried and Hisrich, 1994), studying underperforming and outperforming investments (Schefczyk and Gerpott, 2001), or via conjoint analysis to demonstrate overconfidence and availability biases in early screening (Zacharakis and Shepherd, 2001).

Venture capitalists are essential to the entrepreneurial ecosystem, and their ability to translate capital into innovations by linking investors with entrepreneurs garners a great deal of interest and buzz across all types of stakeholders connected to this ecosystem (Kaplan and Learner, 2016). A venture capital investment is seen as a sign of approval for a business concept or vision, and it attracts a great deal of interest and intrigue towards the privileged and chosen few start-ups that reach this milestone. Despite its prominence, the industry is very secretive regarding investment procedures, details, terms, aspirations, and failures. Discussions between individual stakeholders remain tightly knitted behind closed doors resulting in some areas of venture capitalism to remain under-researched (Banal-Estañol et al., 2019).

In parallel to the repository of venture capital literature, research in cognitive psychology and applied psychology revealed insights into human decision-making processes including a phenomenon known as positive illusion (Brickman, Coates and Janoff-Bulman, 1978; Langer, 1975; Greenwald, 1980; Taylor and Brown, 1988). Research about the consequences of positive illusion and their adaptability falls on both sides of the spectrum. However, researchers studying positive illusions across

different fields highlight the need for more empirical evidence. (Robins and Beer, 2001; Fenton-O'Creevy, Nicholson, Soane and Willman, 2003; Makridakis and Moleskis, 2015).

According to research, just like other decision-making processes associated with human behaviors, venture capital investment decisions are very complicated. They rely on the individual setting as well as diverse influences from situational events, experiences, or personality qualities that have quantifiable effects on these processes. Researchers also underline the need for more studies to fully understand the reach of this specific type of decision-making (Sandberg et al., 1989).

Researching the intricate venture capital investment decision-making process and the possible effect of positive illusion is consistent with the previously mentioned needs for interdisciplinary academic research (Sandberg, Schweiger and Hofer, 1989). Common results (e.g., Makridakis and Moleskis, 2015; Fenton-O'Creevy et al., 2003) underline the need to adopt additional measures to educate the general public and not only academics about the disadvantages of positive illusion, while investigating its possible advantages as interdisciplinary studies are necessary to get a deeper understanding of the intricacy of positive illusion, its many forms, and, most importantly, its influence in various circumstances. Therefore, in this study, an explorative synthesis was conducted to investigate the possible relationship between the influence of all forms of positive illusion on the venture capital investment criteria (Gompers et al., 2020).

## Table of Key Points

### Research Objective

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*To explore the phenomenon of positive illusion on venture capital investment-decision making.*

### Specific Research Objectives

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- a) To investigate the impact of control illusion on investment decision-making during the pre-investment phase.
  - i. How do the situational factors linked to the illusion of control affect the venture capital investment decision-making criteria?
  - ii. How does the illusion of control affect decision-making when there is a surplus of information available about the venture?
  - iii. How does control illusion affect the decision-making of investments in projects similar to those that have previously failed or resulted in less success than anticipated?
  
- b) To investigate the impacts of unrealistic optimism and illusionary superiority on the decision-making process during the pre-investment phase.
  - i. How do unrealistic optimism and illusionary superiority influence judgment on the decision-making criteria for conducting an investment?
  - ii. How do unrealistic optimism and illusionary superiority influence the respective hierarchies between the venture capitalist and the entrepreneur?
  - iii. How do unrealistic optimism and illusionary superiority over-stimulate investment decision-making?

### Theoretical Framework Elements

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**Positive Illusion:** Taylor, S. E., & Brown, J. D. (1988).

Illusion and well-being: a social psychological perspective on mental health. *Psychological bulletin*, 103(2), 193.

**Situational Factors:** Fenton-O'Creevy, M., Nicholson, N., Soane, E., & Willman, P. (2003). Trading on illusions: Unrealistic perceptions of control and trading performance. *Journal of occupational and organizational psychology*, 76(1), 53-68.

**Investment Decision-Making Factors:** Gompers, P. A., Gornall, W., Kaplan, S. N., & Strebulaev, I. A. (2020). How do venture capitalists make decisions? *Journal of Financial Economics*, 135(1), 169-190.

### Conceptual Framework Elements

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**UAE 2021 Vision:** Home - UAE Vision 2021. (n.d.). Retrieved May 21, 2020, from <https://www.vision2021.ae/en>

### Methodological Elements

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- i) Interviews
- ii) Literature review

## **Part 1: The Problem**

### **1.1 Formulation of a research perspective: Exploratory**

In the words of Georges Doriot, the father of venture capital and the founder of the first modern venture capital firm called American Research and Development Corporation:

*“Always invest in a Grade-A man with a Grade-B idea. Never invest in a Grade-B man with a Grade-A idea”*

Throughout the history of professional funding, it is known that venture capitalists face a plethora of information when having to make an investment decision. The process is difficult (Ismail and Medhat, 2019), time-consuming, labor-intensive, and carries serious adverse selection risks (Fried and Hisrich, 1994). Venture capitalists place investments with entrepreneurs, which in return work towards multiplying the funds over the course of a couple of months or years. Once a venture capitalist has completed the process of placing an investment, the choice is irreversible, with little chance of quitting the funded firm. Understanding the framework for how venture capitalists make investment choices leads to the conclusion that it is essential to have a deeper understanding of the investing process (Ibid.).

Sørensen and Stuart (2001) highlight that venture capitalists vary from each other due to the application of different investment criteria during the screening process of the pre-investment phase or, more specifically, the "investment decision-making process". These criteria include but are not limited to: Stage of development of the venture, geographical location, and investment size. Furthermore, Zacharakis and Shepherd (2007) state that venture capitalists may specialize in specific industries and, therefore, the criteria can vary greatly, elaborating that the stage of investment seeking ventures may vary and require different sets of evaluation criteria. The researchers further explain that nascent ventures tend to be evaluated by their management team qualities, whereas more mature companies tend to be evaluated based on what the founding team has achieved so far with the business.

Considering the broad consistency of the mentioned set of criteria, Zacharakis and Meyer (2000) found venture capitalists to be rather inconsistent when applying their own decision-making criteria. The researchers highlight that venture capitalists treat every investment as a unique opportunity, associating existing knowledge from previous experiences with the investment opportunity in front of them. This connection causes low intra-judge reliability as certain memories or factors linked to a past decision cause the venture capitalists to focus more on certain aspects than on others, causing a potential bias in the decision process.

In line with the research of Zacharakis and Meyer (2000), are the findings of Barr, Stimpert and Huff (1992). The researchers state that venture capitalists perceive and treat potential investments differently. The underlying drivers of low inter-judge reliability (education, various demographic factors, and experiences) vary from individual to individual causing a different perception. According to Johnson- Laird (1989):

*“We seem to perceive the world directly, not a representation of it. Yet this phenomenology is illusory: what we perceive depends on what is in our heads - on what evolution has wired into our nervous systems and what we know as a result of experience. The limits of our models are the limits of our world (1989:470–471). The fact that each individual perceives the world differently leads to different decisions. Therefore, consistency between decision makers within the same domain may be affected; low inter-judge reliability.”*

Moreover, the venture capital decision-making process has been identified by Wallmeroth, Wirtz, and Groh (2017) as a part of the economic functions of the financial mechanism model as seen in Figure one (1) below. In addition, over the course of the last fifty (50) years, various methodologies, models, theories, and findings surrounding and building on the decision-making criteria mentioned by several prominent researchers in this field have emerged (Wells, 1974; Tybjee and Bruno, 1984; MacMillan, Siegel and Narasimha, 1985; Kaplan and Strömberg, 2000; Kaplan and Strömberg, 2001; Zacharakis and Shepherd, 2007; Gompers et al., 2020).

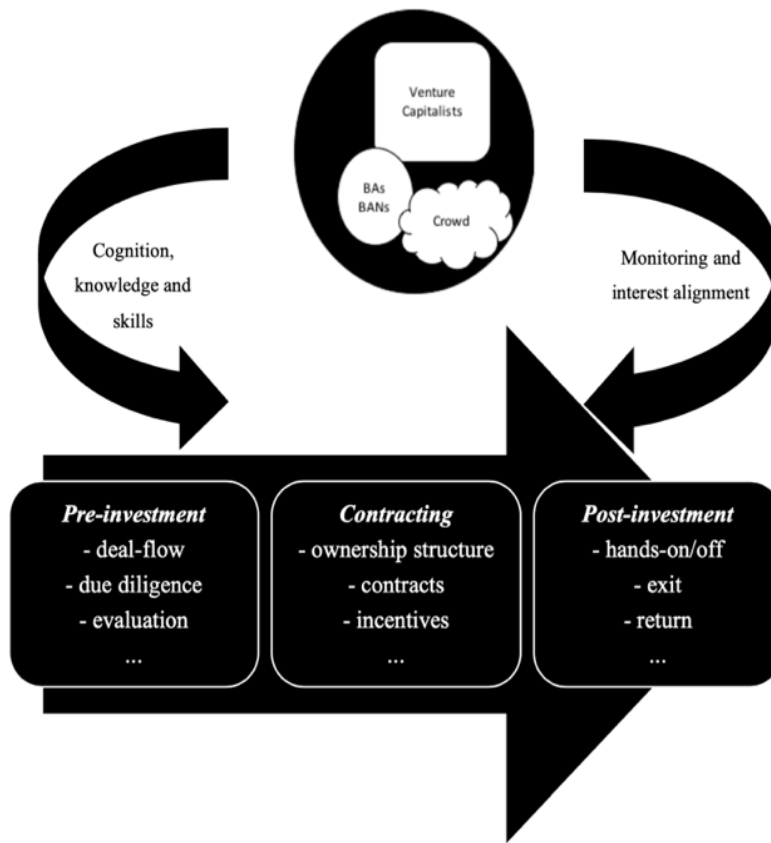


FIGURE 1: ECONOMIC FUNCTIONS OF THE FINANCIAL MECHANISMS (WALLMEROOTH, WIRTZ AND GROH, 2017)

Wallmeroth et al. (2017) grouped the functions alongside the standard investment path of an entrepreneurial venture identified by Bonnet and Wirtz (2012). The process starts with the evaluation procedure (deal generation and selection) and ends with exiting a deal.

As investment decision-making represents just one (1) part of the entire investment mechanism, Kaplan and Strömberg (2001) emphasize in their study on the importance of the pre-investment phase, where decision-making, also called deal-selecting, falls under. The researchers highlight the position of deal-selection along the lines of the venture capital business mechanism by Gompers and Lerner (2001), who describe this mechanism as the "venture capital cycle." The cycle starts with raising a venture fund, conducting investments, adding value to portfolio companies, monitoring the performance of investments, and ends with successfully exiting deals, returning the raised capital, including a profit, back to the limited partners of the fund.



However, Gompers et al. (2020) express the lack of understanding of how the venture capital decision mechanism really works, regardless of the conducted empirical research over the past years. The researchers further emphasize on the existing gap in the literature. Alemany and Villanueva (2014) highlight that even though there is an extensive literature surrounding venture capital investment decision-making, it remains an under-theorized area of research. Furthermore, the available insights on the decision-making criteria are inconclusive and it is hard to determine if they substantially impact the growth path, as "success variables" of ventures, or not.

Furthermore, Gompers et al. (2020) emphasize that empirical evidence indicates that venture capitalists have different views on selecting potential investments, whereas some tend to focus more on the team (the jockey), others focus more on the business (the horse). Their study surveyed 681 venture capital firms about investment decision-making and found that the team is classified amongst the important factors and, subsequently, also the most important factor for venture capitalists. These findings support MacMillan, Siegel and Narasimha (1985), the pioneers of the horse race (market), odds (financial criteria), or the horse (product) theory, where the jockey's (entrepreneur's) experience and personality proved to be the most critical variables for venture capitalists when considering an investment.

Expanding further on the team criteria, a study by Gompers, Mukharlyamov and Xuan (2016) found that the commitment and quality of the management team are of the highest importance during the venture capital evaluation process and are more critical to the venture's success than criteria surrounding the business or even the market. Like MacMillan, Siegel and Naramsimha (1985), an array of researchers concluded that certain entrepreneurial characteristics are highly valued by venture capitalists, rotating along the lines of previous entrepreneurial success, experience, enthusiasm, skills, and personality (Gompers, Kovner, Lerner and Scharfstein, 2010; Zhang, 2007; Silva, 2004).

### **1.1.1 Explanation**

Despite the growing trend of studies evolving around decision-making criteria, over the years, some researchers have disagreed with the methodological approach of

collecting venture capitalist insights via questionnaires. In the field, criteria-based data collection was frequently applied by an array of researchers (ex: MacMillan et al., 1985; MacMillan, Zemann and Subbanarasimha, 1987). However, Gompers et al. (2020), augmented their study by adding 29 interviews to their questionnaire.

Petty and Gruber (2011) emphasize the importance of linking inconclusive evidence of the decision-making criteria variables on the venture's future performance to the development of new theories with, the intention of adding new variables to research, as these are missing in prior investigations. Sandberg, Schweiger, and Hofer (1989, pg.13) further state:

*“It is gradually becoming clear that human decision making cannot be understood by simply studying final decisions. The perceptual, emotional, and cognitive processes which ultimately lead to the choice of a decision alternative must also be studied if we want to gain an adequate understanding of human decision making.”*

This statement is supported by Zacharakis and Meyer (1998), highlighting that previous studies on the investment decision-making process have mainly used post-hoc methodologies, such as interviews and surveys, and are therefore assuming that venture capitalists are able to relate to their decisions in an unbiased manner. Their research includes a framework around cognitive psychology and a policy-capturing experiment, suggesting that individuals, especially experts, have poor self-examination skills regarding individual thoughts and feelings. The researchers conclude that investment decision-making is very consistent, even though venture capitalists may not understand the process. However, they found that if a certain amount of information is present and the venture capitalist feels confident, the focus shifts from the entrepreneur variable to the market variable. This is further supported by Hall and Hofer (1993) and Zacharakis and Meyer (1995).

Dowie and Elstein (1988) and Oskamp (1982) found that the availability of more information does not significantly change the accuracy of decision-making in experts and remains rather unchanged. Whereas Arkes (1981) emphasizes on the possibility that too much information could even lead to a decrease in accuracy of decision-making. Further supported by Brehmer and Brehmer (1988), highlighting that more

information does not improve the accuracy of venture capital decision-making, as experts use relatively few available cues during this process.

This is in line with the findings of Zacharakis and Meyer (2000), stating that more available information is not equal to a more informed investment decision. Venture capitalists tend to avoid extra information or not give it the required amount of attention, merely achieving an additional boost in confidence. Supplemented by Oskamp (1982), highlighting that experts draw confidence from more information during decision-making. On the contrary the findings of the jockey and horse theory mentioned by Wells (1974), Poindexter (1976), Tyebjee and Bruno (1984), MacMillan et al. (1985; 1987), Gompers et al. (2020), and many other researchers, applying post-hoc methodologies, focus on studying a more criteria-based decision-approach, highlighting that the entrepreneur or the team is the most important variable for investment decision making.

Furthermore, Zacharakis and Meyer (1998) state that their social judgement theory and the associated lens model act as a framework for their and earlier studies on investment-decision making. According to the researcher, prior studies on decision-making were not based on theoretical frameworks, which is acknowledged by Tyebjee and Bruno (1984), who mention the missing theory behind their research.

The study by Parhankangas and Hellström (2007) puts forward a different approach by examining the link between experience and risk reduction in relation to investment decision-making by venture capitalists. Risk perception of a potential investment is determined by the venture capitalist's experience and the researchers associate this kind of behavior with positive illusion (illusion of control and overconfidence) and risk speculation as commonly found in the field of entrepreneurship. In line with these behavioral findings is also the study of Fitza, Matusik and Mosakowsk (2009). Additionally, Parhankangas and Hellström (2007) highlight that venture capitalists seem to have related investment decision-making criteria and therefore equal chances of identifying high potential investment opportunities.

In line with the mentioned need for interdisciplinary studies, Sandberg et al. (1989) add that the venture capital investment decision-making process, like other decision-making processes, is linked to human behavior. Highly complex and involving more

variables, which need to be researched to understand the full spectrum of this specific type of decision making.

### *Venture capitalists vs. stock market traders*

Professional investing and trading of financial instruments occurs in different capacities and across various industries, whereas decision-making plays a key role and directly impacts success or failure. Professional stock traders access funds raised from external sources and act on behalf of investors, or sometimes on behalf of the fund or firm that employs them, investing the company's money (proprietary funds).

Regardless of the fund's origin, venture capitalists and stock market traders find themselves in a similar environment, having to make decisions and choices that involve risk, external or proprietary funds, control variables, market conditions and require the right judgement. According to Fenton-O'Creevy et al. (2003), these circumstances can result in the appearance of a common antecedent of control illusion (part of positive illusion), which is an overconfident success feeling in a situation that does not warrant such a probability.

The researchers further suggest that potential similarities between the decision-making behaviors of stock traders and those commonly found in the entrepreneurial ecosystem could exist. Supplemented by the findings of March and Shapira (1987), highlighting that executives researched in their study have shown tendencies to frequently downplay riskiness linked to decision-making, assuming they hold the power and foremost control over the outcomes.

In the occupational and organizational psychology literature, researchers defend two different sets of views about perceived control. Bandura's (1989) study on self-efficacy, Rodin and Salovey's (1989) study on locus of control and helplessness, and Thompson's (1981) study show that a person's effectiveness and psychosocial adjustment are linked to how much internal control they believe they have.

On the other hand, several researchers (Thompson, 1981; Thompson, Cheek and Graham, 1988; Burger, 1989; Whyte, Saks and Hooks, 1997) highlight the negative effects of high perceived control on an individual when control over a specific situation

is not possible. Whyte, Saks and Hook (1997) found that self-efficacy can also have a downside. Their empirical evidence shows that individuals with high levels of self-efficacy tend to overcommit to circumstances that are clearly doomed to fail.

Traders have a large variety of analytical tools to base their decisions on, yet these approaches are categorized as either fundamental or technical analysis (Albadvi, Chaharsooghi and Esfahanipour, 2007). According to Edwards, Magee and Bassetti (2001), analysts in favor of technical analysis for decision making believe the movement of stock prices can be predicted by identifying historical price swings using technical indicators and forecasting new price patterns and trends of individual stocks. Fundamental analysts, on the other hand, make investments based on financial statements, reports, and audits, calculating the intrinsic value of stocks, and predicting future price movements as a selection criterion (Alexander and Bailey, 1993).

On the flip side, Poindexter (1976) states that venture capital investments differ from equity markets and trading publicly listed companies. However, Cooper and Carleton (1979) emphasize on a study where twenty-nine (29) SBIC funds concluded a sixty-three percent (63%) higher rate of return than Standard & Poor's market index returns. This surplus is balanced by the augmented risk factor in the venture capital investment industry (Poindexter, 1976). Charles River Associates (1976), apply a different methodology in their study, yet reached the same conclusion. Both found that the venture capital investment market is efficient, as higher returns are counterbalanced by higher risks. These results indicate that even though the structure of the industries vary, there is seemingly a correlation between in the environments (risk and decision-making) in which the traders and investors find themselves in.

### **1.1.2 Research in the field of positive illusion**

#### ***Positive Illusion***

The term "positive illusion" appeared for the first time in a research paper by Taylor and Brown (1988). Positive illusion is linked to self-perception and is commonly regarded as an effect of self-enhancement (Leary, 2007). According to Robins and Beer (2001), the research literature on the consequences of positive illusion does not

conclude any positive or negative influences on self-belief and its adaptability. The researchers highlight the need for more empirical evidence.

Findings of Gosling, John, Craik and Robins (1998), John and Robins (1994) and Robins and John (1997a) demonstrate the link between positive illusions and narcissism. The researchers highlight that the features of narcissism illustrate potential long-term behavioral problems linked to psychological distress and dysfunction affecting individuals with exaggerated positive self-views. The findings of Paulhus (1998) suggest a probable positive impact of positive illusions on an individual in the short-term but argue the dysfunctionality and maladaptation over the course of a longer period (Colvin, Block and Funder, 1995).

Robins and Beer (2001) further suggest that self-enhancement can lead to a self-esteem boost by rejecting insights that may question an individual's self-worth. The researchers add that this habit could influence self-reporting throughout. This is also supported by Shedler, Mayman, and Manis (1993), who found that individuals drawn to a high degree of positive illusion may have the tendency to boost self-reports.

According to Robins and Beer (2001), the perspective on positive illusion by Taylor and Brown (1998) became entrenched in the literature. Taylor and Brown (1988, pg. 199) strongly advocate for positive illusion to be adaptive as a motivational tool, increasing persistence and quote:

*"Higher motivation, greater persistence, more effective performance and ultimately, greater success"*

Taylor and Brown (1988; 1994) proposed that positive illusions promote psychological well-being, supported by a National Institute of Mental Health report (1995, pg. 182) about behavioral science, which concluded that:

*"...considerable evidence suggests positive psychological benefits for people who believe their future will be rosier than they have any right to expect. Such optimism keeps people in a positive mood, motivates them to work toward future goals, fosters creative, productive work, and gives them a sense of being in control of their destiny"*

Taylor and Brown (1988) also state that researchers tend to name similar phenomena differently and that the term illusion is classified in a rather impulsive way rather than by reasoning. Nevertheless, the following three forms are directly linked to positive illusion throughout the literature.

### ***Unrealistic Optimism***

Brickman, Coates and Janoff-Bulman (1978) found that people believe the future will always be better than the past or the present. This is supported by the survey results of Gonzales and Zimbardo (1985), which showed fifty-seven percent (57%) of the participants confirmed to be focused on the present or future, thirty-three percent (33%) focused only on the future, nine percent (9%) focused on the present, and only one percent (1%) of all respondents focused on the past.

Taylor and Brown (1985), however, question the data availability and state that optimism towards the future is unrealistic. Individuals tend to believe that certain events like a handsome job remuneration or positive family growth will be more applicable to them than to other people, whereas the chances of misfortunate future events like car crashes (Robertson, 1977), experiencing a difficult job situation (Weinstein, 1980), or even falling sick (Perloff and Fetzer, 1986) apply more to other people than to themselves. Taylor and Brown (1988) conclude that this uttermost optimism about the future is rather illusionary than realistic.

### ***Unrealistically positive views of the self / Illusory superiority***

According to Greenwald (1980), illusionary positive self-perceptions occur when individuals look at themselves through a very positive lens. supported by Alicke (1985) and Brown (1986), highlighting that people tend to choose positive personality attributes to describe themselves rather than negative characteristics. Linked to seeing oneself as better than other individuals, negative character traits or attributes are recognized but disregarded under the simple thought of them not being important. From a rational point of view, Lewicki (1983) found that from a positive illusionary perspective, it is not feasible for individuals to justify that they are better than their peers. However, the positive illusionary nature of their self-reflection portrays a

completely different meaning and can be interpreted as a hint for the rather illusionary context.

### *Exaggerated perceptions of personal control / Illusion of control*

Illusion of Control is an area where according to Taylor and Brown (1985) people seem to face unrealistic beliefs about their impact on the environment, which however does not warrant the desired control. Langer (1975, pg. 313), a household name in the field of unrealistic perceived control, found that individuals tend to believe to have personal control over chance events and describes this phenomenon as:

*“An expectancy of a personal success probability inappropriately higher than the objective probability would warrant.”*

Langer (1975) conducted six (6) studies focused on gambling, showcasing how individuals believe they have the power over situations that are determined by luck. Furthermore, the researcher found that individuals felt overconfident and acted as if the outcome of the situation was determined by their skillset and prawn to success when skill cue variables such as familiarity, competition, choice, and involvement were introduced. In addition, Houghton, Simon, Aquino, and Goldberg (2000) found that the illusion of control has a direct influence on risk taking and risk perception. The researchers highlight that the greater the illusion of control is, the more risk seeking and the lower the risk perception is of an individual.

The theory of Langer (1975) was refined in 1982 by Rothbaum, Weisz and Snyder, breaking down the illusion of control theory into a model consisting of two individual processes called primary and secondary control strategies. The primary control strategy is when individuals try to adjust the external environment to fit their personal needs. If this adjustment is not attainable, the second control strategy kicks in, resulting in the attempt to "fit in the world" (Rothbaum, Weisz and Snyder, 1982, pg. 8). Since the nature of this model is based on a process, it is the individual determining the shift between the two strategies. Heckhausen and Schulz (1995) emphasize the mechanical precedence of the primary control strategy compared to the secondary strategy. Following this theory, if the adjustment of the external environment to oneself is not



possible, individuals fall back on the secondary strategy to safeguard their view to fit their personal needs.

Rothbaum, Weisz and Snyder (1982), Wannon (1990) and Zuckerman, Knee, Kieffer, Rawsthorne and Bruce (1996) support the prominent contrast between the primary and secondary control strategies. The researchers quote:

*“This suggests that while high realistic control beliefs may be adaptive, high unrealistic control beliefs will lead individuals to persist in primary control strategies when secondary control strategies would be more adaptive.”*

Fenton-O’Creevy et al. (2003), and Gollwitzer and Kinney (1989) found that the impact of control illusion may cause individuals to be unresponsive to any kind of feedback or learning as they tend to lean towards risk-taking. Secondly, imaginary control beliefs are not instrumental in decision-making but may motivate audacious endeavors. An example of illusional control on individuals found by Fleming and Darley (1986) and Langer (1975), highlights that when individuals are participating in a game of chance determined by dice, they tend to believe they have more power or control over the outcome of the situation when throwing the dices themselves, compared to a peer or another individual throwing the dices.

Moreover, the study of Miller and Ross (1975) shows that individuals tend to take too much credit for their involvement if the outcome of a certain situation is in their favor. This finding is supported by the larger literature. Crocker (1982) states that individuals tend to believe that they have an actual influence over a chance-determined situation, whereas the reality is the opposite.

### 1.1.3 Research questions

#### *Broad Objective*

Venture capital investment decision-making is a vehemently and continuously discussed topic in the literature. Over the past fifty (50) years, numerous researchers have investigated, theorized, and compared various methodological approaches, with findings falling on both sides of the spectrum. However, evolution of investment decision-making has experienced a gradual shift over time, maturing from interviews and surveys relying on accurate introspecting (ex. Tyebjee and Bruno, 1984), to real-time data capturing via verbal protocols (ex. Hall and Hofer, 1993; Sandberg et al., 1989) or also called "think out loud" incentives to conjoint analysis experiments (ex. Muzyka, Birley and Celux, 1996; Sheperd, 1999) and similar decision policy-capturing methodologies (Zacharakis and Meyer, 1998). The empirical research foundation of the investment decision-making process is built on lists of decision-making factors, applied by venture capitalists during the evaluation process of potential investments (ex. Tyebjee and Bruno, 1984; Gompers et al., 2020).

Amongst the first researchers investigating investment decision-making criteria were Tyebjee and Bruno (1984), classifying four (4) broad categories as decision-making factors: Management, competition, product feasibility, and market potential. Whereas MacMillan, Seigel and Subba Narasimha (1985) and MacMillan, Zeman and Subba Narasimha (1987) identified twenty-seven (27) criteria bundled into six (6) sub-categories, which were: The venture team, the entrepreneur's personality, experience, financial considerations, characteristics of the market, and characteristics of product / service.

Different approaches to determine the criteria, processes, variables, and psychological factors involved in the investment decision-making process by using different data collection techniques, methodologies, and experiments were applied during the venture capital decision-making research evolution. Whereas prior and current researchers, including the recent research by Gompers et al. (2020), are focusing primarily on the selection criteria used by venture capitalists, the question arises if venture capitalists are able to accurately describe, rely on, and explain their decision-making process without being emotionally biased.

Zacharakis and Meyer (1995) state that studies within the field of cognitive psychology indicate that experts in certain fields are weak at introspecting. Khan (1987) and MacMillan et al. (1987) highlight that venture capitalists, for example, use "compatibility" between themselves and entrepreneurs as a decision-making tool, which can lead to a deal or not. Therefore, decision-making is difficult to analyze in an objective format but equips the venture capitalist with a high degree of control at the initial screening stage. Even though the venture capital investment decision-making process varies between funds and is structured in a format to reduce the risk of adverse selection (Fried and Hisrich, 1994), the venture capitalist remains in control of the initial investment decision.

Each type of financial market, compared to the venture capital industry, has its own unique structures and features. However, from a professional context perspective, stock market traders and venture capitalists operate in similar stressful and hectic environments, requiring both to make judgment calls and decisions involving risk, control variables, monetary commitments and situational factors (Fenton-O'Creevy et al., 2003). Considering previous research (Ibid.) on control illusion influencing and impairing stock trader's decision-making process, the requirement for more empirical research on positive illusion, the psychological aspect as the underlying foundation in decision-making, and the similarities in the environments stock traders and venture capitalists operate in, leads to the proposal of the following broad objective:

*To explore the phenomenon of positive illusion on venture capital investment-decision making.*

### ***Specific Research Objectives***

The break-down of the pre-investment process by Gompers et al. (2020) and Kaplan and Strömberg (2001) creates the following three (3) sub-sections:

1. Deal sourcing / flow / generation
2. Deal Selection
3. Deal evaluation

Researcher's perspectives on the venture capital investment process vary greatly. Whereas Sørensen (2007) does not focus on the difference between deal sourcing and deal selection, the researcher does highlight the importance of combining the two (2) for the successful generation of potential investment opportunities. The decision-making process was also identified by Wallmeroth et al. (2017) as a part of their economic functions in Figure one (1), which breaks down the pre-investment process into three (3) independent sections. According to the researchers, this breakdown is not only applicable to the venture capital industry but also to business angels and crowdfunding platforms.

Moreover, some researchers consider certain investment criteria (Tyebjee and Bruno 1984; MacMillan et al., 1985, 1987; Gompers et al. 2020) or a set of investment screening theses or rationales (Strömberg, 2001; Kaplan and Strömberg, 2000) to be relevant for the investment decision-making process. These variables include but are not limited to: The team / entrepreneur / management / market / market size / opportunity / product / technology / customer adoption / strategy / competition / contract terms.

On the contrary, Sandberg, Schweiger and Hofer (1989) highlight that individual decision-making cannot only be understood by examining final decisions or investment criteria / theses for that matter. This is further supported by Zacharakis and Meyer (1995), referencing studies about the weak introspecting skills of experts.

Inspired by Sørensen's (2007) point of view on not differentiating between deal selection and deal sourcing as well as by the inputs of Sandberg, Schweiger and Hofer (1989) emphasizing a more complex scenario to understand final decisions, the following first specific objective is established:

*To investigate the impact of control illusion on investment decision-making during the pre-investment phase.*

The first research question linked to the first specific objective of investigating the impacts of control illusion on decision making is:

How do the situational factors linked to the illusion of control affect the venture capital investment decision-making criteria?

Investigated further is how the amount of information relates to control illusion, as Zacharakis and Meyer (2000) found that information overload makes it more difficult for a decision-maker to evaluate each piece of information individually and that too much information might affect other decision-making factors. Therefore, the second research question is:

How does the illusion of control affect decision-making when there is a surplus of information available about the venture?

The third research question is related to decision-making consistency. Brehmer and Brehmer (1988) highlight that decision-making varies over time. However, Zacharakis and Meyer (1999) emphasize that their findings showcase a relatively consistent decision-making process in the short term. This leads to the third research question:

How does control illusion affect the decision-making of investments in projects similar to those that have previously failed or resulted in less success than anticipated?

The second specific objective is linked to the impacts on decision making of the remaining two (2) forms of positive illusion: Unrealistic optimism and illusionary superiority. Therefore, the following second specific objective is established:

*To investigate the impacts of unrealistic optimism and illusionary superiority on the decision-making process during the pre-investment phase.*

The first research question is related to Miller and Ross's (1975) finding that strong antagonistic behaviors are linked to failed experiences:

How do unrealistic optimism and illusionary superiority influence judgment on the decision-making criteria for conducting an investment?

Based on the findings of Paulhus (1998) suggesting a probable positive impact of positive illusion on an individual in the short-term, but also emphasizes the long-term impact. Therefore, the second research question is:

How do unrealistic optimism and illusionary superiority influence the respective hierarchies between the venture capitalist and the entrepreneur?

The last research question is linked the decision-making criteria factors. Robins and Beer (2001) suggest a possible self-esteem boost via the combination of self-enhancement through the rejection of insights questioning an individual's self-worth. Therefore, the third research question is:

How do unrealistic optimism and illusionary superiority over-stimulate investment decision-making?

#### **1.1.4 The relevance of the research**

This study intends to synthesize the existing knowledge gathered from the entrepreneurial literature, focusing on the venture capital ecosystem with the field of social psychology. As highlighted by Sandberg, Schweiger and Hofer (1989, pg.13), the human decision-making process is very complex and requires deeper research and more insights to draw more concrete conclusions. In the big picture, combining the two academic fields could lead to useful results from both an individual and a combined perspective. Potentially uncovering new knowledge, especially since the need for more empirical research is emphasized by previous studies in both fields.

The relevance of this research could be further translated along the lines of the individual stakeholders of the venture capital ecosystem. According to Gompers et al. (2020), more insights of the investment decision-making process are required to expand the knowledge in this under-researched area. This may benefit professional investors and aspiring entrepreneurs.

Fenton-O'Creevy et al. (2003), and Makridakis and Moleskis (2015) state that there is an existing need of more knowledge around the impact of positive illusion on different

industries to raise awareness about the influence of illusions amongst individuals and professionals.

Moreover, the entrepreneurial ecosystem in the United Arab Emirates is remarkable, demonstrating a fascinating development. While it is nascent, it is expanding rapidly, gaining a lot of popularity internationally due to continuous social and economic advancements promoted by the government, which makes it a unique environment without much prior exposure to academic studies when compared to more mature entrepreneurial ecosystems like, for example, the United States of America. Therefore, the research might add new knowledge to this under-researched region, potentially beneficial to all the relevant stakeholders.

## **Part 2: Frameworks**

### **2.1 Conceptual framework**

The conceptual framework is built on the UAE Vision of 2021 (UAE Vision 2021, n.d.), launched in 2015 and initiated by H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the United Arab Emirates (UAE) and Ruler of Dubai. The Vision of 2021 supports the empirical and well-timed need for this research in the UAE's startup ecosystem.

Competitive knowledge is one of the six pillars comprising the vision, engulfing multiple government-driven platforms, programs, events, mentorships, and funding initiatives as the core of innovation in the government, general economy, and the startup ecosystem.

Building on the pillar of shared knowledge, this study showcases how the UAE's progressive government accelerates the growth of the nations and region's startup ecosystem. Referencing further two recent start-up success stories by Careem and Souq, and how government-driven initiatives, professional investors, and entrepreneurs are all equally important. H.H. Sheikh Mohammed Bin Rashid Al Maktoum stated in connection to the UAE Vision of 2021 (UAE Vision 2021, n.d.):

*“Innovation is not an option, but a necessity. It is not a culture but a work style, and governments and companies that do not innovate risk losing their competitiveness and fall behind.”*

#### **2.1.1 Innovation and knowledge**

The UAE is driven by innovation and knowledge, advocated by its strong leadership structure, providing various platforms for Emirati and foreign entrepreneurs through initiatives and strategies, fostering growth through national efforts and international partnerships. Innovation has been recognized as one of the pillars of the “United in Knowledge” of Vision 2021, which supports and emphasizes on UAE nationals to create a competitive, yet sustainable economy (Innovation-Official UAE Govt.



Website, n.d.). The purpose of striving after innovation is summarized by the UAE's official government website as (Ibid.):

*“Implementing a sustainable investment plan in the UAE's human capital, driving economic development away from the oil sector, enhancing the UAE's global competitiveness and introducing corporate methodologies and a culture for innovation”*

As a result of innovation, the rapid economic growth can be tracked by the UAE's improved ranking on the Global Innovation Index (GII). Since 2015, the country has jumped fourteen (14) places and ranks 33rd in 2021, maintaining its position as number one (1) amongst all the Arab countries (Innovation and Vision 2021, 2022). The 2021 Vision represents the core and is the central connector between the various steps and initiatives supporting, enabling, and pushing innovation and growth beyond borders in the quest of making the UAE one of the best countries in the world (Innovation-Official UAE Govt. Website, n.d.).

This research seems to have been conducted at the right time, as the entrepreneurial ecosystem is growing fast in line with the 2021 Vision. To supplement the balance between the extremely dynamic ecosystem compiled of state-driven initiatives, Emirati founders, international entrepreneurs, and lucrative investment opportunities, venture capitalists enable innovation and play a key role in the progressive ecosystem. Besides adding knowledge to the existing investment literature, this research sheds light on the dynamic balance between stakeholders operating in this fast-paced and innovative economy turning it into a breeding ground for ideas and entrepreneurship. This research, in tandem with the inherent need for knowledge around funding, investment processes and the way decisions are conducted, is of value for academics, entrepreneurs, decision-makers, and all stakeholders linked to the innovative entrepreneurial ecosystem in the UAE.

The UAE's 2021 Vision contains an array of steps, initiatives, events, platforms, and partnerships between government and private players. Whereas these platforms naturally foster entrepreneurship, a remarkable accelerator in this space is the Mohammed bin Rashid Centre for Government Innovation. Founded in 2014 by H.H. Sheikh Mohammed bin Rashid Al Maktoum with the aim of stimulating a culture of

innovation throughout the government sector to become one of the world's most innovative governments (UAE).

### **2.1.2 Initiatives and achievements**

Amongst the achievements of the Mohammed bin Rashid Centre for Government Innovation is the Innovation Diploma. An accredited and intense program conducted in partnership with renown institution such as the London Imperial College or the University of Cambridge. The combined aim is to equip the next generation of leaders in the UAE with the right tools. The program first commenced on the 26<sup>th</sup> of April 2015 (Public Sector Innovation Diploma – Mohammed bin Rashid Centre for Government Innovation, n.d.).

The Government Innovation Labs are another notable achievement. These Labs are interactive workshops to generate ideas tackling the challenges faced by government branches (Government Innovation Labs-Mohammed bin Rashid Centre for Government Innovation, n.d.). Amongst the same line is the Ibtikar Talks series, with the goal of aiding the national government with strong and dynamic transformation of its operating model. The focus lies on strengthening the relationship between the various government branches to accelerate innovation in the country's key economic sectors (Ibtikar Talks-Mohammed bin Rashid Centre for Government Innovation).

Through these government-driven initiatives, the UAE creates an environment that stimulates innovation. This is also mentioned by Lauria (2018), who highlights that most of the residents are from all around the world, which is a great accelerator towards innovation. Such a diverse portfolio of people sparks innovation. This is supported by a study conducted in the U.S. in 2016 and covered by Koh (2016), highlighting that more than 50% of all the billion dollars plus tech startups (including Tesla, Google, Facebook, and YouTube) have founders with an immigration background. Furthermore, Lauria (2018) interviewed Vinay Ramkumar, an investment analyst of the venture capital fund BECO Capital in Dubai. Mr. Ramkumar highlighted that consumer wealth is a big benefit for the region, as for example, the Dubai-based ride-hailing service Careem enjoys a higher average revenue per user in the region than Uber does in the United States of America.

### 2.1.3 Startup successes

Even though the UAE has seen startup successes with the acquisitions of Souq and Careem, the overall ecosystem in the MENA region is still nascent with enough space for growth. The VP of Corporate Development at Careem, Zach Finkelstein, explained that whereas the UAE leads in terms of infrastructure and regulations, other parts of the region require more development from a framework and regulatory perspective. An uneasy process is for example the lack of credit cards / digital payment methods and the strong focus on traditional means of cash payments (Ibid.).

Essa Al Zaabi of Dubai Chambers stated in “Startup Panorama: A Viewpoint on the UAE’s Entrepreneurial Landscape” (Startup Panorama, 2019) that:

*“The UAE’s strong focus on innovation and entrepreneurship has helped boost its appeal as an attractive startup hub. In fact, the country has positioned itself as a test bed for startups from around the world that bring with them cutting edge technologies and solutions. In recent years, we have seen closer cooperation between public and private sector stakeholders on innovation-focused initiatives. Within the UAE’s business community, startups are a major source of innovation as they are quick to identify market gaps and develop effective solutions and services to meet such demands.”*

As the UAE’s strong focus on innovation and entrepreneurship on a national and international level does not come cheap, this study aims at investigating the other side of the coin, focusing on how venture capital dynamics around decision-making in such a fast-paced environment work. The strategic \$600 million Souq-Amazon acquisition in 2017 and the \$3.1 billion acquisition of Careem by Uber in 2020 give the tech giants a foothold in the Middle Eastern market whilst creating traction for the startup and entrepreneurial ecosystem in the MENA region.

An interview by Al Arabiya English with Mudassir Sheikha, co-founder and CEO of Careem, and Uber CEO Dara Khosrowshahi, emphasizes on the fact that the Careem story leading to the acquisition by the tech giant Uber, creates a platform and inspires young entrepreneurs across the MENA region to create and join startups themselves (Staff, 2019).

This acquisition is extremely beneficial to the region's startup ecosystem because it attracts international attention, fosters new partnerships and syndicates among investors. Secondly, local investors profiting from the deal gain access to more liquidity, which can be re-funneled into the regional startup ecosystem. Thirdly, it demonstrates to entrepreneurs from all walks of life that there is great business potential in the region. Mudassir Sheikha commented during the interview (Staff, 2019):

*“I remember when we started six years ago, it was actually very difficult to convince young smart people to join startups. Everyone wanted to work at a multinational consulting company or a bank or some FMCG. Now, [Careem’s success story] will change the mindset completely where young people will either want to do startups or join startups. Most of [Careem’s] investors are from the region. They are actually making a decent return on their investments. A lot of this money that is being made will come back into the ecosystem. And many others that did not invest in the ecosystem will take notice and will start investing in the region as well.”*

The immense growth of Souq and Careem, which led to massive acquisitions, is a very positive sign for the MENA region and especially for the UAE business landscape. Furthermore, it seems like a sign of verification that the innovation-orientated ecosystem promoted by the UAE government bares fruits. From a strategic perspective, as Careem was originally a startup founded in Dubai in 2012, and as Souq is considered to be the largest e-commerce platform in the Middle East with its HQ situated in Dubai, the UAE is gaining traction as a startup accelerator whilst being, from a strategic perspective, a beneficial location for corporates. This further qualifies the UAE's venture capital investment field as an interesting and important ecosystem to research for this study, as the UAE’s innovative platform also enabled various venture capital funds and incubators to start growing.

An interview by Entrepreneur Middle East covering the journey of Michael Lahyani, the Founder and CEO of Dubai-based Propertyfinder Group, mentions the transition of the UAE from being a "land of opportunity" to an "innovation powerhouse". The Propertyfinder Group was valued at around \$200 million in 2016 and has since increased to \$500 million (Reiser, 2019). The group raised multiple venture financing

rounds, such as roughly \$2 million in 2012 from Dubai-based BECO Capital and in January 2016 funds from Sweden-based Vostok New Ventures. Michael Lahyani highlights

*“And when Vostok raised an interest in our business, we felt it was a real opportunity to bring in funding and a know-how to our part of the world. Vostok New Ventures’ funding is a perfect example of what we’ve become: a brand that grew beyond UAE’s borders. Dubai was previously known for being a land of opportunities. Any ideas to fill in the many market gaps were welcome. Today it has become a hub for innovation. Homegrown enterprises are burgeoning, and expanding regionally and sometimes globally. These [are] very exciting times for entrepreneurs!”*

#### **2.1.4 Evolvement of investment landscape**

In addition to the emerging culture of young entrepreneurs and successful startups, the investment landscape is also taking shape. More private, professional, institutional, or government-related investors and platforms are offering their services and inputs to the growing ecosystem. In 2015, the Abu Dhabi Global Market (ADGM), which is a freezone and financial center in the Emirate of Abu Dhabi, launched a tech startup license for an affordable yearly fee of only \$700, including entrepreneurship support initiatives and other perks for startups (Hinai, 2019).

Moreover, incubators, accelerators, funding programs, and professional investors are also growing in other Emirates such as Dubai or Sharjah, adding tremendous value to the startup ecosystem throughout. The Sheraa Entrepreneurship Centre in Sharjah is a one-stop-shop solution offering entrepreneurs guidance, funding, mentorship, and more, whilst Astro Labs in Dubai offers entrepreneurs a fast-track option to set-up a business by obtaining up to five residency visas for team members, as well as a co-working space (Ibid).

Another indicator of the fast growth of the startup ecosystem is that in 2019, fifty percent (50%) of registered companies in Dubai are startups, employing half of the Dubai-based workforce. With Abu Dhabi and Dubai being the main drivers behind the innovative ecosystem, a blend of private and government-supported venture capital

funds supports startups with all kinds of industry backgrounds. Notable government-supported venture funds are Hub71 in Abu Dhabi, a \$142 million tech hub with partners like the Mubadala Investment Company, Microsoft, and SoftBank. The Abu Dhabi-based Ghadan Ventures Fund is another \$145.6 million structure to support the emirate's growing startup and venture capital. The Dubai International Financial Centre (DIFC) is one of the region's financial hubs, and it launched a \$100 million Fintech Fund in 2017 (10 Fintech Startup Funds and Support Programs in the UAE, 2020).

The UAE's progressive framework enabled startups to acquire the right tools for success, driven by leading industry acquisitions. However, besides the stars of the industry, this study also intends to highlight that smaller investments by local and international funds simultaneously occur in the region. For example, the \$8 million raise by Yallacompare, a UAE based financial comparison website in 2019. Investors are STC Ventures, Wamda Capital and Argo Ventures, which is the investment division of international insurance company Argo Group. Another example of an UAE based company receiving funding in 2019 is Jamaloon, an online book retailer and publisher, raising over \$10 million from a combination of previous and new investors. The Jamaloon raise is the third biggest venture capital deal investment in the region and was led by Wamda Capital and Aramex with fresh investors joining from Anova Investments, 500 Falcons and Endeavor Catalyst. (Nabil, 2019).

This research is based on the foundation of the innovative, fast growing, yet still young startup ecosystem in the UAE. The conceptual framework is added to the concept of the UAE Vision 2021, by linking the key stakeholders to the government vision, showcasing the relevance of stakeholders in the startup ecosystem in parallel to the government efforts illustrated in Figure two (2) below.

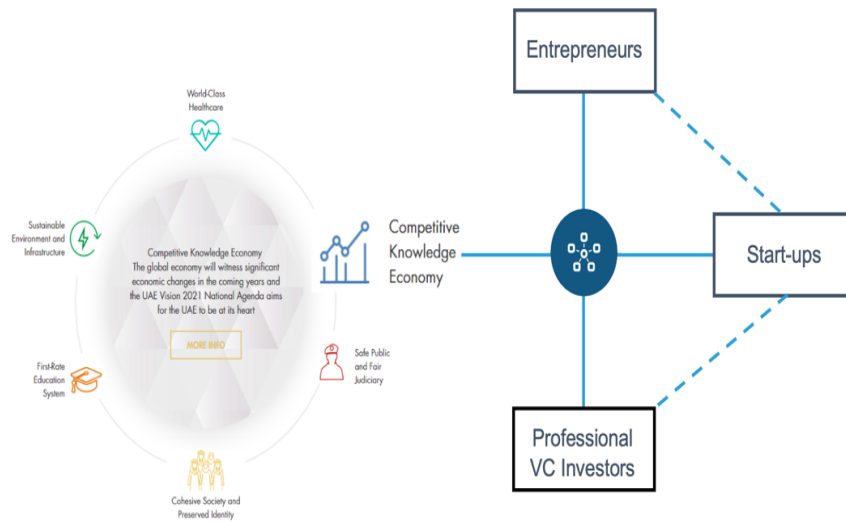


FIGURE 2: CONCEPTUAL FRAMEWORK (HOME - UAE VISION 2021)

## 2.2 Theoretical framework

This study sets out to explore the potential impact of positive illusion on venture capital investment decision-making, combining theories extracted from the limited amount of research around positive illusion with findings in the literature of professional venture capital investing. Whereas the framework is based on the combination of situational factors of stock traders and their predetermined nature related to control illusion (Fenton-O'Creevy et al., 2003) and the effect of positive illusion (Taylor and Brown, 1988) on the investment decision-making criteria identified by Gompers et al. (2020).

### 2.2.1 Positive illusion

Positive illusion is a type of self-enhancement and consists of three (3) forms: Illusion of control, illusory superiority, and unrealistic optimism. For decades, researchers have been discussing the biases around the predictions and self-optimizations made by humans (Taylor and Brown, 1988; Weinstein, 1980), and academic findings around the influence of positive illusions vary drastically and fall on both sides of the spectrum.

Friedland, Keinan and Regev (1992) found augmented levels of illusion of control in stressful situations. Stress is a part of the stock trading environment and can be linked

to uncertain market movements, limited control, and time pressure. This is supported by Khan and Cooper (1993, pg. 113) identifying stock traders as having extreme levels of free-floating anxiety compared to professionals outside of this part of the financial industry. On the contrary, venture capitalists have the opportunity to use control rights in venture capital contracts to protect themselves and their ventures to the greatest extent possible from asymmetric information and potential entrepreneur hold-ups (Hellmann, 1998). But Hill's (1993) statement that venture capitalists hope to hit a "home run" for their portfolio in one out of every 10 investments to get their money back could be a strong indication that there is a lot of stress in the venture capital industry too.

Furthermore, Langer (1975), the pioneer of illusion of control, identified that competition is an antecedent of the illusion of control. Kahn and Cooper (1993, pg. 153) found stock trading dealing rooms to be environments in which competition is striving, in tandem with financial markets, which are very competitive. On the other hand, two factors generally motivate venture capital firms to specialize in certain industries to get a competitive advantage. Either the general partners have a background in a certain industry, which results in a competitive edge, or secondly, an investment trend in one specific market may attract several venture capitalists, which causes valuations to spike, resulting in less favorable terms (for venture capitalists) supplemented by the distribution of multiple term sheets. As venture capitalists must put investment risk and returns into perspective to determine the impact of competitors in saturated industries, undergoing industry specialization or adding experts to the team may be required to mitigate competition whilst staying profitable. This shows that competition could be an important and central part of a venture capitalist's environment.

Gollwitzer and Kinney (1989) found that a goal focused mindset causes stronger and more frequent appearance of illusion of control compared to a lethargic mindset. Besides a salary structure, an incentivized bonus program is part of the stock trading profession outlining clear milestones and goals (Fenton-O'Creevy et al., 2003). A similar, goal and performance orientated, structure can be found in the venture capital industry. According to Hochberg, Mazzeo and McDevitt (2015) venture capital profits are mainly achieved through carried interest from high performing portfolio



companies or indirectly through management fees received from the venture fund raised. The survival of venture capital funds is based on success, therefore goal orientated venture capital firms with a positive track record become desirable for startups as they carry higher chances ensuring steady growth, whilst eventually looking at positive exit down the line (Hochberg, Ljungqvist and Lu, 2007). This is a positive characteristic, emerging from a focused mindset. However, besides the frequent connection to illusion of control, this might become a challenge in the long run, as it potentially could keep raising the competition between the different venture capital firms.

Skill cues, such as choice, involvement, and familiarity, can, according to Langer (1975), lead to illusion of control. A positive correlation can be established as stock trading is based on choices and familiarity with the financial market and its instruments. The same scenario applies to venture capitalists. Gorman and Sahlman (1989) found that a venture capitalist invests almost fifty percent (50%) of his time in monitoring an average investment portfolio of nine (9) ventures. The researchers further state that this is equivalent to approximately one-hundred-ten (110) hours per annum with each respective venture and that the main activity is to support the venture in the fund-raising process, which falls right into the venture capitalist's skill set.

The findings of the "Trading on Illusions: Unrealistic perceptions of control and trading performance" study by Fenton-O'Creevy et al. (2003) highlight the inverse relationship between performance (market analytics, risk management, risk, and desk profit contribution) and the illusion of control. Besides the tendency of high illusions to result in a less effective work effort, the results further highlight that stock traders with higher illusions perform worse and make less money compared to colleagues with seemingly lower levels of illusion of control. The researchers also found that the sample population's people skills are not correlated to an illusion of control.

In their research an innovative computer task was applied to collect data from one-hundred-seven (107) traders throughout four investment banks in London. The purpose of the designed assignment was to first keep the traders engaged and, secondly, to evaluate individual levels of illusion of control. The researchers decided to use this specific computer-based method of data collection, as the bank's managers indicated a potential loss of focus using lengthy questionnaires. The researchers tried

to mimic the trader's usual environment when taking decisions (ex. decision-making with limited information and noisy feedback). Furthermore, the researchers explain that data collection in the field of illusion of control is mostly through the recording of behaviors (Gollwitzer and Kinney, 1989) and (Matute, 1995), causing their method to be novel. The results showcased individual differences, highlighting the inverse association of the illusion of control and performance. The researchers emphasize the weight the illusion of control has on performance in dynamic and uncertain environments.

Another study touching on positive illusions in investment decision making is by Makridakis and Moleskis (2015). The researchers studied the potential benefits or costs associated with positive illusions across the following five (5) fields: Gambling, stock and other markets, new firms and startups, preventive medicine, and wars. The researchers highlight in their conclusion, like Fenton-O'Creevy et al. (2003), the need for more research and to establish strategies to educate people about the possible impact of positive illusions on everyday life.

Makridakis and Moleskis (2015) reference a SRH (self-related health) research model in their study and emphasize this kind of "self-assessment" to be the best documented research related to positive illusion across many fields. The researchers use the findings of Bopp, Braun, Gutzwiller, and Faeh (2012) to showcase that individuals with a positive attitude towards their own health can live up to twenty (20) years longer than those with negative attitudes. Taylor and Brown (1988), who argued that the benefits of positive illusion outweigh the costs for good mental health, agree with these results. Researchers say that the evidence shows that there is a link between good health and optimism and positive illusion.

Makridakis and Moleskis (2015) conclude that avoiding positive illusion and embracing limited information, such as for example, accepting to not know the outcome of investments, is technically preferable, as this approach could lead to or cause less harm from an overall perspective, including smaller monetary losses. Avoiding, for example, investments may result in opportunity cost if the market moves in favor, resulting in missed opportunities. Therefore, the researchers suggest the importance of choosing a suitable strategy and accepting the possibility of losses. Establishing a balance between the benefits and costs of positive illusion should be

applied to every individual case and would reap higher rewards. Furthermore, the researchers mention Gigerenzer's book (Gigerenzer, 2014) promoting "risk savviness" to dismiss the illusion of certainty and not fall victim to the huge cost associated with positive illusions. Finding the right balance depending on the context and situation is very important. Self-assessment frameworks such as the one referenced in the study of Makridakis and Moleskis (2015) are common throughout psychology, especially research surrounding positive illusion and its different forms.

### 2.2.2 Self-assessment tests in applied psychology

A typical self-assessment test used to study illusory superiority is divided into four (4) methodological approaches (direct method, indirect method, forced choice method, and percentile method) using math abilities for illustration purposes in Table one (1):

<b>Direct Method</b>													
How would you rate your math ability in comparison to the average college student?													
1	2	3	4	5	6	7							
below			average			above							
average						average							
<b>Indirect Method</b>													
How would you rate your math ability?							How would you rate the average college student's math ability?						
1	2	3	4	5	6	7	1	2	3	4	5	6	7
terrible						excellent	terrible						excellent
<b>Forced Choice Method</b>													
How would you rate your math ability in comparison to the average college student?													
below average							above average						
<b>Percentile Method</b>													
My math ability is as good or better than <u>58</u> % of other college students.													

TABLE 1: ILLUSORY SUPERIORITY SELF-ASSESSMENT TEST BY ZELL, STRICKHOUSER, SEDIKIDES AND ALICKE, 2020.

Another self-assessment model found in researching control illusion is called the core self-evaluation trait scale, or CSES, as illustrated below in Table two (2).

-----

***The Core Self-Evaluations Scale (CSES)***

**Instructions:** Below are several statements about you with which you may agree or disagree. Using the response scale below, indicate your agreement or disagreement with each item by placing the appropriate number on the line preceding that item.

	1	2	3	4	5
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1. ___	I am confident I get the success I deserve in life.				
2. ___	Sometimes I feel depressed. ( <i>r</i> )				
3. ___	When I try, I generally succeed.				
4. ___	Sometimes when I fail I feel worthless. ( <i>r</i> )				
5. ___	I complete tasks successfully.				
6. ___	Sometimes, I do not feel in control of my work. ( <i>r</i> )				
7. ___	Overall, I am satisfied with myself.				
8. ___	I am filled with doubts about my competence. ( <i>r</i> )				
9. ___	I determine what will happen in my life.				
10. ___	I do not feel in control of my success in my career. ( <i>r</i> )				
11. ___	I am capable of coping with most of my problems.				
12. ___	There are times when things look pretty bleak and hopeless to me. ( <i>r</i> )				

***r* = reverse-scored. This measure is nonproprietary (free) and may be used without permission.**

TABLE 2: CONTROL ILLUSION SELF-EVALUATION SCALE (CSES)

The core self-evaluation trait was first investigated by Judge, Locke and Durham (1997) and is directly linked to the illusion of control. CSES focuses on how individuals assess themselves using the core self-evaluation scale (Table 2). Individuals that score high results on the CSE scale tend to have an optimistic view of themselves and demonstrate confidence in their actions, whereas individuals with low scores on the CSE scale lack confidence and think negatively about themselves.

Further research has shown that the CSE scale can be used in a variety of settings, including strength training adoption in older adults (Baker, Kennedy, Bohle, Campbell, Wiltshire and Singh, 2011), performance management behaviour (Tasa, Sears and Schat, 2011), emotional exhaustion and high cynicism (Laschinger, Finegan and Wilk, 2011), and others. The concept behind core self-evaluation covers four (4) personality dimensions: Neuroticism, locus of control, self-esteem, and self-efficacy (Judge, Locke, and Durham, 1997).

Judge, Locke and Durham (1997) highlight that the CSES is composed of four (4) well researched and covered personality traits in the literature and elaborate that even though the CSE framework is complex, neuroticism is a trait linking the CSE closely to the five-factor model of personality. According to Judge, Erez, Bono and Thoresen (2003), the breakdown of the four (4) traits is:

*“(a) **self-esteem**, the overall value that one places on oneself as a person (Harter, 1990); (b) **generalized self-efficacy**, an evaluation of how well one can perform across a variety of situations (Locke, McClellan & Knight, 1996); (c) **Neuroticism**, the tendency to have a negativistic cognitive / explanatory style and to focus on negative aspects of the self (Watson, 2000); and (d) **locus of control**, beliefs about the causes of events in one’s life-locus is internal when individuals see events as being contingent on their own behavior (Rotter, 1966). As one can gather from the commonality among these traits, core self-evaluations is a basic, fundamental appraisal of one’s worthiness, effectiveness and capability as a person.”*

Judge, Heller and Klinger (2008) argue that the CSES trait is a stronger tool than the big five (5) personality traits to predict job satisfaction as the predictive power is stronger.

According to Judge, Erez, Bono and Thoresen (2003), before the conceptualization of the CSE scale, the only way to test and measure the core self-evaluation traits was to individually identify and measure each trait. The limitations of the previously less direct measurement of the core self-evaluation traits compared to the CSE scale are: a) Length, as a direct scale is able to measure the desired traits faster and with fewer variables; b) Validity, as the direct scale is likely to better measure the underlying trait instead of the indicators of the trait; c) Consistency as the researchers highlight that traits in contemporary personality research are measured with shorter and more direct scales.

The CSE scale (Table 2) represents 12 items selected out of a pool of sixty-five (65) items (Judge, Erez, Bono and Thoresen, 2003). The researchers selected those items based on the existing literature covering various core traits (Chen, Gully and Eden,

2001; Gray-Little, Williams and Hancock, 1997; Levenson, 1981; Rosenberg, 1965; Rotter, 1966), whilst maintaining the link to the existing literature in the fields of personality research (Goldberg, 1999) and applied psychology (Jackson, Wall, Martin and Davids, 1993). In addition, the items need to be interlinked, showcase a relationship to job performance, job satisfaction, and life satisfaction, and represent the content domain covered by the four (4) individual core traits.

The twelve (12) items selected touch on the range of core self-evaluation according to the four (4) specific traits. Therefore, the researchers identified items that involved the assessment of self-worth, control over the environment, success capability and competence, and emotional adjustment. The researchers highlight that the twelve (12) items are not pure representatives of each individual core trait. To maintain the general factor variance leading to the explanation of the relationship between the traits, some items are interlinked and represent two (2), more, or a combination of the core traits. Furthermore, the researchers note that one (1) half of the twelve (12) items are positively worded and the other half negatively. The CSE scale uses a five-point Likert scale to evaluate the results of the respondents. Individuals that score high results on the CSE scale tend to have an optimistic view of themselves and demonstrate confidence in their actions, whereas individuals with low scores on the CSE scale lack confidence and think negatively about themselves.

The findings of Judge, Erez, Bono and Thoresen (2003) suggest the CSE scale to be a valid measure and tool for applied psychology researcher. However, like the self-assessment test to study illusory superiority illustrated in Table one (1), the CSES is not applied in this study, as self-evaluation can lead to biases and false results due to various external factors impacting an individual at the time of the study.

### **2.2.3 Venture capital investment decision-making evolution**

The first wave of research in venture capital decision-making was led by Tyebjee and Bruno (1984), who found four (4) broad categories to be crucial in decision-making: Management, competition, product feasibility, and market potential. Simultaneously, another leader during this time was MacMillan et al. (1985; 1987). They identified twenty-seven (27) crucial decision-making criteria, classifying them into six (6) categories: The venture team, the entrepreneur's personality, experience, financial

considerations, characteristics of the market, and characteristics of product or service. Whilst summarizing their findings, MacMillan et al. (1985) introduced a theory, still famous and widely used today, in which the "jockey" (entrepreneur) portrays the most important decision-making criterion for a VC investor compared to the "horse" (product), odds (risk) or race (market).

The study by Gorman and Sahlman (1989) supports the findings of the first wave of venture capital investment decision-making research, emphasizing on the management team's importance. Furthermore, surveyed venture capitalists claimed to have replaced on average three (3) portfolio CEO's throughout their venture capital career and further stated that a weak team or, subsequently, a strong team is the main driver of failure or success.

By researching venture capital memoranda, Kaplan and Strömberg (2004) slightly adjusted the Tyebjee and Bruno (1984) model. A venture capital investment memorandum describes the investment thesis and risk factors associated with a reviewed investment possibility compiled by the venture capitalist whilst evaluating possible investment criteria. The findings illustrate that the following investment decision-making criteria are of importance: Management team, market / industry, business model, competition, product / technology. However, it is important to note that Kaplan and Strömberg (2004) could not rate the decision-making factors according to their relevance as the investigated investment memoranda did not comprise this information.

Gompers et al. (2020) built on the methodological framework of Kaplan and Strömberg (2004). Besides investigating the selection criteria used by venture capitalists, the researchers further introduced a rating scale for the criteria. Gompers et al. (2020) surveyed and interviewed over six hundred (600) venture capitalists (argued to be one of the largest venture capital study in the United States of America) and found that the team is the top criterion, followed by the business model, product, market, industry, valuation, ability to add value, and fit. The findings are linked to the jockey (management) or the horse (the business / market) theory found during the first wave of venture capital decision-making research and to another study by Kaplan, Sensoy and Strömberg (2009).

In the second and third waves of venture capital research, real-time data collection was key during in decision-making research. During the second wave of research, a technique known as "verbal protocol analysis," also known as "thinking out loud," was introduced, whereas the "conjoint analysis technique," pioneered by Muzzka, Birley and Celux (1996), led to the third wave of research.

Sandberg, Schweiger and Hofer (1989) and Hall and Hofer (1993) pioneered verbal protocol analysis in the venture capital industry. This research technique added mainly three (3) new findings to the growing literature body. Hall and Hofer (1993) found that venture capital investors are fast decision-makers (below six minutes) and that a venture capital investor is more confident as access to insights increases, causing a shift in entrepreneur criterion to the market. The same is also supported by the findings of Zacharakis and Meyer (1995).

A finding which contradicts the first wave of research (Tyebjee and Bruno, 1984; MacMillan et al., 1985; 1987), is the value of the "Jockey" (entrepreneur) criterion, which was not regarded as the most crucial criterion. The third finding was by Zacharakis and Meyer (1998), stating that venture capitalists are not good at introspecting, causing biased answers in self-evaluations.

These researchers add knowledge to the existing literature, but the "thinking out loud" technique does come with its own set of biases. Speaking out loud whilst thinking or deciding is not a skill every individual can master. Nor does the data collection process seem to be substantially different from introspecting, as the psychological impact is still not incorporated. This was also supported by an array of academics supporting the methodological shift away from verbal protocol analysis, as it was regarded by some researchers such as Riquelme and Rickards (1992);

*“more of an art than science”*

The third wave of research was conducted under the pretext of "conjoint analysis techniques" pioneered by Muzzka, Birley and Celux (1996). In a conjoint analysis experiment, the researcher creates a pool of variables and possible investment scenarios, whereas the participant must make an investment decision. This allows the researcher to identify the evaluation and thinking process, breaking up the findings



into a multi-linear equation about the individual importance of each variable (Shepherd, 1999). The problem with conjoint analysis is that the researcher determines the pool of potential investment opportunities by extracting the real-life variable from the research project, potentially biasing the participant.

#### **2.2.4 Venture capitalists, risk, and positive illusion**

Parhankangas and Hellström (2007) investigated the under-researched area of interrelations between the forerunners of investment decision-making, risk-taking, and strategies to reduce risk. The researchers built the study on a model of risky decision-making behavior by Sitkin and Pablo (1992). The researchers then linked this model to the decision-making theories by Kahneman and Tversky (1979), which propose the differences and interactions between the variables of risk perception and preferences and experience (Sitkin and Pablo, 1992; Weber and Hsee, 1998).

The results of their study showcase that experiences catalyze risk and the riskiness tied to investment preferences. The researchers suggest that the tendency of investors being more prone to risk taking, regardless of the presence of more pronounced perceptions of market and agency risk, stems from their perspective on illusion of control, overconfidence or specializations around risk linked to the entrepreneurial environment.

The researchers conclude that the evidence suggests venture capitalists are responsible risk-takers, using strategies to reduce risk and to prevent their investments from downsides as much as possible. They further found that seasoned venture capitalists tend to commit to an investment quicker, restraining thoughts about further information gathering (Mahajan, 1992; Zacharakis and Shepherd, 2001). This level of confidence might cause a false sense of security or be the reason for the illusion of control to occur. Especially when venture capitalists believe that the environment and outcome can be influenced by experiences or skills, even though the outcome is a result of chance and not really correlated to the skill set (Langer, 1975).

This study suggests that venture capitalists illustrating the highest levels of concern tied to market risks are those also willing to invest in those ventures portraying the highest market risks. The interesting aspect of this study highlights frameworks

investigating the persistence of positive illusion. Whether decision-making is linked to risk or other variables, positive illusion seems to be present. Furthermore, this study showcases that there are multiple avenues to identify the impact of positive illusion on venture capital decision-making and that, as several researchers have already stated, decision-making in investing is a very complex and under-researched area.

### **2.2.5 Construction of framework**

This study avoids SRH research or any self-evaluation forms or scales, as self-evaluation scales or tests, even though very common, can result in strong biases as they give a lot of room for participants to deviate from their actual feelings or answers due to external factors such as peer pressure, status, or recognition. These factors can also significantly impact the research participants, which could affect the outcome of a research study and falsify results. Moreover, like in the research of Fenton-O’Creevy et al. (2003) studying stock market traders, applying a repetitive format is avoided in this study to not risk the focus nor interest of the participants. Furthermore, the level of understanding is partially underachieved using self-evaluation tests as answers would be very limited because there is no possibility to go deeper or ask more questions, which would make this research, which is explorative and qualitative, less useful.

Whereas the overall framework established by Fenton-O’Creevy et al. (2003) is novel, examines an under-researched field, and generates valuable findings, their research only adopts the situational factors linked to control illusion. In this research, a link is drawn between the situational factors (antecedents of the illusion of control) applying to stock traders and potentially also to venture capitalists. This supports the process of further researching positive illusion in the venture capital field and their potential impact on investment decision-making. The reason for not adopting the entire framework of Fenton-O’Creevy et al. (2003) is that decision-making for venture capitalists entails a slightly different set of information, also limited but highly susceptible to asymmetric information exchange. In addition, the nascency of the entrepreneurial ecosystem in the UAE compared to the regulated investment banking trading floor in London might play a big role in investment decision-making. Also, this research does not intend to study performance or risk valuations but strictly

focuses on the potential impact of positive illusion on venture capital investment decision-making.

Secondly, the investment decision-making criteria identified by Gompers et al. (2020) are selected to investigate venture capital decision-making in relation to positive illusion further. The findings of Gompers et al. (2020) can partially be traced back to the initial research conducted during the first wave of venture capital investment decision-making (ex: MacMillan et al., 1985; Tyebjee and Bruno, 1984). This demonstrates that the initial frameworks surrounding the evaluation of the decision-making criteria used by venture capitalists tend to be very similar and are still used today with only small deviations. However, most agree that the team / management / entrepreneurs / founders are the most important variables for decision-making.

Some researchers conclude that decision-making is a much more complex process influenced by behavioral traits and, more broadly, the field of psychology (ex. Sandberg, Schweiger and Hofer, 1989). The purpose of this research is line with this conclusion, especially since the underlying foundation of venture capital decision-making related to the criteria has been researched. However, data about the impact of various forms of self-deception or self-enhancement on investors is missing and does not allow a deeper understanding of the decision-making process linked to this field.

The covered theory leads to the emergence of the model used for the theoretical framework of this research. To investigate the impact of positive illusion on venture capital decision making, the model illustrated in Figure three (3) synthesizes the concepts of positive illusion (Taylor and Brown, 1988), the impact of illusion of control on the situational factors found in the stock trading environment (Fenton-O'Creevy et al., 2003), and the venture capital decision-making criteria identified by Gompers et al. (2020).

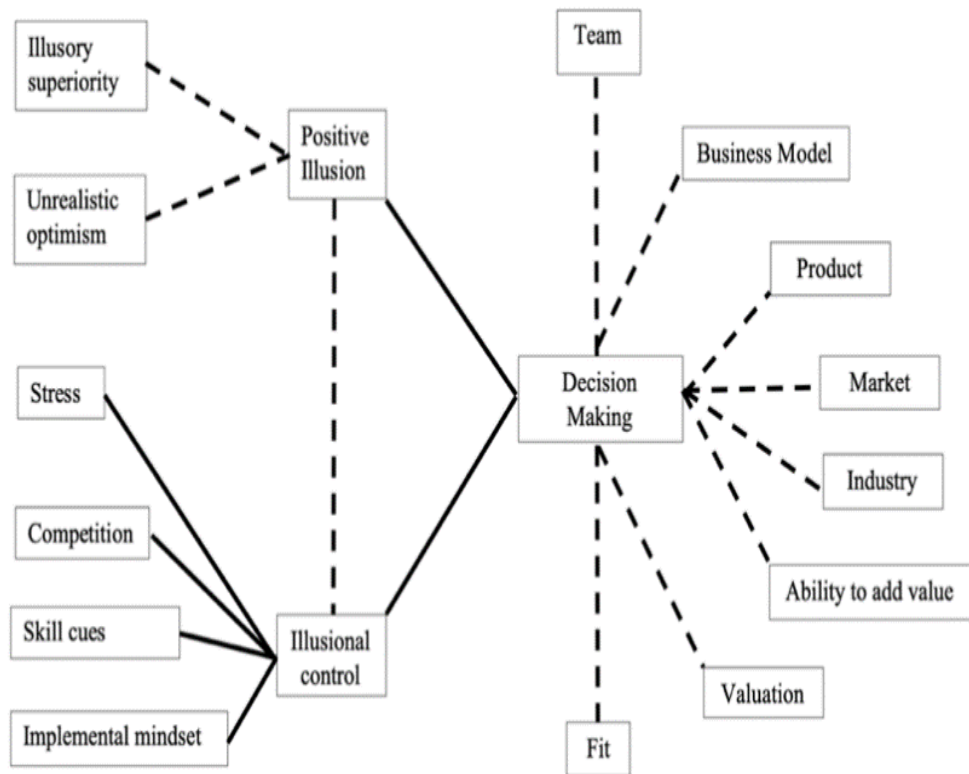


FIGURE 3: THEORETICAL FRAMEWORK (TAYLOR AND BROWN, 1988; FENTON-O’CREEVY NICHOLSON, SOANE AND WILLMAN, 2003; GOMPERS ET AL., 2020)

## **Part 3: Methodological Approach to Research**

### **3.1 An approach centred on grounded theory**

This qualitative study took place between June 2020 and July 2022 and is based on grounded theory to provide a systematic procedure for structuring, organizing, and analyzing the collected insights and to further develop a general theory from the data (Glaser and Strauss 1967). Grounded theory follows a rigorous procedure and is based on comparative analysis (Ibid.; Morse and Field, 1995), which is the back-and-forth shuttling between the individual experiences to check, refine, and develop ideas and intuitions based on the collected data. The comparative analysis is the foundation of grounded theory (Glaser and Strauss, 1967; Strauss and Corbin, 1994) and produces a dense conceptual analysis of the empirical problem studied (Charmaz and Belgrave, 2007). This leads to the induction of the theory in tandem with the actual research process (Strauss and Corbin, 1994).

In conjunction with the symbolic interactionism required to identify whether positive illusion is impacting the decision-making process of venture capitalists or not, grounded theory is regarded by Charmaz and Belgrave (2007) as a suitable tool to investigate individual processes and interpersonal relations. Field research is the primary method of data collection for grounded theory (Morse and Field, 1995). This is consistent with both the planned semi-structured interview structure intended in this research and the application of this method identified by Charmaz and Belgrave (2007), which covers typical social psychological topics such as personal experience, motivation, emotions, prejudice, attraction, identity, and interpersonal co-operation and conflict.

In grounded theory, the researcher becomes a part of the study, as the researcher engages in data analysis while collecting data and therefore works towards developing a theory (Ibid.). According to Eaves (2001), grounded theory has two purposes: Firstly, to construct descriptive models of human social processes grounded in information (Morse and Field, 1995), and secondly, to adjust and build on existing theories (Strauss and Corbin, 1990). As the theoretical framework of this study is partially built on existing venture capital decision-making criteria identified by various researchers in the field (ex. MacMillan, Siegel and Narasimha, 1985; MacMillan, Zemann and

Subbanarasimha, 1987; Gompers et al., 2020) and prior research on positive illusion and its various sub-forms (Taylor and Brown, 1988; Fenton-O'Creevy et al., 2003), it might lead to new findings or potentially build on the existing knowledge.

### **3.2 The population and the sample**

In this part, the population targeted by the research and the constitution of the sample are introduced. As this research is of qualitative nature, it does not require a large number of participants (Huberman and Miles, 1991). The target population consists of UAE based venture capitalists. It is important to mention that this study does not focus on the already identified venture capital investment criteria or the success rate of previously invested start-ups measuring the performance of the investors, which is why this research does not interview any other stakeholders of the entrepreneurial ecosystem in the UAE besides the venture capital investors. Although professional venture capital investing implies that there are several counterparts, such as founders receiving investments or limited partners who invest in a venture capital fund, yet this study is only interested in the venture capitalist's experiences and lives.

For the purpose of this research, forming a sample of participants representative of the population was not in question, and instead choosing a convenience sample of venture capital investors was prioritized. This study sheds light on the phenomenon of positive illusion in relation to the investment decision-making process applied by professional venture capital investors to explore the knowledge and experience of venture capitalists in relation to self-enhancement and to learn more about the relationship between positive illusion and investment-decision making. The hope is to identify new knowledge for the literature.

Establishing the sample for this study, interview requests were sent via email to fifty-nine (59) venture capital investors residing in the UAE adhering, according to their public profiles and websites of the funds, to pre-defined variables to be eligible for this study. The solicitation email template is attached in appendix one (1). In terms of the variables to qualify as a potential interviewee, firstly, venture capitalists must hold the title of general partner within the respective fund, as this is the main decision-making role. Secondly, the potential interviewees must have at least two years of experience

as professional venture capital investors. Thirdly, the investors need to take on average at least three investments per annum. Fourthly, venture capitalists must operate a fund of the size of at least five million dollars. In addition, they must be funded by limited partners such as HNWI, pension funds, university endowments or other types of limited partners, as self-funded general partners might have a different relationship to the money they deploy.

Out of the fifty-nine (59) venture capital investors residing in the UAE who match the criteria for this study, twenty-five (25) agreed to participate. This research adopted the concept of empirical saturation (Glaser and Strauss, 1967, pg. 67) or "of knowledge " according to Bertaux (1981, pg. 37). The theory suggests that when interviewees no longer provide any new information, which is any different from previous interviews, then an empirical saturation is reached, which was the case after twenty (20) interviews.

In Table three (3), the interview participants are compared according to the previously mentioned variables. Its furthermore important to highlight that the interview structure resulted in thirteen (13) male and seven (7) female investors. In line with the ethical precautions, each investor named in Table three (3) received a pseudonym to ensure data privacy.

	Age	Gender	Fund size in USD millions	Experience in years	Average number of investments per annum
Cases\Jeff	54	Male	110	15	8
Cases\Tina	40	Female	12	6	4
Cases\Sonia	38	Female	30	7	23
Cases\Julia	37	Female	150	8	5
Cases\Michael	49	Male	50	5	6
Cases\Bob	38	Male	25	4	4
Cases\Mark	43	Male	85	11	10
Cases\Bill	37	Male	50	15	6
Cases\Ronald	42	Male	5	4	8
Cases\Joe	42	Male	25	5	10
Cases\Lukas	31	Male	40	5	12
Cases\Maria	48	Female	10	7	15
Cases\Kim	40	Female	20	6	4
Cases\Robert	40	Male	35	12	4
Cases\Sienna	40	Female	20	6	4
Cases\Cosmos	37	Female	30	7	23
Cases\Arthur	31	Male	6	3	3
Cases\George	42	Male	80	11	15
Cases\Tom	45	Male	25	5	8
Cases\Huarn	47	Male	50	7	5

TABLE 3: INTERVIEW PARTICIPANTS

### 3.3 The structure and mode of data collection

The data collection mode for this study is via the conduction of individual and semi-structured interviews. An interview is a form of verbal communication where the interviewer tries to gather insights from the interviewee about a certain topic. Among the various interview formats are the semi-structured interviews, which follow a predetermined question arrangement, warranting flexibility during verbal interchanges (Dunn, 2005; pg. 79). The interview is composed of ten (10) questions, and the interview question guide is attached in appendix four (4).

From a structural perspective, the conducted interviews in this study commence with light questions aimed at building a social connection to make the interviewee feel comfortable. This aids in the activation of descriptive, fact-based, or even emotional thought processes before progressing to thought-provoking and slightly more difficult questions (Longhurst, 2003). Moreover, the semi-structure is useful in exploring venture capitalist's decision-making behavior as questions enable the interviewee to give an open response using their own words in a conversational format rather than yes-



or-no answers. The interview duration was set for thirty (30) to forty-five (45) minutes with the concept of empirical saturation in mind (Glaser and Strauss, 1967, pg. 67).

Due to COVID-19 travel and social distancing restrictions at the time of data collection, the original plan of holding the interviews in the respective offices of the venture capitalists to also observe behavior in their natural work environment was replaced by Zoom, a video communication software.

### **3.4 The data analysis methodology**

Using grounded theory in this study, coding becomes the focal connection between explaining the establishment of a theory and the gathered data points following a sequence of steps as portrayed in Figure four (4). In qualitative grounded theory, the codes emerge as the data is being reviewed by the researcher (Charmaz and Belgrave, 2007). The method applied to this study is line-by-line in-vivo coding. A qualitative data analysis computer software called NVivo was used in this study for the line-by-line in-vivo coding process to ensure efficiency and structure throughout.

Firstly, key phrases are applied in the interviewee's own language (Chesler, 1987) whilst carefully examining the transcripts and highlighting the key words, making remarks on the right-or left-hand margin of the transcripts (Eaves, 2001). In the second step, all in-vivo codes are compiled to create shorter key code phrases that represent the interviewee's central concept behind the spoken words (Chesler, 1987). The advantage of these key code phrases is that they allow the researcher to have a more organized and compiled labelling structure of the gathered data (Charmaz, 1983).

Thirdly, once all the key code phrases are produced, the next step is the creation of groups in which similar phrases are classified under. In the fourth step, clusters of similar key code phrases groups are created. Such clusters are then further sanitized into labelled meta-clusters. During this step, the attached labels to the meta-clusters become concepts (Eaves, 2001).

The fifth step contains constant comparative analysis, an important feature of grounded theory by Glaser and Strauss (1967). With this method relationships and similarities between codes and categories are constantly compared enhancing the research process. During this step, related concepts sharing a similar phenomenon are

combined to classify them into categories. From a hierarchical perspective, categories rank higher than codes (Strauss and Corbin, 1990)

In step six (6), subcategories are created in a sequence-like format according to characteristics, properties, and dimensions (Charmaz, 1983; Strauss and Corbin, 1990). Step seven (7) consists of linking the different categories by first applying the constant comparison mentioned during step five (5), testing for hunches in the existing data sets (Corbin, 1986), or through highlighting and comparing similarities between the categories with the help of the existing literature (Charmaz, 1983).

During the eighth and final step, core categories are established. Charmaz (1983) and Strauss and Corbin (1990) state that the core categories represent the "core story line" of the gathered insights, engulfing all the categories. Furthermore, the researchers highlight that the emerging data can lead to several identified core categories, which can yield several different "stories" within one study.

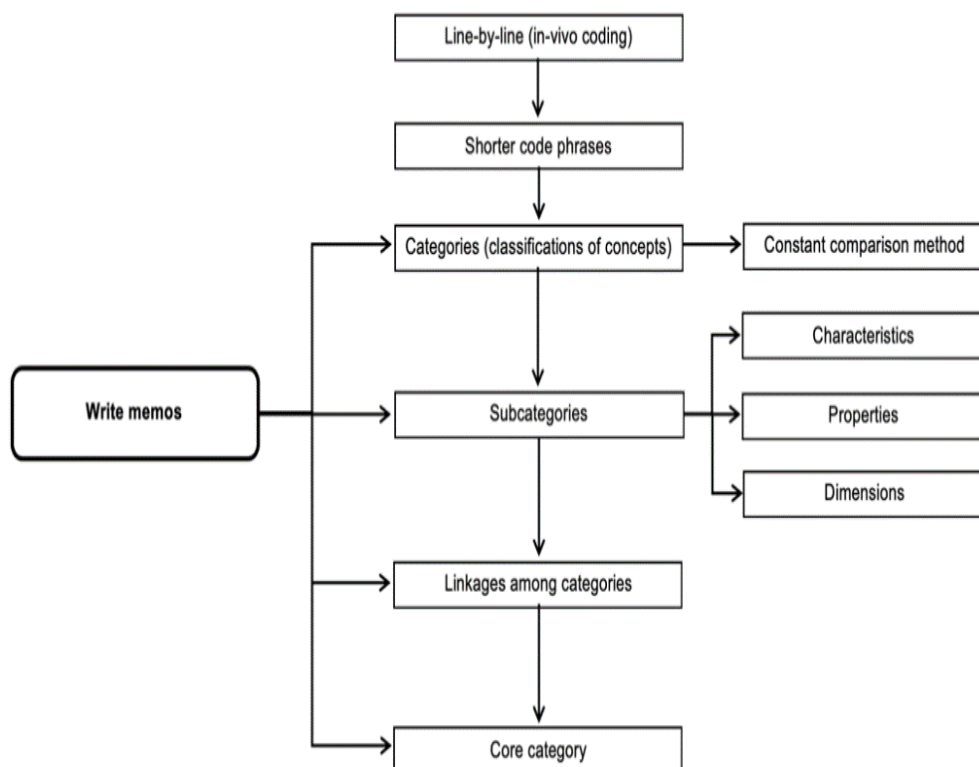


FIGURE 4: DIAGRAMMATIC REPRESENTATION OF CHARMAZ (1983) MULTI-STEP ANALYSIS TECHNIQUE BASED ON GLASER AND STRAUSS (1967) AND GLASER (1978)

### **3.5 The strengths and limits of research**

A strength of this study is that the researched phenomenon of positive illusion is not yet widely explored in the context of venture capitalism investing decision-making and especially not in the United Arab Emirates. The UAE has been fostering a young yet successful venture capital ecosystem, recently witnessing success stories of native start-ups like the acquisition of the ride-sharing company Careem by Uber. Furthermore, the aim of the research is to potentially uncover more of the psychological factors involved in the complex venture capital investment decision-making process, which has so far been mostly evolving around introspective data collection based on the decision-making criteria identified in early research or their accuracy tied to investment outcomes.

In addition, this research might contribute to the efforts of the various local stakeholders in bringing the UAE's entrepreneurial ecosystem onto the global stage, as due to its nascency, this ecosystem in the MENA region is regarded as an under-researched area. Furthermore, upcoming entrepreneurs and venture capitalists in this rapidly evolving ecosystem might be interested in learning more about the psychological factors linked to professional investment decision-making.

On the other hand, a limitation of this research is the data collection in investor-specific and individual contexts to explore and understand the phenomenon of positive illusion on the venture capital investment decision-making process. Therefore, to come as close as possible to the reality and to fulfil the purpose of this study, these insights cannot be generalised due to the varying contexts, unless they are proven identical. Furthermore, the imposed travel, social distancing, immigration policies and restrictions, due to the COVID-19 pandemic, limit interviews to video communication only. Creating a social connection within the short interview time frame is difficult and certain emotions or behaviors might be overlooked because of the video and audio quality.

### **3.6 Ethical precautions**

Before a verbal interview-related exchange occurs, the interviewee receives a consent form for approval via signature and the research permission. The consent form template is attached in appendix two (2) and the research permission in appendix three (3). The consent form clearly states information about the researcher, the purpose of the interview, details and structure, guarantees anonymity, and offers compensation. The potential risks associated with the research are also stated in the consent form, as it is possible that certain interview questions can provoke reflections or revive memories linked to an unpleasant experience. In addition, the interviewee is made aware of the possible refusal to answer a question at any time or even end the interview if desired. The interviewer has previously tested the questions during two pilot interviews with individuals similar to the target sample to detect any issues related to privacy or hypersensitive information causing potential discomfort.

As the researcher is not native to the United Arab Emirates, the cultural norms of the community of interest are thoroughly researched to avoid any potential cultural offensive behaviors or taboo topics. The gathered data remains strictly confidential, private, and protected from any access by third parties to avoid any future damage to the participants. Each interview recording is deleted right after the transcription process.

## **Part 4: Analysis and Data Presentation**

In this part of the dissertation, the collected data is presented, analyzed, and discussed, following the procedures as per the methodological approach to research detailed in part three (3). Due to the diligent focus on consistency, fairness, and accuracy whilst interacting with the massive volume of data generated by the conducted interviews, the research discourse throughout this part transpired to be substantially dense.

The research problem was established in the first part of this dissertation. Although the global venture capital industry is loud, fast-growing, and very active, championing innovation and laying the foundation for the future of almost every vertical and industry, the details and fine prints around investment decision-making and its related decision-making processes remain rather private and are almost taboo (Kaplan and Lerner, 2016; Banal-Estañol et al., 2019). Examining this research's contextual framework encourages a deep dive into this nascent ecosystem, combining an array of different challenges linked to the young startup world in the UAE with various opinions and views on venture capital decision-making.

When synthesizing research from social psychology with the venture capital investment decision-making literature, common denominators about the complexity and requirement for further in-depth research appear (Sandberg, Schweiger and Hofer, 1989). Prominent venture capital researchers recommend the requirement of further insights in this under-researched area linked to venture capital investment-decision making (Gompers et al., 2020), whereas the need for more knowledge around the impact of positive illusion on different industries to raise awareness about the impact of such illusions is recommended by Fenton-O'Creevy et al. (2003) and Makridakis and Moleskis (2015).

The theoretical framework and research design enable new data, linked to the phenomenon of positive illusion in connection with venture capital investment-decision, to emerge, as operating within the financial industry potentially carries similar situational and environmental factors (Fenton-O'Creevy et al., 2003). Following the problem statement, part three (3) highlights the qualitative research methodology with a grounded research approach to properly investigate the target population. This approach is the conclusion of several researchers debating the

methodological approach of collecting venture capitalist data through quantitative methodologies such as questionnaires as commonly found in MacMillan et al. (1985) and MacMillan, Zemann and Subbanarasimha (1987). This was further supported by Gompers et al. (2020), who augmented their study by adding twenty-nine (29) interviews to their questionnaire.

The methodological approach of this study enables the investigation of UAE-based venture capitalists as the target population. From a research point of view, this approach further allows to check, refine, and develop ideas and intuitions upon the collected data on several criteria to meet research objectives with a systematic procedure to structure, organize, and analyze gathered data and to further develop a general theory from the insights (Glaser and Strauss, 1967). This process finally led to the presentation of the data.

The data gathered via interviewing selected venture capital investors at various venture capital funds based in the UAE is vast and the information collected portrays various points of view linked to the nascent startup ecosystem, investment-decision making processes, positive illusions, and general sentiments towards industry behaviors. After twenty interviews, empirical saturation was reached (Glaser and Strauss, 1967, pg. 67), resulting in one-hundred-thirty-two (132) pages, which after ethical transcription and processing fostered fifty-one (51) top-level codes and eight-hundred-eighty-six (886) child codes.

To ensure ethical standards and to maintain the highest standard of anonymity and personal data protection for the interview participants, sensitive information related to the venture capital funds, such as names, activities, investments, etc., was altered, and interview recordings were deleted after transcription. To ease the reading process, ensure clear understanding of the analysis related to the specific research objectives, and communicate the interpretation of the verbatim faithfully, the following sections were divided into three (3) parts.

Starting first with the verbatim and the detailed outcome of the coding from the twenty (20) conducted interviews. This chapter is dedicated to a full explanation of the iterative process of progressive theorizing. The reader needs to be introduced to the most important background information and raw data. To do this, seven (7) tables were

divided into distinct areas, illustrating, and clubbing similar parent-themes to simplify the reading process. Then the two (2) specific research objectives are approached, each having three (3) related research questions. To achieve a better overview of the context and data, a definition for each discussed parent-and child-theme was added in line with the analysis.

The second part evolves around the first specific research objective, which is: To investigate the impact of control illusion on investment decision-making during the pre-investment phase. Subsequently, ten (10) parent-themes emerged to contribute valuable data to the analysis linked to the first three (3) research questions evolving around illusional control.

Finally, in the third part, the second specific research objective is covered: To investigate the impacts of unrealistic optimism and illusionary superiority on the decision-making process during the pre-investment phase. The same format as with the first specific research objective was pursued, in which ten (10) parent-themes emerged to contribute valuable data to the analysis linked to the second three (3) research questions evolving around unrealistic optimism and illusionary superiority.

This research's ultimate objective is not to gain generalizable information, but rather to explore new knowledge in a different context about the phenomena under investigation. This new information will ultimately add to the limited literature and could potentially be a starting point for researchers to construct theories that can be tested in different ecosystems with different populations in a more systematic manner. Considering the limitations and strengths of this research and the exploratory character of the study, the study does not claim to have thoroughly explored the entire spectrum of venture capital investment-decision making and the general complexity of human decision making.

This research hopefully adds some degree of applicability in everyday life revolving around positive illusion and decision-making for all the stakeholders of the entrepreneurial ecosystem, such as investors, startup founders, limited partners, and the public, thereby also promoting new avenues for future research.

#### **4.1 Presentation of the results of the individual interviews**

As per part three (3), the methodological approach to research, coding and its various stages enables the categorization of themes into parent themes (top-level codes) and respective child themes (sub-codes). The verbatim of the twenty (20) interviews resulted in a total of fifty-one (51) parent themes and eight-hundred-eighty-six (886) child themes. Therefore, the child themes are the substantive categories (Glaser and Strauss, 1967) and can be interpreted as those that adopt without alteration the discourses of the questioned venture capitalists. In contrast, the parent themes are formal categories whose formation in the context of this project is dependent on the linkages made between the child code categories and their hierarchy. The data found in the parent and child codes is continuously analyzed.

As mentioned in part three (3), the back-and-forth shuttling between the individual experiences derived directly from the interviewee's expressions allows to check, refine, and develop ideas and intuitions based on the collected data. To assist the reader, the parent themes were categorized into seven (7) distinct areas:

- Pre-investment
- Contracting
- Post-investment
- Management
- Environment / Situational factors
- Personal
- Ecosystem

Each of the distinct areas hosts matching parent-themes, a brief explanation of the parent-theme, an indication of the number of child-themes associated with each parent-theme, and the number of references found in each of them, as illustrated in the below tables:



<b>Areas</b>	<b>Parent theme</b>	<b>Definition</b>	<b>Files</b>	<b>References</b>
Pre-investment	Deal flow generation	To understand how venture capitalists source deals.	11	43
	Due diligence	Understanding the VC due diligence process.	13	34
	Founder characteristics and attributes	Exploring the personality traits and skills required in a founder.	14	60
	Information shared by founder	Learning about the level of information required by founders and how VCs interpret the shared details.	17	62
	Investing rational	Correlation between human emotions and the rational of investing.	7	16
	Investment criteria	Identifying the investment criteria and relevant factors.	20	126
	Investment evaluation	Identifying how VC investors go about the evaluation of potential investment opportunities.	20	136
	Investment risk to reward	Exploring the interpretation of risk to reward.	12	29

<b>Areas</b>	<b>Parent theme</b>	<b>Definition</b>	<b>Files</b>	<b>References</b>
Contracting	Co-investing	Determining the investors stance towards co-investing together with other investors.	6	17
	Investment decision making	Investigating how VCs are taking decisions and what factors are being considered.	19	127
	Term sheet	Exploring how VCs are dealing investment terms and conditions.	2	2

<b>Areas</b>	<b>Parent theme</b>	<b>Definition</b>	<b>Files</b>	<b>References</b>
Post- investment	Exit strategy views	VCs views on exit strategies.	14	47
	Follow-up round	General perception on follow-up rounds.	12	31
	Portfolio support	Learning about the level and degree of support extended to portfolio companies.	20	120

<b>Areas</b>	<b>Parent theme</b>	<b>Definition</b>	<b>Files</b>	<b>References</b>
Management	Evolverment of VC fund	VCs views on development plans for their respective funds.	8	20
	General partner	Exploring general expectations of GPs as well as their feelings in regards to their role.	5	8
	Investment committee	Identifying the role an IC plays for a VC.	4	6
	Investment Process	Understanding how the investment process works.	2	5
	Investment process timeframe	Learning about the views in relations to investment process timeframes.	3	8
	Manpower of VC fund	Looking at the various positions and actors within a VC fund.	4	5
	Operating a VC fund	Examining the ins and outs of operating a VC fund.	18	90
	Portfolio construction	Exploring the management approach and strategy behind the structure of a VC portfolio.	5	11
	Psychological requirements for GP position	Understanding the mindset required to be a professional investor.	11	32

	Raising a VC fund	Exploring the processes and challenges in raising a venture capital fund.	9	42
	Starting a VC fund	VCs experiences on starting a fund.	2	5
	VC fund structure	Understanding the different fund structures and why they were deployed the way they are.	12	45
	VC job description	Exploring the space of investing as a profession and looking at the skills required to fit the role.	8	16

<b>Areas</b>	<b>Parent theme</b>	<b>Definition</b>	<b>Files</b>	<b>References</b>
Environment / Situational factors	COVID-19	To learn about the impact the COVID-19 pandemic has had on the startup ecosystem.	9	36
	Daily activities	To understand the investors daily duties and activities better.	13	75
	Investing in brick and mortar to shift online	Identifying investment sentiments of supporting businesses to move online.	3	11
	Work environment	Exploring the daily work environment of a VC.	17	70

<b>Areas</b>	<b>Parent theme</b>	<b>Definition</b>	<b>Files</b>	<b>References</b>
Personal	Career history	Identifying the venture capital investors prior occupation before the current role to ascertain behavioral investment differences potentially related to the professional background.	10	14
	Failed investment experience	Investment experiences that turned out negatively.	6	8
	GP - founder relationship	Looking at founders and a potential relationship through a general partners lens.	12	30
	GP - LP relationship	Evaluating the relationship highlights between GPs and LPs.	11	50
	Investment behavior	Investigating the behavior and feelings of VCs towards investing in general.	9	24
	Investment philosophy	Exploring a VC's ethos behind investing.	19	61
	Opinions on founders	General opinions VCs have on founders and the environment they operate in.	5	8
	Post-investment feelings	Learning about the VCs feelings after an investment has been conducted.	17	69

	Project selection evolvment	Exploring the ways VCs have evolved in selecting startups eligible for investments.	2	2
	VC experiences	Learning about the experiences GPs have made as VC investors.	17	70



<b>Areas</b>	<b>Parent theme</b>	<b>Definition</b>	<b>Files</b>	<b>References</b>
Ecosystem	Early-stage startup	Looking at characteristics related to early-stage startups.	7	9
	European VC space	VC mentions features of the European VC environment.	2	4
	Female founders and VCs in the region	Experiences, characteristics, and features of working with female founders in the region.	1	7
	Middle East start-up ecosystem	Gathering insights and views on the startup ecosystem in the region.	15	117
	Products	Exploring the factors that matter when looking at a product through the lease of a VC.	5	7
	Similarities between a VC and startup	Identifying the similarities between a VC business and startup business.	1	4
	Startup dynamics	Exploring the nature and core features of running a startup company.	2	2
	Startup ecosystem	Generic views on the characteristics of the startup ecosystem.	4	5
	Types of LPs in Middle East	Learning about the characteristics of limited partners in the region.	1	7

	VC fund representation	VC expresses the importance of a good name in the industry.	2	5
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## 4.2 How do the situational factors affect VC investment decision-making criteria?

How do the situational factors linked to the illusion of control affect the venture capital investment decision-making criteria?

As established and defined by Langer (1975), a pioneer in the field of illusionary control, individuals tend to believe to have personal control over chance events. Langer (1975, pg. 313) further describes the phenomena as:

*“An expectancy of a personal success probability inappropriately higher than the objective probability would warrant”*

Seeking to identify the potential presence of the situational factors linked to the illusion of control in venture capital investment decision-making criteria, the study investigated the "situational factors" and the "investment decision-making criteria" in tandem with the gathered data. The interview participants share different points of view and, with the help of the established taxonomy and subsequently related parent-themes, the most relevant data points for situational factors seem to be:

- COVID-19
- Work environment
- Middle East start-up ecosystem

Whereas the investment decision-making criteria seem to find their relevance in the following parent themes:

- Investment criteria
- Investment decision making
- Project selection involvement

#### 4.2.1 COVID-19

Name	Definition	Files	References
COVID-19	To learn about the impact the COVID-19 pandemic has had on the startup ecosystem.	9	36
Abundance of deals	VC describes COVID-19 as a catalyst for deals making some industries very relevant and attractive.	1	2
Accelerates digitalization	COVID-19 accelerates the brick and mortar to online shift drastically in the region resulting in a more dynamic business environment.	3	3
Anticipating trend changes	VC explains that investors are watching the impacts of COVID-19 closely to determine if there is a trend shift.	1	2
B2C alternatives	COVID-19 accelerates digitalization, cross boarder movement of goods and therefore alternatives for customers causing tougher competition in the B2C space.	1	1
Bad time to fundraise	VC believes COVID-19 to be a bad time to fundraise, as those investors that issue capital squeeze the valuations due to lower capital supply in the market causing cap tables to look weak in the long run.	1	1
Challenges	COVID-19 brought challenges to the entire ecosystem in the region.	2	3
Founder criteria	VC finds that COVID-19 emphasizes	1	1

	more on the strength of the founding team, which makes this investment criteria even more prominent and important than pre-COVID-19.		
Industry focus	VC identifies that COVID-19 has caused them to focus more on certain industries than others.	1	2
Lack of human touch	Due to COVID-19 there is a lack of face-to-face interactions, which is especially for relationships with VC limited partners / stakeholders not beneficial.	1	3
Mixed bag of emotions	VC perceives mixed emotions in relation to Covid-19.	1	1
New geographies	COVID-19 causes VC to also look at other geographies, not considered during pre-COVID-19.	1	1
Opportunity to fund raise	VC explains that even cash rich portfolio companies see the opportunity for high quality tech startups and want to actively raise more.	1	1
Positive for industry	COVID-19 is tragic, yet investor finds the VC industry to actually benefit the most from it.	2	2
Quality over quantity	VC experienced that the number of startups during the COVID-19 pandemic requesting funding has decreased, yet the quality of the leads applying has increased drastically.	1	2

Roadshows are not permitted	Face to face meetings or interactions are not permitted due to COVID-19 and might complicate fund raising efforts.	1	1
Selective process in relation to personal touch	VC is content with losing some of the personal touches as the selection of whom to meet increases drastically.	1	1
Shifting focus to b2b in relation to vulnerability	VC explains that COVID-19 cause fund to shift away from b2c to explore how businesses can support businesses moving forward minimizing business environment risk.	1	2
Slowed down global market activity	VC perceives the general business environment to slow down due to Covid-19.	1	1
Successful remote working	VC found remote work to be successful.	2	4
Uncertain consumers	Due to COVID-19 uncertainty amongst consumers is very high, which relates directly to less spending,	1	1
Using slow market	VC uses market pullback to prepare potential investments in interesting startups whilst developing own VC fund structure further.	1	1

Nine (9) investors highlighted that COVID-19 and its impact on the business environment accelerated the shift towards digitalization drastically. Below is a statement of one (1) investor:

*“The most attractive sectors are now in the digital space, so we have not changed our focus on founders, but the general strategy has changed a bit. Fintech, education, social engaging companies and stuff like that.”*

In addition, one (1) more investor references the region, mentioning that COVID-19 has made the shift towards digitalization inevitable:

*“What COVID-19 showed us is that the shift to online, is especially in this region, inevitable anymore”*

From a situational perspective, this sudden shift towards digitalization adds according to one (1) investor a new set of competitors:

*“...the immediate competition might be different now due to the easier online access.”*

#### **4.2.1.1 Accelerates digitalization**

Examining this child-theme, all three (3) venture capital investors mention the shift and power of digitalization, yet it seems like the outcome or result of this shift must be experienced first, since they describe the shift but do not provide a conclusive outcome.

Looking at the variables between the participants, an interesting finding is that when comparing the age to the average number of investments per annum, all the investors referenced are above forty (40) years old, whereas the two (2) older ones conduct fifteen (15) investments per annum and the youngest one (1) only four (4) investments per annum. This data could potentially highlight that investors above the age of forty (40) perceive this shift stronger, regardless of the number of investments per year, which could potentially eliminate the relationship between age and experience gathered through investments whilst experiencing this shift as seen in Figure five (5) below:

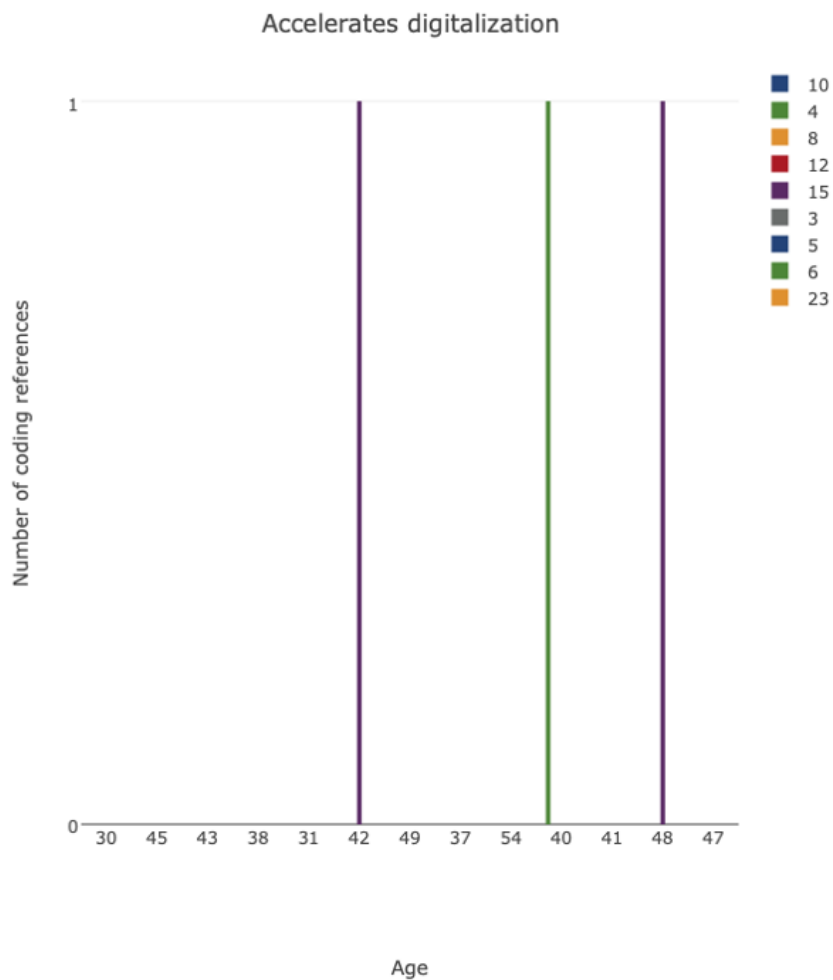


FIGURE 5: ACCELERATES DIGITALIZATION – AGE

#### 4.2.1.2 Challenges

Two (2) investors perceive that COVID-19 introduced significant challenges to the entrepreneurial ecosystem for all the stakeholders, as seen below:

*“Trust me on when I say everyone in this region needs to juggle right now”*

*“Let’s say COVID-19 has changed a lot and brought many challenges”*



The data emerging from the participants carries an interesting comparison when considering the age of the professional investors. As portrayed in Figure six (6) below, both investors perceive COVID-19 related impacts on the ecosystem as challenges. As previously seen in the child code "accelerates digitalization", the investors are also above the age of 40. This could be another data-driven indication that older investors are more affected by COVID-19 than younger investors.

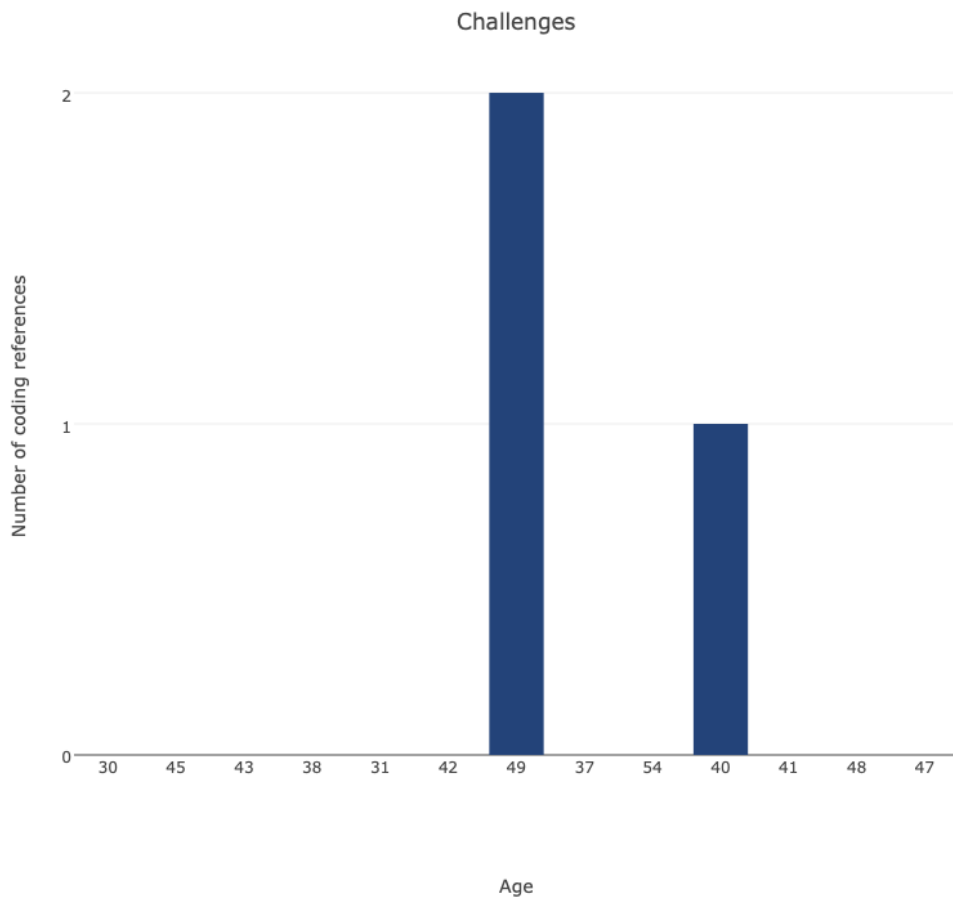


FIGURE 6: CHALLENGES – AGE

#### 4.2.2 Work environment

Name	Definition	Files	References
Work environment	Exploring the daily work environment of a VC.	17	70
Active and susceptible	VC experiences the work environment as dynamic as it is influenced by global forces.	4	4
Complex	VC perceives the work environment as complex.	2	2
Continuous WIP	VC keeps improving own work environment to enhance efficiency and focus.	1	1
Controllable variables	VC explains that managing the controllable variables helps in achieving an edge.	1	2
Coping with stress	VC explains that prior professional experience helps in coping with high stress environment.	1	1
Experience in relation to work environment	VC sees experience as a driver in setting up an efficient work environment.	1	1
Fast	VC explains the environment as being quick and fasted paced.	4	9
Fun	VC experiences fun.	2	2
Hectic	VC perceives the environment as hectic.	5	6
Interesting	VC perceives the environment as interesting.	3	3
No set environment	VC has been working remotely and	1	5

	managed to create an own suitable environment that ways.		
Performance pressure	VC perceives LPs as reasons for daily performance pressure.	1	3
Personal development	VC structured own environment to be able to grow over time.	2	2
Prefers to work from own space	VC prefers to work out of own space.	3	3
Remote work adjustment	VC perceives to have not lost any connections due to the ability to adjust work environment.	1	1
Resources in relation to environment	VC explains that nascency of ecosystem in the region has a direct impact on the funds work capacity.	1	1
Risk in relation to asset class	VC explains that the environment as a whole is risky due to the nature of unsecured investment vehicles.	1	1
Stress caused by nascent environment	VC perceives challenges due to the nascency of the work environment.	2	2
Stress turning into routine	VC explains stressful activities turn into routine.	1	1
Structure in relation to workload	VC explains that the structure of daily business determines stress levels.	1	3
Structured communication	VC prefers to have structured communication to achieve full focus.	1	1
Teamwork for success	VC positions team in the environment to achieve top efficiency.	1	4
Theory vs. reality	VC explains work environment as a	1	2

	balance of analytical thinking and imagination.		
Tough LP interactions	VC explains that the interactions with LPs can be tough mentally.	1	1
Uncertainty in relation to external factors	VC perceives the environment as volatile as external factors require adjustments with uncertain outcomes.	1	3
Value creation	VC explains that the work environment is structured in a way to create the most value.	1	2
Versatile	VC experiences the work environment as multifaceted with continuously different activities.	2	2
Wearing two hats	VC explains that the dynamic thinking process by switching between founder and investor role is matching the current stage in the career.	2	2

Seventeen (17) investors have described their work environment in various ways.

#### ***4.2.2.1 Fast***

Four (4) investors defined their work environment as being fast, as seen in an example of one (1) investor:

*“...high speed... Look it’s all about keeping things moving. I hate bottlenecks so I have become very systematic in my approaches to make things move as quick as possible and as high paced as possible.”*

Interestingly, one (1) professional investor further links “stress” to “fast” and states:

*“It’s a very stressful job. Just to clarify and to be aware, when I say stressful, I mean the need to go fast.”*

It seems that for the second investor, the factor causing stress is the fast pace of the environment. Interestingly, the source of the stress varies according to the data among the investors, however two (2) more investors blamed the nascent environment of the region as the source of stress.

*“So, operating in this nascent ecosystem whilst remaining as flexible as possible is taxing in itself and at times requires a lot of improvisation.”*

*“Oh, I wish that I would have more time on my hands, absolutely! You see, the issue with being a small fund in a region which is only just developing is that we can simply not afford to acquire a larger team. As simple as that...”*

In the latter case, the nascent ecosystem seems to cause an array of hurdles relating to a taxing work environment. Time and the seemingly limited access to funds for an adequate team size potentially affect the operating capability / power of the professional investor, which is perceived as limiting.

On the other hand, one (1) professional investor further explains that stress has turned into a routine:

*“Even the quarterly reports, whilst they carry stress, they certainly have become routine.”*

It seems in this case, however, the source of the stress was caused by a reporting tool for stakeholders such as LPs, which depending on the responsibility might cause other emotions to emerge as well, causing the perceived stress.

From a variable comparison point of view, an interesting finding in this parent theme is that of all the respondents, female venture capitalists perceived the environment to be more fast paced from a coding density perspective compared to males. Taking this further, the females are aged thirty-eight (38) and forty (40). Besides a similar age, the experience in terms of years, seven (7) and six (6), also seems to be in proximity. This could potentially indicate that female venture capital investors are more prone to

experiencing the environment as fast paced compared to males, who did not show any significant differences. The results are presented in Figure seven (7) and eight (8) below.

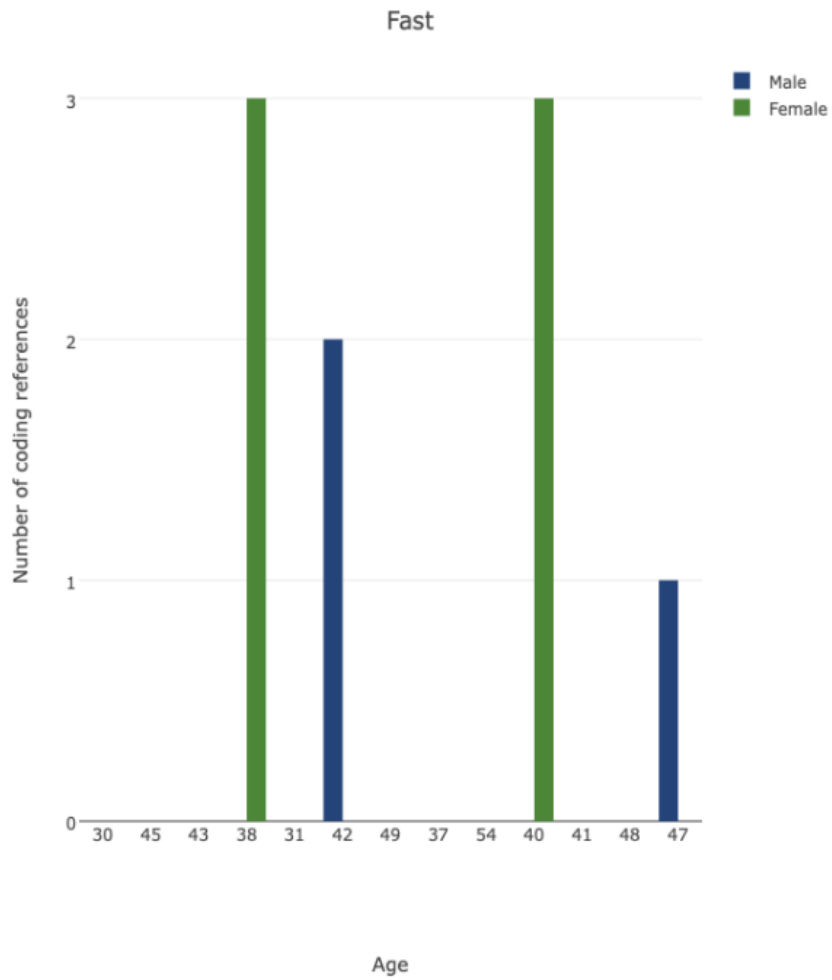


FIGURE 7: FAST – AGE / GENDER

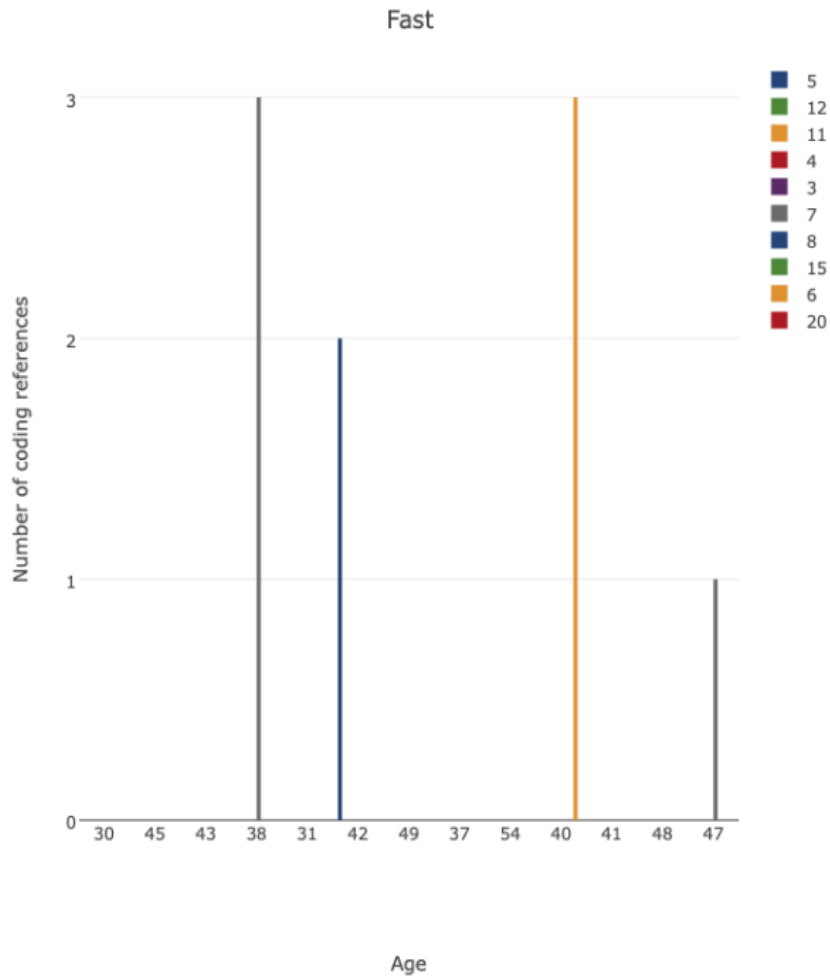


FIGURE 8: FAST – AGE / EXPERIENCE IN TERMS OF YEARS

#### 4.2.2.2 Hectic

Expanding on the feeling of stress further, in this child-theme, five (5) professional investors perceive their work environment as hectic, as explained by one (1) investor below:

*“Hectic that’s probably the most accurate word (laughs and re-iterates on hectic).”*

In addition, comparing two (2) statements from two (2) different investors in this child-theme, a potentially similar phenomenon might be emerging, both perceive and describe the nature of the general business environment as being hectic:

*“Intense, especially because when you get in the funds business there is a lot of action.”*

*“Overall, it is crazy hectic”*

In comparison to the previous child-theme "fast", where the factor behind the stress caused was pinpointed more accurately, it seems that in this case, the bare dynamics and nature of the venture capital work environment is perceived as hectic. In comparison to the other investors featured in this child-theme, the venture capitalist perceiving "hectic" the most in terms of coding density, makes an average of fifteen (15) investments per year, which is more than double what all the other investors do, as portrayed in Figure nine (9) below:

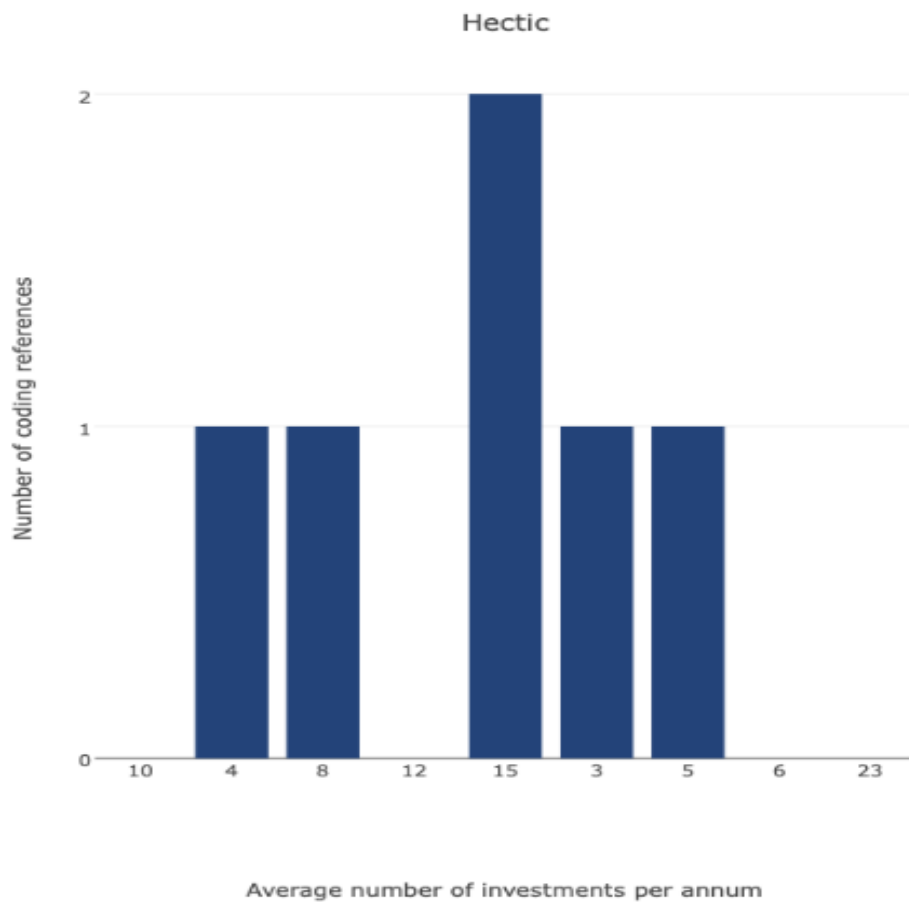


FIGURE 9: HECTIC – AVERAGE NUMBER OF INVESTMENTS PER ANNUM



#### 4.2.2.3 Active and susceptible

In coherence with the above parent-theme, COVID-19, four (4) investors perceive their work environment as active and susceptible, from the perspective that the environment is reacting to the global forces impacting the business environment, such as COVID-19. This can be further seen below:

*“Well, I mean probably everybody will say the same that it has changed a lot with COVID-19. For me I have been working from home...”*

The data gathered from this child-theme emphasizes primarily the impact of COVID-19 on the business environment and the direct relation to changes experienced in the investor’s own field of work. Aside from the fact that this industry seems vulnerable to outside influences, it further seems that the individual experiences are very diverse, with one (1) investor finding the active changes exciting:

*“So, I would say exciting and challenging because of COVID-19 due to the changes in the work environment.”*

Whereas one (1) other investor mentions the flexibility found in the active nature of the environment:

*“This means I did not have to keep it virtual only, right? Again, flexibility and adaptation are even here important (laughs). I keep for example the first one or two meetings online and when I am really excited about an opportunity I move forward and meet the team in-person.”*

When looking at these different experiences through the eyes of the individual investors, it seems that COVID-19 has some kind of effect on the working environment for each of them. Further, it could be that they are able to change their working spaces to potentially fit the new requirements and challenges, finding a way to deal with them regardless of whether they are perceived as good or bad from a psychological point of view.

Furthermore, looking closer at the variables in Figure ten (10), the comparison between gender and the average number of investments annually showcases that

female investors conduct more investments on average per year compared to male investors. This data could suggest that the high density of yearly investments by the female venture capital investor, twenty-three (23) on average, demands a certain flexibility or activeness since this is almost two (2) investments per month versus the other participants in this child-code, conducting twelve (12) and six (6) investments per year, resulting in one (1) or less per month. A further link could be established by comparing the above data with the statement quoted earlier.

*“So, I would say exciting and challenging because of COVID-19 due to the changes in the work environment.”*

Combining these two could indicate that, regardless of how significant the changes in the environment are, some investors can thrive and navigate in the everchanging environment.

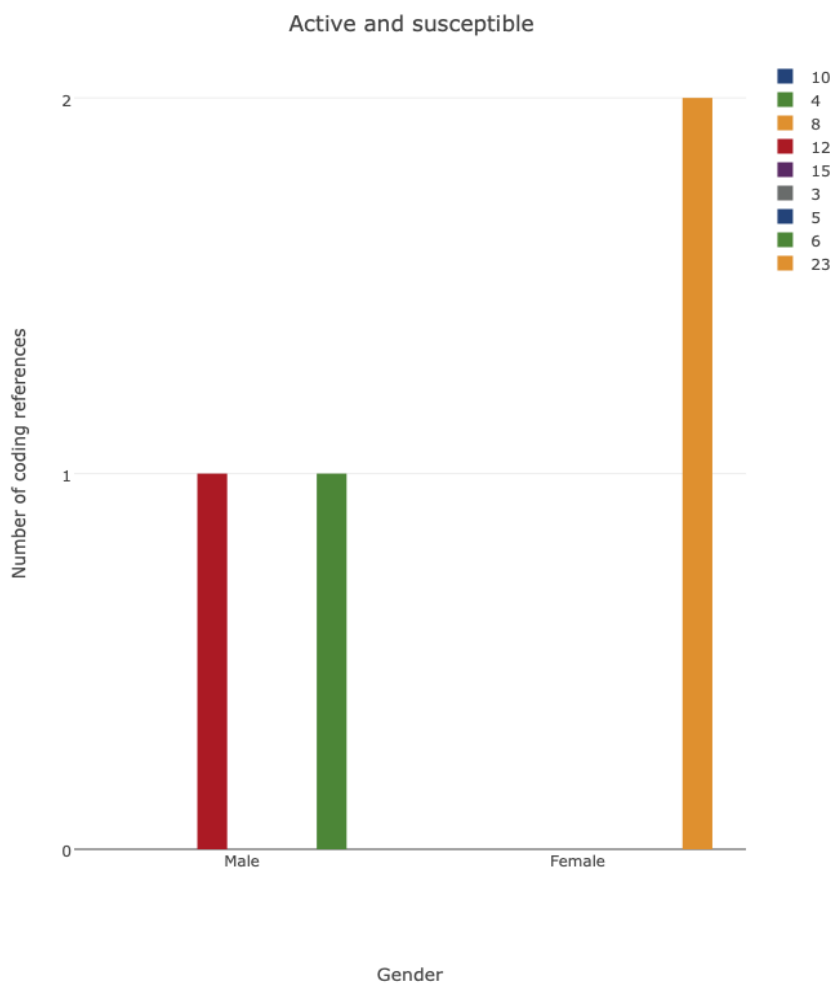


FIGURE 10: ACTIVE AND SUSCEPTIBLE – GENDER / AVERAGE NUMBER OF INVESTMENTS ANNUALLY

### 4.2.3 Middle East start-up ecosystem

Name	Definition	Files	References
Middle East start-up ecosystem	Gathering insights and views on the startup ecosystem in the region.	15	117
Age of regional startup ecosystem	VC highlights the youth of the ecosystem.	1	1
B2B investing in relation to readiness of ecosystem	VC explains the downside of b2b investing in the region due to young ecosystem players.	1	1
Bubble	VC believes the region to be in a bubble with many coming out as losers.	1	1
Capital control in relation to transparency	VC feels a few decision-makers control the vast majority of capital in the region.	1	1
Co-investing activities	VC highlights excitement of co-investing in the region.	2	3
Complexity in relation to ecosystem development	VC believes that raising money is not the answer to the complexity of the ecosystem growth.	1	2
Creative structure to cope with environment	VC explains that the young environment requires different adoptions.	1	1
Cultural sentiments in relation to ecosystem growth	VC perceives cultural differences to impact the ecosystem growth compared to other regions.	1	3
Demand for early stage investing education	VC shares experiences about the demand from big players in the region to learn from VCs in relation to early stage investing.	1	1

Different thinking process between GPs and founders	VC highlights the opposite thinking process of founders and VCs in the ecosystem.	1	1
Disconnect between LPs and VCs	VC sees a disconnect between stakeholders on funding aspects of the ecosystem.	3	3
Diversity in relation to age of ecosystem	VC mentions the lack of diversity in the ecosystem due to its young age.	2	2
Ecosystem got discredited by a large fraud for many years	VC emphasizes on a previous scandal hurting the ecosystem for a substantial amount of time.	1	1
Entrepreneur-favoritism over VCs	VC feels abundance of support for entrepreneurs but not for VCs.	1	1
Exit multiple in relation to the region	VC explains that exit multiples over 3x are considered high in the region.	2	2
Exit options in relation to ecosystem age	VC explains the difficulty of exit options in the region.	3	5
Expat job trend in relation to ecosystem growth	VC explains that expats are coming for local jobs instead of creating new ones.	2	2
Expensive places in relation to survival	VC explains that some of the hotspots in the region are too expensive for startups to sustain.	1	1
Female founders in relation to experience	VC perceives female founders to have less business experience in the region.	1	1
Full of opportunities	VC perceives the region to be full of opportunities and excitement.	3	7

Hidden agenda as sign of nascent ecosystem	VC explains that a lack of transparency hinders the ecosystem from growing.	2	4
Inexperienced VCs as result of nascent ecosystem	VC believes many professional investors are not experienced enough.	3	7
Inflated success stories in nascent region	VC explains history of pumped enthusiasm in relation to nascency of the ecosystem.	1	1
Investment speed in relation to representation	VC explains how investment speed is perceived as representation in the region.	1	1
Kuwait ecosystem in relation the region	VC perceives Kuwait to be the strong part of the regional ecosystem.	1	2
Lack of collaboration in relation to slow growth	VC explains how the lack of collaboration between players in the ecosystem slows down growth.	4	8
Limited capital available for startups	VC explains how the region has little capital for startups compared to other regions.	5	6
Limited LP structures in relation to slow ecosystem growth	VC blames the lack of major LP players for the slow growth of the ecosystem.	1	2
Minority entrepreneurs in the region	VC highlights the difficulties for minority entrepreneurs.	1	2
Minority trends in relation to actual focus	VC projects potential saturation of the minority approach of VCs running funds in the region.	1	1

Nascency of founders in relation to behavior	VC sees that ecosystem nascency is replicated by founder behavior.	3	8
Nascent ecosystem flaws in relation to established regions	VC explains the hurdles faced in the nascent ecosystem compared to other geographies.	3	3
Nascent market in relation to technology	VC explains why the region is not ready yet to adopt high tech.	3	3
Pre-growth stage startups	VC feels that the region hosts a couple good pre-growth startups.	1	1
Region as a whole in relation to its size	VC explains view on the general ecosystem compared to some geographies only.	1	1
Regional B2C investment focus	VC explains the high focus on various b2c businesses in the region.	1	1
Required growth in relation to perception of high quality startups	VC compares international standard of growth to local startup stars.	2	4
Showcasing returns in relation to LP confidence	VC explains how showcasing returns to LPs is directly linked to their confidence.	3	3
Speed of news in relation to small ecosystem	VC highlights how the size of the ecosystem accelerates the spreading of news.	1	1
Supporting founders irrespective of funding	VC perceives the support of young founders to help the ecosystem overall.	2	3

Tremendous growth over past years	VC perceives the local ecosystem to grow rapidly.	1	2
Uneven ratio of local and expat talent	VC explains that parts of the ecosystem have strong local talent compared to others having many expats.	2	2
Unforgiving region in terms of failure	VC explains that having similarities to businesses that have failed is tough.	1	1
VC activities in relation to supporting growth	How VCs perceive activities as helping the ecosystem's development.	1	1
VC influence in relation to supporting the region	VC explains how support can help weak founders with great ideas to have an impact on the region.	1	1
VC strategy in relation to founders	VC explains that if the portfolio strategy is not in line with profitability and basic economics, the founders need to step up and understand the business economics very well.	1	1
Vulnerable to fast changing trends	VC explains that the small ecosystem is liable to dynamic trends.	1	2
Weak competitive b2c position	VC highlights b2c hurdles faced by companies due to weak competitive position.	1	1
Weak ecosystem framework in relation to nascency	VC points of flaws of the ecosystem due to its young age.	1	2
Wealthy angels in relation to slow ecosystem development	VC feels that wealthy angels in the region have influenced the natural progression of startups negatively.	1	2

Fifteen (15) investors described the dynamics of the Middle-East start-up ecosystem.

#### *4.2.3.1 Inexperienced VCs as result of nascent ecosystem*

Three (3) venture capital investors have commented on the practices of their peers. Here's an example of how one (1) investor perceives experience as a problem:

*“...because many funds are so inexperienced that they take whatever founders say without understanding the scalability nor the scope of the opportunity. My issue with that is that a lot of new funds in the market, lack the depth and the experience... don't have the experience and my problem with lots of these funds is none of them has led a deal.”*

Below, one (1) investor emphasizes further on the above opinion:

*“They might be former investment bankers, some of them are consultants and some don't even know what they are. But they are not what the typical venture capitalist would be which you see in U.S. for instance.”*

Linked to control illusion, the data could suggest that the investors stating these comments are perceiving their peers to be unable to determine the outcome of their investments due to the lack of experience relevant to the investment criteria when taking a decision compared to themselves, which according to the literature, could be a sign of illusion of control, as seasoned venture capitalists tend to commit to an investment quicker due to heightened confidence, leading to a false sense of security (Sitkin and Pablo, 1992; Weber and Hsee, 1998).

Considering the nascent ecosystem, the requirement to be classified as an experienced investor could be questioned as there is no immediate indication besides the subjective perspectives. To evaluate the data further, Figure eleven (11) compares the experience in years with the average number of investments per annum:



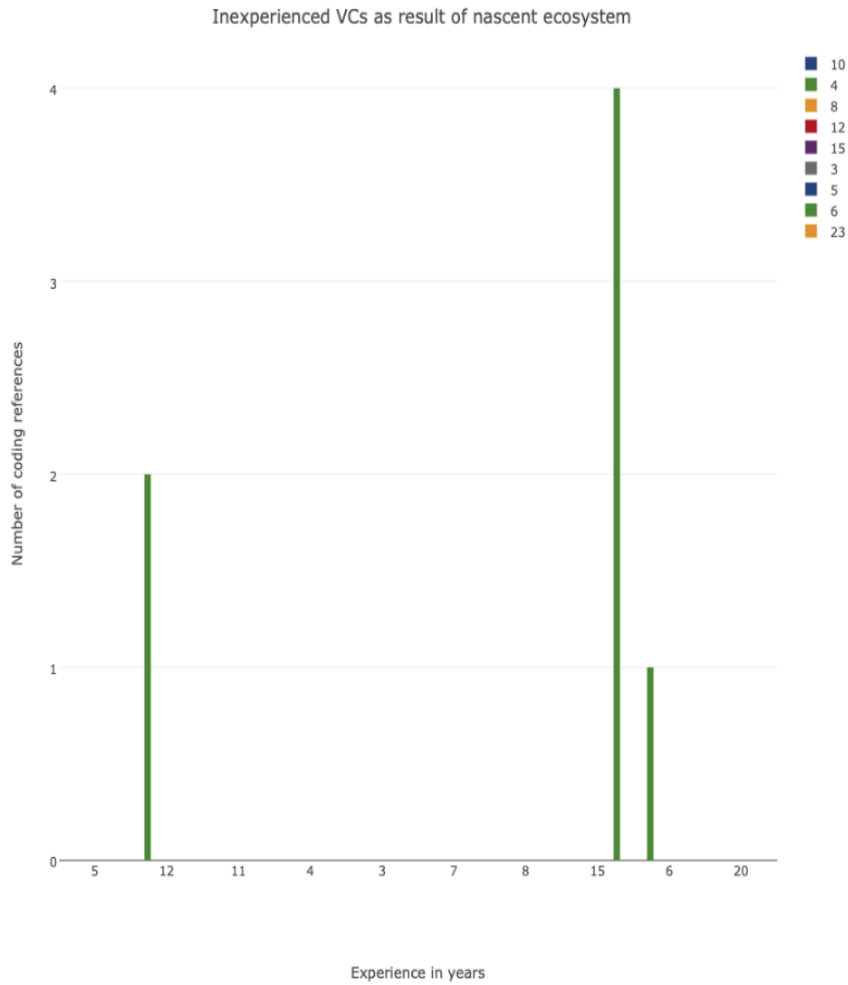


FIGURE 11: INEXPERIENCED VCS AS RESULT OF NASCENT ECOSYSTEM – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS PER ANNUM

Investor	A	B	C
Experience	Six (6)	Twelve (12)	Fifteen (15)
Average number of investments	Four (4)	Four (4)	Six (6)
Total investments	Twenty-four (24)	Forty-eight (48)	Nintey (90)

TABLE 4: EXPERIENCE COMPARISON – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS PER ANNUM

The data shows that investors A and B have a proportional growth in terms of years of experience and number of investments, whereas investor C is out of proportion with significantly more investments but only three (3) more years of experience than investor B. Therefore, it seems questionable where an investor draws the line between classifying a peer as an experienced or naive investor.

Additionally, the below statement of one (1) investor blames, in line with the previous data, the young ecosystem as the cause of faulty investment behavior. Yet the investor seems to question the general fairness and sense behind some projects receiving funds that they should not vs. others that should receive funds but do not:

*“You see this is an issue at times in our region, people get at times money too quick without the proper steps being taken before and I think this is because of the lack of experience within the industry here (sighs) or they deserve and don’t get it at all... but because the ecosystem is so young a lot of people want to be investors without really understanding investing.”*

#### 4.2.4 Investment criteria

Name	Definition	Files	References
Investment criteria	Identifying the investment criteria and relevant factors.	20	126
Actual business quality in relation to founders	VC expresses that the actual business also needs to be solid independently from the founder quality.	1	2
Big picture vs. criteria approach	VC does not believe in specific criteria, but rather at the big picture approach.	1	2
Business model restructuring in relation to priority	VC feels that the business model is not a priority as it often requires restructuring.	1	1
Co-founding team requirement	VC highlights the importance of a founding team over single founders.	3	4
Combination of founder, idea and market	VC follows a strict set of own criteria.	2	2
Combination of founder, market and scalability potential	VC follows a strict set of criteria.	1	1
Competitive landscape	VC wants to know the competitive landscape and potential interference.	1	1
Data on founders in relation to geography	VC explains that the region does not have a central data bank or similar of people, hence why information is a crucial criteria.	2	2
Early stage plus revenue stream	VC has a set criteria for early stage startups with established revenue streams.	1	1

Equally important criteria in relation to startup stage	VC explains that criteria are equally as important, yet depending on the startup stage.	1	1
Target market	VC looks at relevant factors linked the target market from a criteria perspective.	6	6
Evaluation	VC as a criteria is looking at the valuation of a startup.	1	1
Execution capability	VC views execution capabilities to be the most crucial criteria.	3	6
Exit willingness	VC requires founders willing to exit at a certain point and not to keep going for generations.	1	1
Expects disruptive goals	VC expects founders to have the goal to disrupt an industry or to build revolutionary products and not to be mediocre.	1	1
Filtered criteria over time	VC filtered out a relevant set of requirements over time.	1	1
Founder product relationship	VC requires founders to be certain with their product market fit.	1	1
Founder's health in relation to growth	VC mentions founder's exhaustion to be a topic that has to be addressed.	1	2
Founders and team as core criteria	VC prefers founding team over any other criteria.	17	37
Founders life journey in relation to timing	VC explains that investigating if it is the right timing in the founders journey for a VC investment is crucial.	1	1
Fund's target area	VC requires the geographical industry	5	6

	of the startup requesting funding to match the funds expertise and knowledge.		
Growth for all stakeholders	VC explains that visible stakeholder development (monetary, professional, personal etc.) is a valuable criteria because if everybody feels incentivized growth can be achieved.	1	2
Looking for sustainable solutions	VC requires solutions that can sustain long-term.	1	2
Market trends in relation to sustainability	VC identifies if the product can withstand dynamic market trends in the long-term.	1	1
Matching founding team to fund philosophy to determine value	VC matches fund and founder's philosophy to determine value add.	1	1
Matching GP's standard to approaching founders	VC has a set view on what a good entrepreneur is, which is matched to founders requesting investment.	1	2
No preferences towards sing founder or team	VC has previously invested in single founders.	1	1
Pivot capability	VC is looking for founders with the ability to pivot the business model.	6	6
Prefers early stage	VC prefers startups at idea stage to support their growth.	1	1
Product criteria	VC ranks product criteria as second most important.	5	6

Profitability timeline	VC requires a roadmap towards profitability, especially with cash heavy projects.	1	1
Quality in relation to customer reviews	VC likes to review customer sentiments prior to investing to understand the customers views on the product.	1	1
Reference checks with former co-employees	VC explains the importance of conducting reference checks with individuals that interacted with founders prior.	1	1
Requires to meet founders before investing	VC wants to meet prior to conducting an investment.	1	1
Saturated market in relation to great founders	VC avoids saturated markets altogether, even if the founding team is strong.	1	1
Scalability	VC highlights the importance of the growth / size potential of startups in relation to the general market.	8	9
Several criteria required	VC requires a number of factors to make an investment.	4	5
Stress testing in relation to team grid	VC likes to conduct a series of stress testers to experience the teams grid and capability.	1	1
Support and willingness to accept	VC evaluates early on where fund can add support and if founders are willing to accept it.	3	4

In this parent-theme, twenty (20) investors highlight their individual investment criteria relevant for conducting an investment.

#### ***4.2.4.1 Founders and team as core criteria***

Seventeen (17) venture capital investors expressed their preference for the founders as a top priority amongst the decision-making criteria. The importance of this criteria was already identified and discussed in the venture capital literature in Part one (1) by Gompers et al. (2020), who is the source of the inspiration for the theoretical framework of this study. The findings of Gompers et al. (2020) are further solidified by the data in this study, which extracts some of the investor's statements below as examples:

*“Founders, the founders can make or break a project.”*

*“We are definitely a founder orientated fund. Founders before anything else.”*

*“This is the single most important point, the entrepreneur”*

In addition, the requirement for strong founders in early-stage investing is expressed by one (1) investor below:

*“For me, if I have to pick one (laughs and says “feet to the fire” - interviewee takes good 13 seconds to think) it would be the founder. Founder in particular, because we invest in early stage start-ups (pre-seed to series A) and at that point you really are just investing into the founder.”*

An interesting topic emerging within this specific child-theme, linked to the importance of the founder in the decision-making process, is the nascency of the region. This was identified by two (2) professional investors as the reason why the founders are playing a substantial role. These investors state:

*“Founders, it's all about the founders. My main factor is the founder, especially in this region.”*

*“Founder is number one for us, especially in this nascent region where unfortunately people at times want to be entrepreneurs but are just not cut out for it.”*

The focus on the region and its potential reasons for emphasizing it in relation to the founders could be linked to the fact that investors value transparency and honesty, as highlighted by this one (1) venture capital investor:

*“My priority quality that I am looking for is honesty and transparency.”*

An interesting finding of this child-them is the variable comparison between gender and age of the participants as seen in Figure twelve (12).

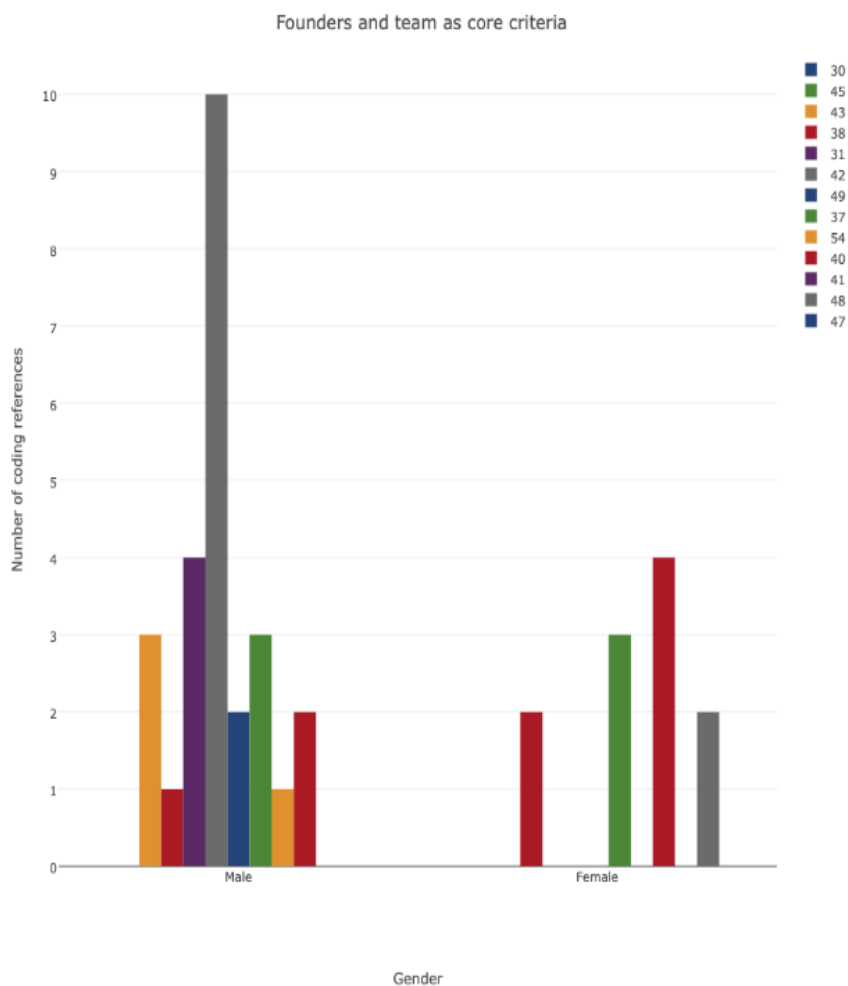


FIGURE 12: FOUNDERS AND TEAM AS CORE CRITERIA – GENDER / AGE

Comparing the variables, it is the forty (40) year age bracket (female: 40, male: 42) that had the most coding references towards the founders and team being a core criteria in investment decision-making.

Exploring this further, another perspective is presented by comparing the average amount of investments per annum with the age of the venture capitalist. As illustrated



in Figure thirteen (13) below, the forty (40) year age bracket ranks with four (4) investments per year on the lower end of the spectrum, which could indicate that these investors are not only highly bullish on the founder criteria for decision-making, but they are also very selective when choosing the right founders and team to invest in.

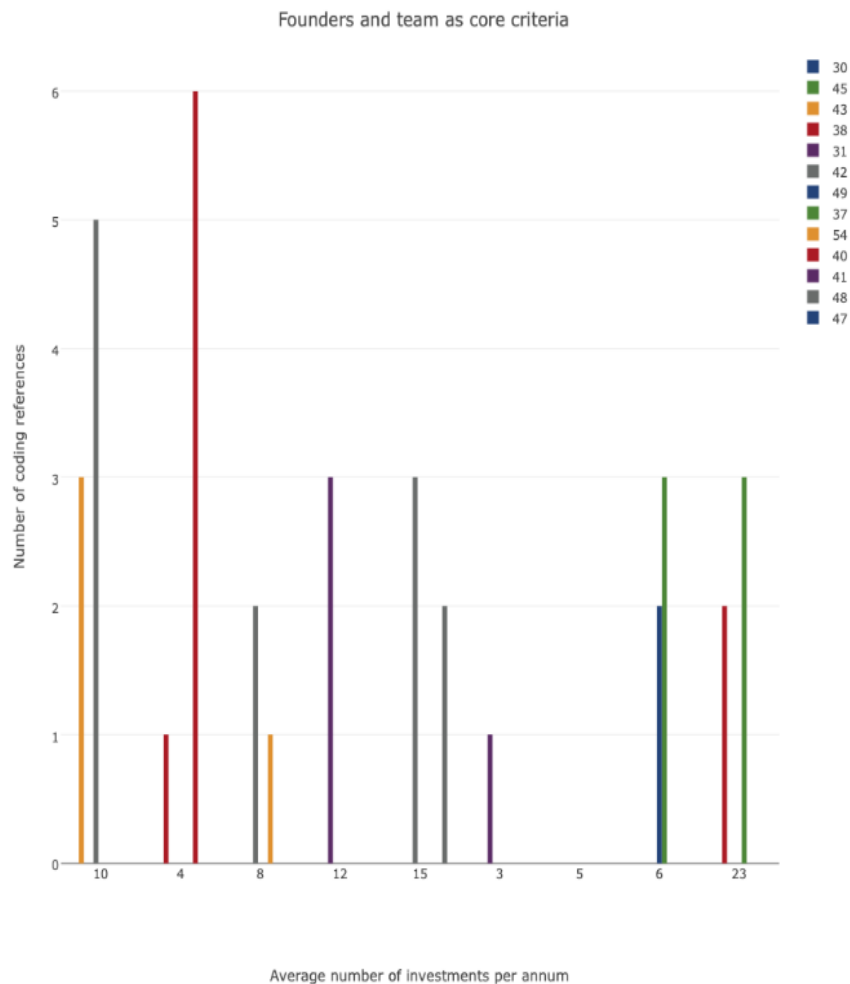


FIGURE 13: FOUNDERS AND TEAM AS CORE CRITERIA – AGE / AVERAGE NUMBER OF INVESTMENTS ANNUALLY

#### 4.2.4.2 Scalability

Eight (8) venture capital investors emphasized "scalability" as a crucial investment decision factor. In this specific child-theme, the word "big" was a reoccurring term amongst three (3) professional investors, as showcased below:

*“(Takes a break to think) Thirdly I would say I am looking at how big the idea is. It needs to be very big, not new necessarily, but very big. It needs to be something else.. just big.”*

*“Alongside product I would say market is the next decision-making factor. Is the market big enough? You may have the best product out there but is the TAM (total addressable market) significant enough for you to actually do good.”*

*“Can they actually capture it? Because VC investing is all about how big you can become at the end of the day.”*

The term "big" seemed to be used by the investors in two different ways, firstly as a measurement unit for the size of the business idea. This could potentially include the general vision of the idea, which must be communicated clearly by the founder(s). A potential link could be established to the previous child-theme “founders and team as core criteria”, where one investor emphasized founder characteristics such as honesty and transparency to be crucial.

The second way of using "big" in the above-mentioned instance seems to be translated into the market size from a geographical perspective, including the growth potential beyond borders, as portrayed by two (2) investors:

*“...and secondly that their products or services are scalable to an international level and not only focused locally anymore.”*

*“The third thing is scalability, the potential of scalability of your solution and will be able to expand for new areas or new products in a timely manner.”*

From a variable perspective, an interesting finding is that three (3) investors positioned on the lower end of the spectrum in terms of experience, with five (5), six (6), and seven (7) years of experience, focused more on scalability, whereas the two (2) more seasoned investors with eight (8) and fifteen (15) years of experience are less concerned about the scalability aspect, as Figure fourteen (14) below showcases:

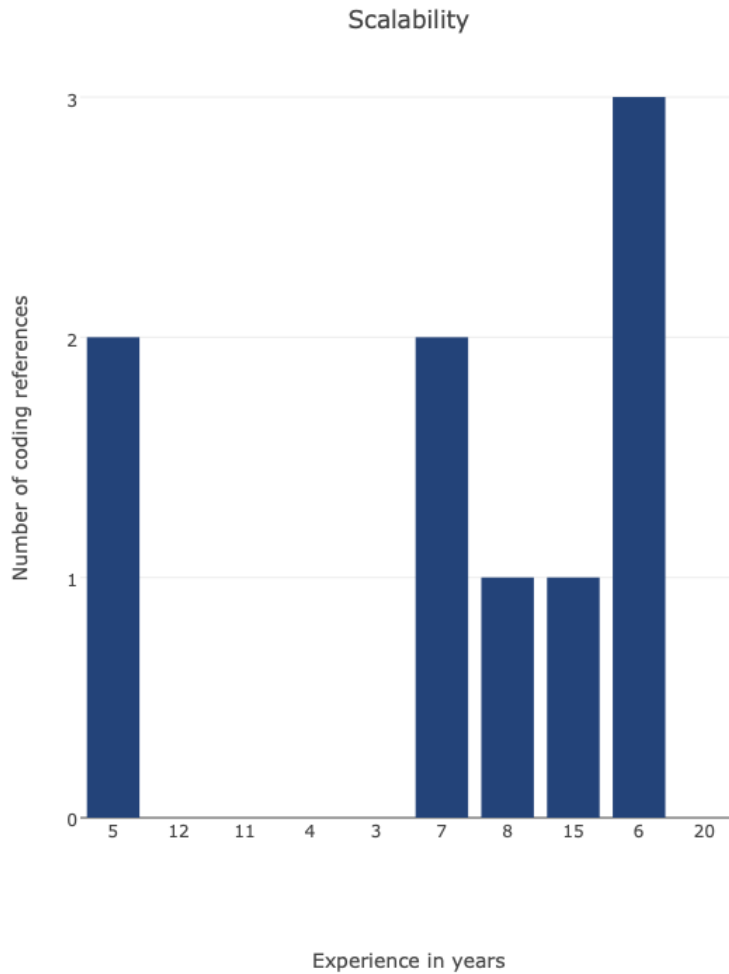


FIGURE 14: SCALABILITY – EXPERIENCE IN YEARS

Furthermore, Figure fifteen (15) below illustrates the experience in years with the average number of investments per year. The investor with six (6) years of experience, positioned on the lower end of the spectrum, takes four (4) investments per year, which is the least amongst the eight (8) investors compared for this child-theme. Surprisingly, the investor with fifteen (15) years of experience conducts only two (2) more investments per year, on average six (6), than the investor with the least experience but the most coding references.

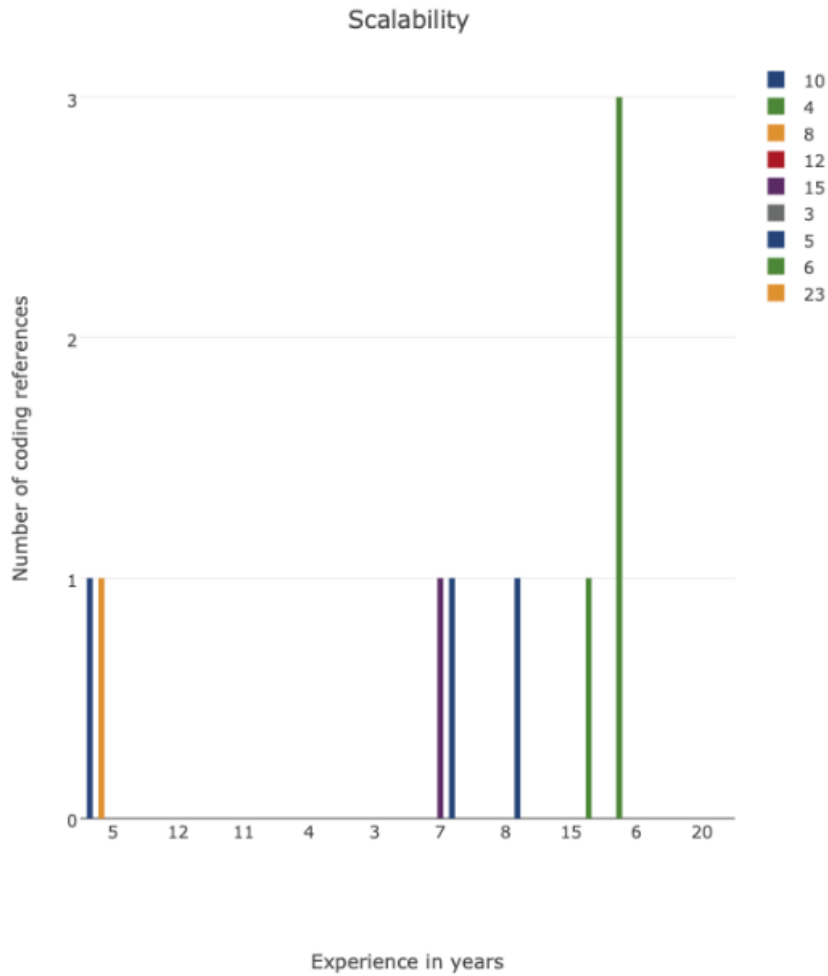


FIGURE 15: SCALABILITY – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS ANNUALLY

Since scalability is a process achieved based on the general acceptance of a product or service by the target customer, more experienced investors seem to pay less attention to market scalability at the beginning of selecting a startup investment. Whereas less experienced investors approach a potential investment with a more optimistic lens. This data is strengthened further by one (1) investor below, who had the greatest number of coding references, yet the least experience.

*“... that their products or services are scalable to an international level and not only focused locally anymore... which simultaneously also means that products can get access from abroad meaning we want our start-ups to be able to sell also cross boarder as”*

#### **4.2.4.3 Target market**

Seven (7) investors look at the target market when investing in a startup. Even justifying the size of the problem as TAM (total addressable market), as per the example of one (1) investor below:

*“Then secondly, size of the problem on in other words addressable market size. What is exactly the addressable market size”*

When looking at the market size or TAM (total addressable market), sub-themes like competition, overall market opportunity, and the health / state of the industry emerge, as two (2) investors explain below:

*“We look at the markets they are going after, if it’s a new market they are creating or if it’s an existing market they are trying to disrupt we look at competitors and if there are any holes to enter in that industry or different markets.”*

*“So, the first question is about the problem you are solving, the market opportunity, the market size.”*

A similar phenomenon, as previously identified in the "scalability" child-theme, emerges. Investors on the lower end of the experience spectrum focus more on the target market portrayed in Figure sixteen (16) below. The investor with six (6) years of experience compared to any other level of experience is the one most concerned about the total target market. However, in this case, and unlike the findings in the "scalability" child-code, all other levels of experience rank at the same level in terms of interest.

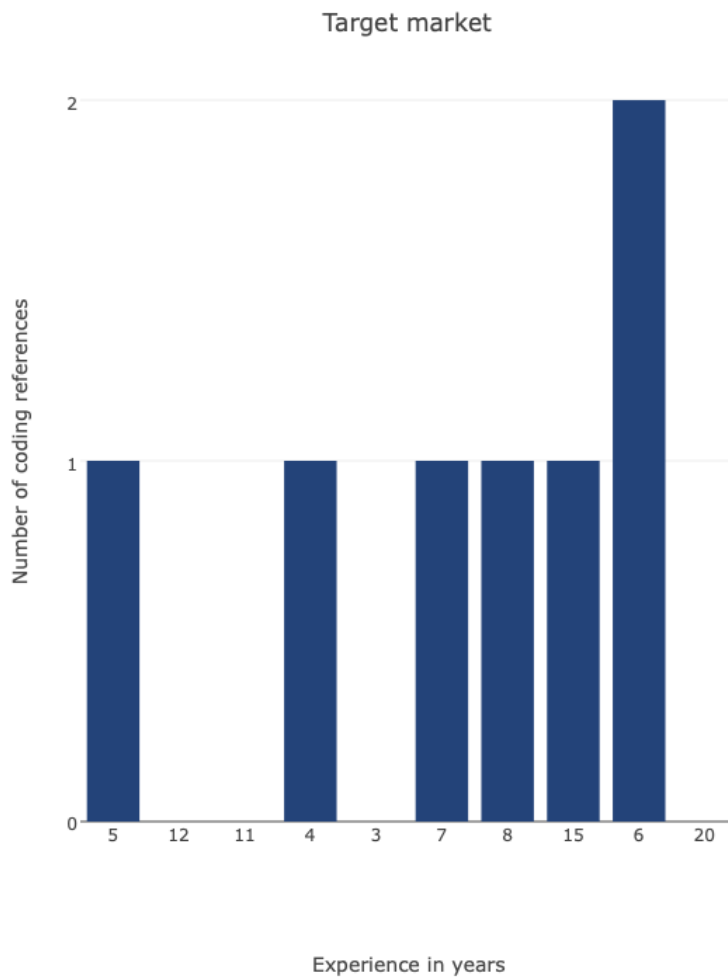


FIGURE 16: TARGET MARKET – EXPERIENCE IN YEARS

Figure seventeen (17) compares the experience in years with the average number of investments per year. The data suggests that the investor with six (6) years of experience takes four (4) investments per year, which is on par with an investor with four (4) years of experience and, furthermore, with an investor having five (5) years of experience taking six (6) investments per year. Whereas the investor with four (4) investments a year has less experience than everybody else. Therefore, the investor with six (6) years of experience makes four (4) investments per year, which is somewhat of an outlier in this specific comparison, as the other investors with less experience are on par in terms of interest in the target market with investors having more experience.

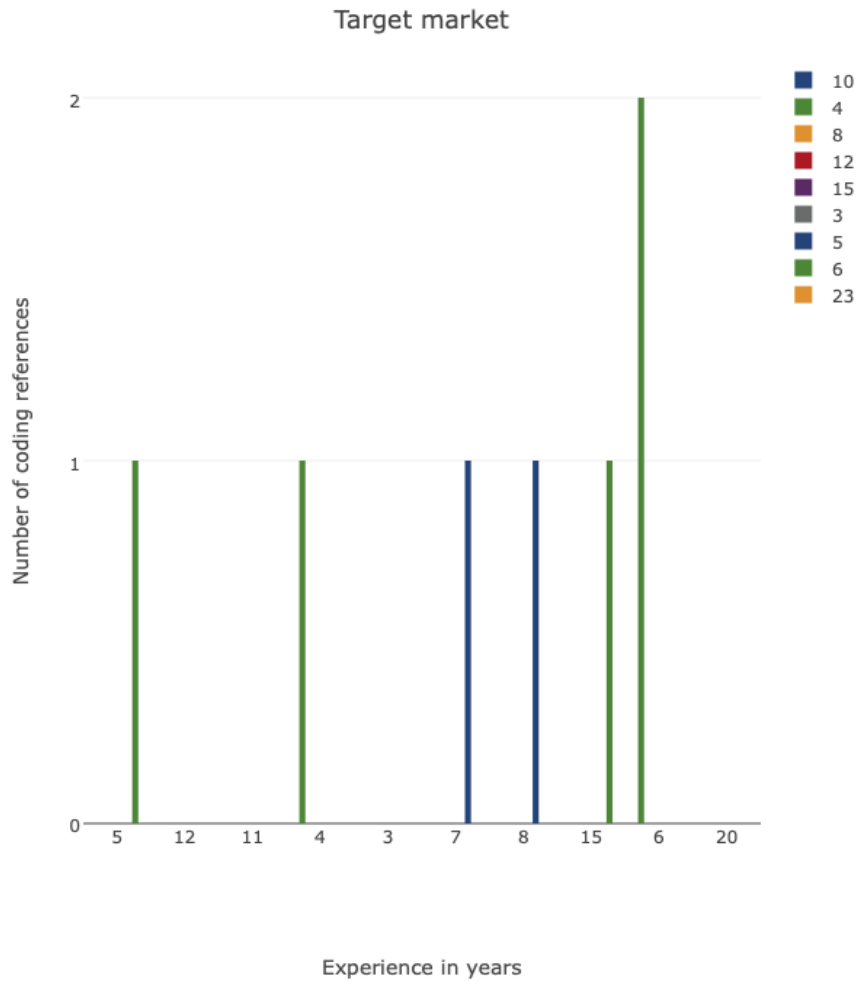


FIGURE 17: TARGET MARKET – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS ANNUALLY

When comparing the child-themes "scalability" and "target market," it is crucial to emphasize the difference. In "scalability", the focus of the investor is on the size of the project can be scaled, whereas the target market speaks about the potential market size within a geography. Even though there is a significant difference in the nature of the codes, the data in both cases highlights that less experienced investors have a higher focus on the scalability and market size factors, which could be the result of several external factors leading back to experience as a skill cue in the venture capital environment.

#### 4.2.5 Investment decision making

Name	Definition	Files	References
Investment decision making	Investigating how VCs are taking decisions and what factors are being considered.	19	127
Consulting professionals and stakeholders to reach decision	VC explains how interactions with stakeholders are beneficial in this process.	3	7
Daily performance requirements in relation to decisions	VC explains that the reminder of the funds mission has an impact on taking decisions.	2	2
Danger of surprises in relation to decisions and risk	VC highlights the difference between surprise and risks in investing.	1	1
Deal decision in relation to startup valuation	VC explains how the valuation plays a crucial role in taking decisions.	1	1
Decision in relation to impact on stakeholders	VC emphasizes on importance of impact on stakeholders in making an investment.	3	3
Decision in relation to size of returns	VC highlights the thinking process when connecting potential returns in decision-making process.	1	1
Decision rationalism vs. emotions	VC explains preference towards taking an investing.	5	7
Decision risk in relation to less capable founders	VC explains occasional investment with heightened risk in less capable founders.	1	2



Decision-making as independent process	VC explains how decision-making has its own place in the process of conducting an investment.	1	2
Decision-making irrespective of daily business	VC emphasizes on efforts to separate business environment from decision-making.	4	4
Decisions based on VC's experience	VC takes decisions according to experience and matched criteria.	4	6
Difficulty of taking decisions	VC perceives investment decision-making as a difficult process.	1	1
Dilution of equity in relation to decisions	VC explains that as early investor forecasting potential dilution over next rounds is crucial to make an investment.	1	1
Ease of reaching a decision as determining factor	VC explains how to ease of reaching a conclusion impacts decision-making.	1	1
Excitement of opportunity in relation to decision	VC explains an investment decision based on positive feelings for the sector.	1	1
Exit does not matter	VC views exits as too complex for investing decisions.	2	2
Founder driven decision in relation to type of interactions	VC emphasizes importance of founders in relation to online / offline interactions.	3	5
Founder likability as decision factor	VC highlights how the likability of founders plays a role.	3	3
IC as extra layer in decision making	VC explains the IC's role in making decisions.	4	5

Investing into founders	VC explains the crucial role founders play when investing.	4	5
Limited size of region in relation to idea saturation	VC highlights how the limited size of the region impacts decision-making when selecting investments.	1	1
LPs in relation to decision-making approach	VC highlights the role LPs play in taking decisions.	6	10
Majority decision approach	VC explains how internal team at fund decide together on investments.	3	10
Market activity in relation to decision-making	VC explains how market traction determination affects decision-making.	1	2
Mindful decision-making	VC prioritizes thoughtful and uninterrupted decision-making.	2	3
Mitigating unusual feelings in relation to decisions	VC explains how a different approach helps to deal with unusual situations when deciding.	1	1
Opportunity distraction linked to decision-making	VC emphasizes importance of staying true to own investment ethos in a sea of opportunities.	1	1
Outlook on exiting investment	VC explains importance and views on exit scenarios.	8	14
Pattern recognition investment approach	VC explains decision-making based on trends in other geographies.	2	2
Questions as foundation of investment	VC explains the importance of information gathering in relation to decision-making.	2	3

Repetitive interactions in relation to decisions	VC highlights the number of interactions with a lead determining a decision.	1	1
Role of technology in decision-making	VC relies on technology in decision-making information gathering.	1	1
Scalability in relation to decision-making	VC discusses the importance of a startup being able to scale beyond a certain point.	3	4
Skill awareness of founders in relation to future dilution	VC highlights that founders with self-awareness are profitable regardless of future dilution.	1	1
Speedy decision-making as base	VC explains importance of fast decision-making in VC industry.	2	4
Stage of investment in relation to complexity in deciding	VC explains how the stage of an investment can make it complex to take decisions.	2	4
Team capability in relation to decisions	VC explains that a great team can ease the potential impact of daily business on decision-making.	1	1
Time in relation to decision quality	VC explains the impact the amount of time has on the quality of the decision.	3	3
Uniqueness of companies in relation to decisions and failure	VC explains how the uniqueness of each startup trumps failure and aids decision-making.	1	1

The data in this parent-theme is sourced from nineteen (19) venture capital investors. Interestingly, investors are highlighting numerous factors that impact their individual decision-making, ranging from situational factors like stress to stakeholders such as

LPs or founders. Out of one hundred twenty-seven (127) references, below are some demonstrations of the responses to illustrate the huge variety:

*“I prefer to no let the daily work environment interfere with the investment process...”*

*“We would rather miss a deal then do a deal in a rushed fashion...”*

*“Experience plays such a huge role for me,”*

*“Enormous, look the majority of the time I spend with entrepreneurs to get to know them and as I said I want to know everything, only then you can at this confidently say yes that’s one we go for.”*

*“...because the pressure on the opposite side from our LP’s is so high that we need to do smart choices.”*

*“I think the responsibility for a huge sum of money is my main factor for investing.”*

*“Responsibility leads to taking cautious and well researched and systematic decisions to minimize risk,”*

*“If we don’t like the team, we don’t invest.”*

*“We don’t like investing by gut feelings”*

*“So when my experience and skills tell me to go for a company and this company matches all the mentioned criteria, we really have to gun for it..”*

*“So the process is not putting any pressure in terms of decision-making, because after they submit the documents we take three weeks to reach a decision.”*

*“As I said a lot of times, it’s a hunch.”*

*“...and that’s why in terms of investment we must go fast in decision-making else we are killing and dragging the entrepreneur.”*

*“In general, I never look at an exit when I make an investment, regardless of how certain I am and regardless of how much I believe in a startup.”*

#### **4.2.5.1 Outlook on exiting investment**

In terms of respondents, this child-theme is the densest amongst all others in "investment decision-making", highlighting the importance of the exit process in decision-making. Whereas it is the densest, a link to the last response demonstrated above could potentially further strengthen the broadness of the respondent’s views as opinions seem to vary in terms of what the exit symbolizes to the individual investor. However, most investors seem to say that an exit is a must, and it's part of the plan to figure out whether an investment will work, as seen in an example of one (1) investor below:

*“For us the exit strategy is an absolutely mandatory element in the investment decision”*

Whereas one (1) investor perceives exits simply as a part of a financial transaction:

*“Oh for sure, this goes back to the basics of how to make money as an investor. The only way for us to make money with this sort of businesses is having an exit strategy.”*

Furthermore, two (2) investors link the exit to the founders and the nature of the nascent region, but they do so from seemingly different points of view:

*“We want an exit with a good return, so we need more than just a smart person. This is primarily because if the founder wins, we win.”*

*“So today I am looking more at profitability, how can we get as much money out of the startup as possible because let’s be realistic investing in this region is easier than exiting.”*

Even though it is stated in the literature that venture capitalists vary from each other due to the application of different investment criteria (Sørensen and Stuart, 2001), it seems that some of the emerging data potentially indicates that each investor follows a personalized methodology when looking at the investment process in relation to the exit outlook, with some factors being unanimously accepted, such as the exit being a part of an investment strategy versus others being more personalized.

In Figure eighteen (18), the experience in years of the participants is compared and an interesting finding emerges. The highest number of coding references is with the investor having five (5) years of experience in the industry, which is the second least amount of experience, followed by an investor with six (6) years and four (4) years of experience. The surprise lies in the fact that the investors with substantially more experience in twelve (12) and fifteen (15) showcase much less density in relation to the outlook on exiting.

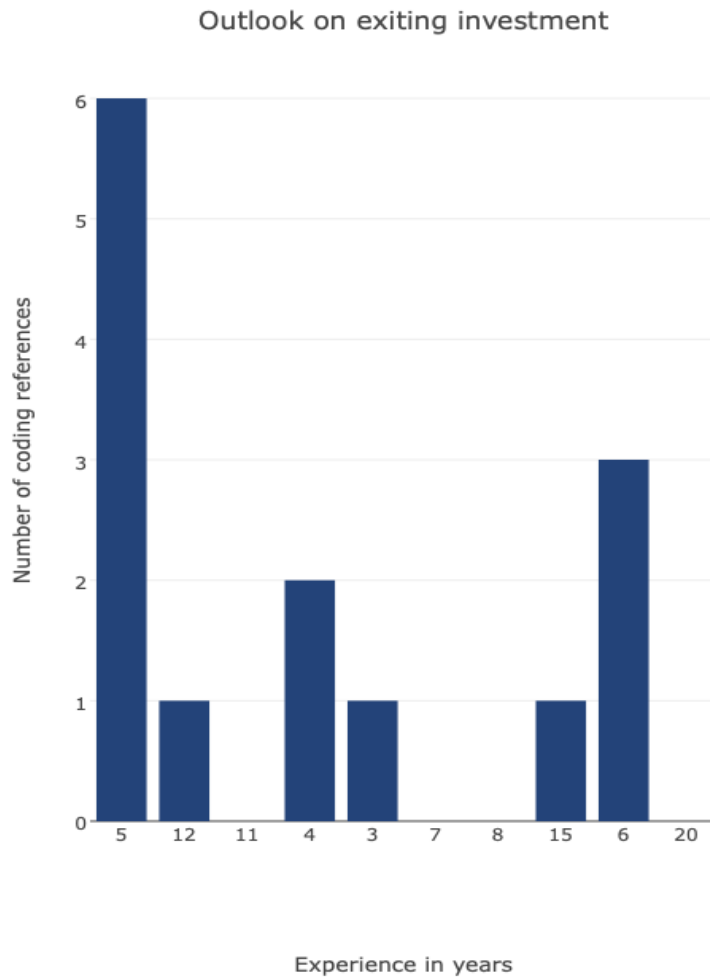


FIGURE 18: OUTLOOK ON EXITING INVESTMENT – EXPERIENCE IN YEARS

Adding to this comparison the gender variable in Figure nineteen (19) below, the results become even more interesting. From a quantity perspective, it seems that male investors are mostly concerned about the general outlook on exits compared to female venture capitalists. Furthermore, while only one (1) female investor appears to prioritize exit, she is also the investor with the second highest coding density. This could potentially re-iterate the point above, that each investor follows a personalized methodology when looking at the investment process with different motivational factors. However, according to the data, males, from a quantity perspective, seem to be more concerned about exits than female investors in this study.

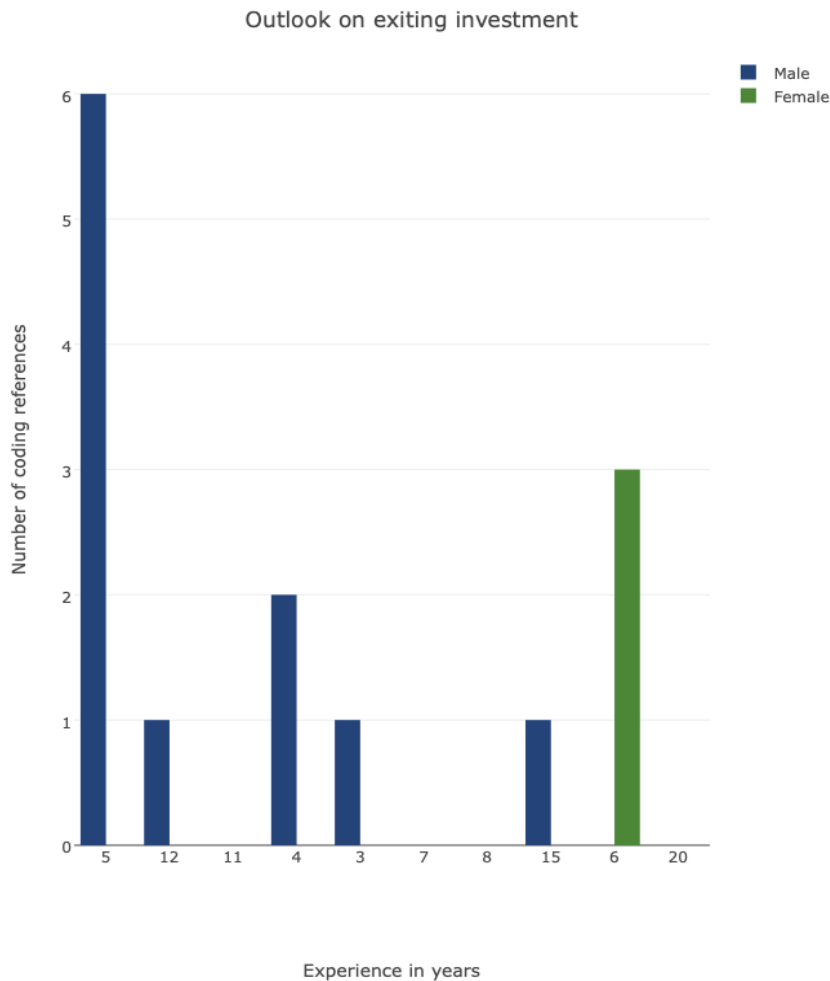


FIGURE 19: OUTLOOK ON EXITING INVESTMENT – EXPERIENCE IN YEARS / GENDER

#### 4.2.5.2 LPs in relation to decision-making approach

Venture capitalists highlight an array of factors that impact individual decision-making processes, like, for example, external stakeholders. Six (6) investors have reasoned why limited partners of a venture capital fund can play an apparently enormous role in the decision-making process. Here is an example of one (1) professional investor that shows how limited partners potentially have a big impact on how decisions are made:

*“So, if you would ask me if there are investments, I would have loved to take but couldn’t because of LP’s clouding my decision-making or judgment as the investment might have posed a tiny bit more risk than others, then I would say: Yes absolutely.”*



This is further supported by three (3) more investors, emphasizing the pressure and subsequent accountability of handling the LP's money, as shown below:

*“...because the pressure on the opposite side from our LP's is so high that we need to do smart choices”*

*“...but what about these investors trusting you with their own money? This makes me fully accountable to them. So, if I continue to invest in a company and the signals were there that I shouldn't have I need to be able to back that up.”*

*“...where every decision comes back to one person who is usually the main LP.”*

According to the above data, it seems like professional investors collect reasons to justify why an investment was made, for a potential confrontation with limited partners, as seen in the statement about accountability. This data could further indicate that there is a subconscious process along with the regular investment-decision-making process since investors seem to be concerned about the accountability. This idea of a subconscious process along the main decision process could be linked to the child-theme "fast", where one professional investor mentions the following:

*“Even the quarterly reports, whilst they carry stress, they certainly have become routine.”*

In line with this data, there could be a match with the literature on decision-making. Sandberg, Schweiger and Hofer (1988, pg.13) state that the study of human decision-making must also include perceptual, emotional, and cognitive processes that eventually lead to the selection of a decision. This could further emphasize the stress or potential emotions linked to limited partners and the pressure or requirements in the form of accountability. Closely related to the above is the responsibility of the funds from a professional asset investment point of view, which was emphasized by two (2) investors below:

*“So I would say unlike founding teams or products, for me the factor influencing me is the responsibility and how well can I safeguard this, my investors, my fund and myself when investing.”*

*“At the end we are doing financial investments and this is an asset management business and we owe it to our investors to generate returns and that’s what we are motivated by.”*

The above statements could potentially be related to the industry standard of asset management and the responsibility asset managers have over the funds of their clients. However, in the first comment, the investor briefly mentions: "... safeguarding this, my investors, my fund, and myself."

Protecting "myself" could potentially be linked back to the previously discussed idea that investors could subconsciously gather potential reasons to justify investment decisions along the regular investment decision making process, as they are responsible for the deployment of the client’s funds.

In Figure twenty (20), it's interesting to note that the coding density was highest for the youngest investor, thirty-seven (37) years of age, compared to those ranked between forty (40) and (54):

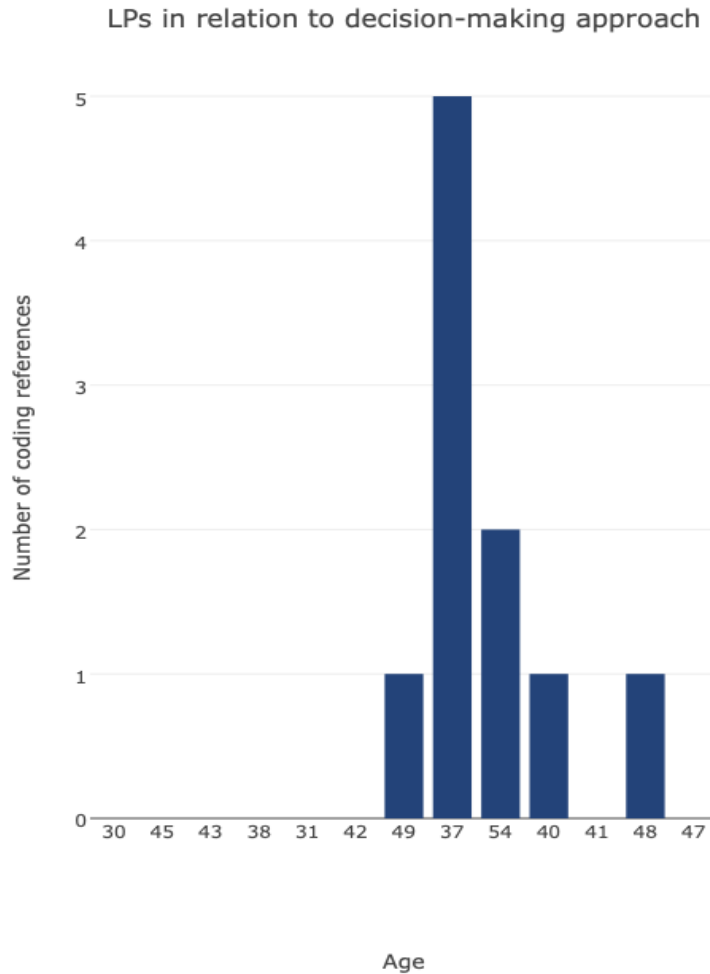


FIGURE 20: LPs IN RELATION TO DECISION-MAKING APPROACH – AGE

When comparing the age with the experience in years in Figure twenty-two (22) below, the youngest investor is in fact also the one with the longest experience of fifteen (15) years in the industry, closely followed by another investor with fifty-four (54) years of age and fifteen (15) years of experience. This is an interesting discovery because the investors with the most experience in the sector arguably have the most experience in dealing with external stakeholders such as limited partners. This could mean that the mentioned concept of justification could potentially have become an integral part of the investment process for these investors and their individual decision-making.

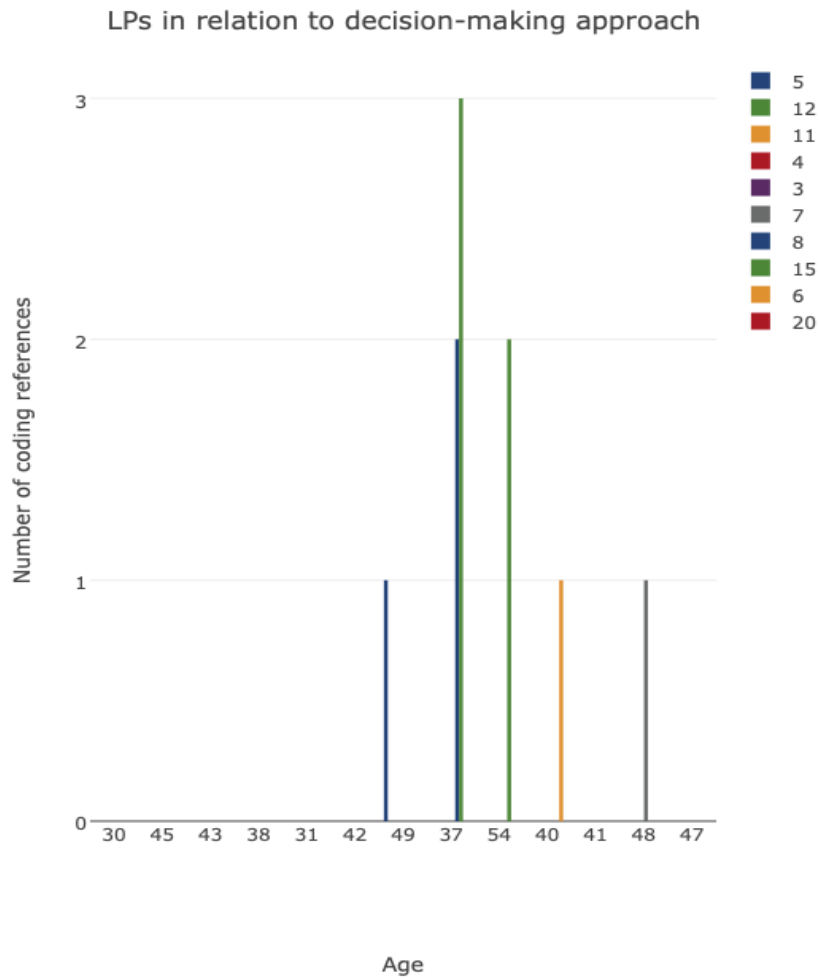


FIGURE 21: LPs IN RELATION TO DECISION-MAKING APPROACH – AGE / EXPERIENCE IN YEARS

#### 4.2.5.3 *Decision rationalism vs. emotions*

Five (5) investors shared data to dive into the decision-making process, segregating emotions from data-driven or rational approaches. This child-code furthermore highlights the stance of professional investors towards emotional decision-making approaches and how potential emotional decisions are mitigated via data, as explained by one (1) investor:

*“I try to avoid making investments using my gut feeling or emotions, because when I do this, I feel not comfortable.”*

It seems throughout that venture capital investors vehemently re-iterate that any kind of investment decision should not be based on emotions or gut feelings, as further mentioned below by two (2) investors:

*“We don’t like investing by gut feelings”*

*“Actually, one of my best investments (stops and re-phrases) one of our best investments is the one that I was not emotionally, by any means, attracted to.”*

However, a professional investor says below that it can be hard to keep emotions out of investing, especially when products seem very appealing:

*“Again, sometimes you think wow what a product, but is that product the let’s say safest option to invest in for your money or is it irresponsible and its only emotions driving it...(sighs) really tough at times.”*

On the other hand, one investor points out how important it is to have accurate data to make decisions in a systematic way:

*“So, you need to be 100% sure of the accuracy of the data and this pressure puts a lot on the daily decision-making, because you don’t take decisions based on emotional factors anymore you start methodically thinking...”*

This is a rather interesting statement, because this way of decision-making seems to base everything on the availability of data, its collection, and its accuracy. This in turn could be linked back to the child-theme “founders and team as core criteria”, where one (1) investor argued that it is all about the founders, especially in this region:

*“Founders, it’s all about the founders. My main factor is the founder, especially in this region.”*

Dissecting this statement, the investor specifically mentions "this region," which could potentially have many different meanings. However, a potential attribute of a nascent region might be the lack of accurate insights or the lack of access to databases due to all kinds of geographical, cultural, legal, regional, etc. differences. This could potentially be the case in a place like the UAE, where the turnover of expats seems to be huge and where migration is continuously flowing.

Another interesting statement by one (1) investor that could potentially also be linked to the nascent region mentioned above is:

*“...usually I take decisions on my own after the due diligence process and after learning more about the founders and the company’s growth potential.”*

This seems that the investor only trusts own judgment, experience, or skills when taking a decision, since the focus of the statement is "on my own". Going back to the mentioned decision-making approach based on data and the importance of data availability, collection, and accuracy, it further seems that the investor mitigates these via the due diligence process and creates an own perspective when learning about the founders.

Using a mechanism like the due diligence process seems to help in mitigating irrational approaches. However, a potential question that could be raised is: If the investor learns about the founders in any other way than a rational mechanism, what are the ways to mitigate any emotions, feelings, or views from developing? This potential bias in applying decision-making approaches could be linked to the literature, where Zacharakis and Meyer (2000) determined venture capitalists to be inconsistent in their use of their own decision-making criteria. The researchers emphasize that venture capitalists see each investment as a unique chance, linking prior experience and expertise with the investment opportunity at hand.

#### 4.2.6 Project selection evolvement

Name	Definition	Files	References
Project selection evolvement	Exploring the ways VCs have evolved in selecting startups eligible for investments.	18	75
Atypical investment model in relation to maturity	VC explores an atypical investment model in the region requiring time to evolve into mature structure.	1	1
Combined industry experience matters	VC believes that knowing both sides of the table in the VC industry matters more than ever for project selection.	1	3
Deal closing speed	VC closes deals faster than before.	1	1
Evolvement due to personal development	VC finds that project selection evolvement is linked to personal growth.	2	2
Experience as driver for evolvement	VC generally feels that project selection has developed one or the other way due to gained experience.	11	23
Faster decisions in relation to profitability	VC takes decisions faster based on the estimated profitability of the opportunity at hand.	1	1
Forced multi-tasking in relation to fund structure	VC feels that the fund structure forced evolvement in multiple disciplines.	1	1
Generally more efficient	VC sees that efficiency of project evaluation has developed throughout.	1	1

Growth in relation to dynamic environment	VC explains that events like COVID-19 made them focus more on growth / pivot capabilities of founders.	2	3
Improved in evaluating founder qualities	VC feels a better understanding of relevant founder qualities.	3	5
Improvement in due diligence	VC feels that due diligence processes have developed greatly.	1	1
Interprets trends differently	VC sees evolvement in spotting new industry trends, which directly impacts investment criteria.	4	4
Investment fundamentals in relation to market dynamic	VC explains that compared to market dynamics, the fundamentals of investing do not change.	2	2
Learning by doing	VC perceives each investment taken as a learning experience.	4	7
More founder driven	VC started to introduce more human related factors in project selection.	2	3
More selective	VC feels to be more selective.	2	3
Never ending learning process	VC feels that regardless of the fund structure and experience, there is a continuous learning process in the industry.	2	2
Opportunities in relation to experience	VC explains that after reviewing a substantial number of investment opportunities, startups with potential naturally stand out.	2	2



Patience in relation to most profitable opportunity	VC became more patient to make investments allowing the lowest possible opportunity cost.	2	3
Responsibility in relation to career development	VC experienced that career development naturally led to a change in project selection as responsibilities evolve.	2	2
Selection in relation to decision-making	VC feels the general investment process has become more mature throughout.	1	1
Technology in relation to investment selection	VC started using more technology tools to select investment opportunities.	1	1
Unexpected events in relation to experience	VC feels that unexpected events turn out to be large learning curves.	1	1

Eighteen (18) professional investors explain the evolution of their project selection process, including behavioral changes, feelings, experiences, and skills that might have been affected in tandem with the evolution process. An interesting perspective this data delivers is that the level of decision-making power within a company also seems to have an impact on the evolution, as some venture capitalists felt significant differences when venturing out with their own fund versus operating as an employee within a previously established machinery. As per the two (2) statements below by one (1) venture capitalist, it seems that the evolution of the project selection process is a continuous growing curve.

*“I would call it a “maturing” process. Both in terms of how I determine if something is investable or not and, in the process, associated to the decision-making as those two things obviously interplay.”*

*“All of this requires a lot of experience and abilities or skills, which don’t come fast. They come with a huge learning curve over years of operating and shaping up your own environment to increase the odds.”*

#### **4.2.6.1 Evolvement due to personal development**

Two (2) professional investors emphasize the learning curve as not only a professional journey but also a personal one. Interlinking, for example, self-awareness, purpose, or external challenges to their growth as investors:

*“Look I am learning as I go, 5 years ago I would have probably not said the same things as I do know... but this is because my lens as an investor has changed. I think I only started realizing this when I got more self-aware about my own life and what I want to do.”*

*“This also makes me think about myself and I feel more mature than pre-pandemic, just because the learning curve has been so big.”*

An intriguing aspect of these two statements is that the evolution of project selection potentially boils down to time and experience, as both investors speak about inputs occurring over a specific time span that have helped them develop their individual investment selection processes. In the child-theme “decision rationalism vs. emotions”, investors highlight the importance of driving the investment process by rationalism and data, as seen in the below statement of one (1) investor:

*“I try to avoid making investments using my gut feeling or emotions, because when I do this, I feel not comfortable.”*

However, based on the above data and discussion, it seems that investors are going through certain emotional processes linked to their development or experiences that seem to help them get better at their profession, leaving the question of where emotions and rationalism meet and to what degree does one impact the other in terms of project selection.

#### **4.2.6.2 Experience as driver for evolvement**

Eleven (11) professional investors share relevant data about how they perceive experience as a key driver in evolving and developing. Here are some quotes from eight (8) investors that show how they feel about experience being a key driver:

*“Oh massively. Experience, experience, experience. That’s simply the key.”*

*“And that’s actually my experience in understanding that there is a human driver behind all of this and a deeper meaning, which goes beyond lifestyles.”*

*“So I think what I have really learnt throughout this way of selecting projects is the human factor.”*

*“Overall, my project selection has definitely changed with experience and fine tuning my strategy.”*

*“I have felt uncertain here and there, but time and experience improve this proves a lot.”*

*“It has evolved a lot, changed a lot even because of experience.”*

*“Oh it has changed greatly. Evolved is more so the right word, you see Nicholas with every investment you learn.”*

*“...and I learnt what I like and which ideas I don’t like or stay away from.”*

#### **4.2.6.3 Combined industry experience matters**

Expanding on the above statements, the input by one (1) investor in this child-theme was very interesting. The investor emphasized not only gathering experience within the investment domain but also learning about the other side of the table, or in other words, recommended that investors in general should learn more about the entrepreneurial struggles and ways of approaching challenges:

*“I honestly think it would be good for every VC to have the experience from both sides of the table, because often we try to be understanding even if it’s difficult to really grasp why founders do what they do but having been in such shoes and appreciating to do what it takes to survive and win over an investor ad so much value and experience. Now I know for example to look at certain details which I would have not seen before, I can understand the dynamic between founders and teams and products better which helps me ultimately to make better decisions.”*

#### **4.2.6.4 Learning by doing**

It further seems that experience in the context of the above investor recommending the combination of industry experience could be linked to "learning by doing." Four (4) investors share their experience in relation to learning by doing. This could be potentially linked to the venture capital industry since it takes several years for a fund to produce solid results in terms of profitability or loss. Furthermore, it could link the types of experience professionals have and how closely they are linked to variables such as time, outcomes, or goals, which could have a direct impact on the duration an investor has been in the industry and the number of years it takes to become what could be considered "well-experienced". This could potentially be linked back to the previous discussion in the child-theme "inexperienced VCs as a result of a nascent ecosystem" and the required threshold to be considered experienced.

The investors with four (4) investments per annum, which is the lowest compared to others, and with six (6) years of experience, ranked as the second lowest, have the highest coding density in terms of learning by doing. On the other hand, investors with more experience in terms of years and more than ten (10) annual investments have fewer coding references as portrayed in Figure twenty-two (22) below:

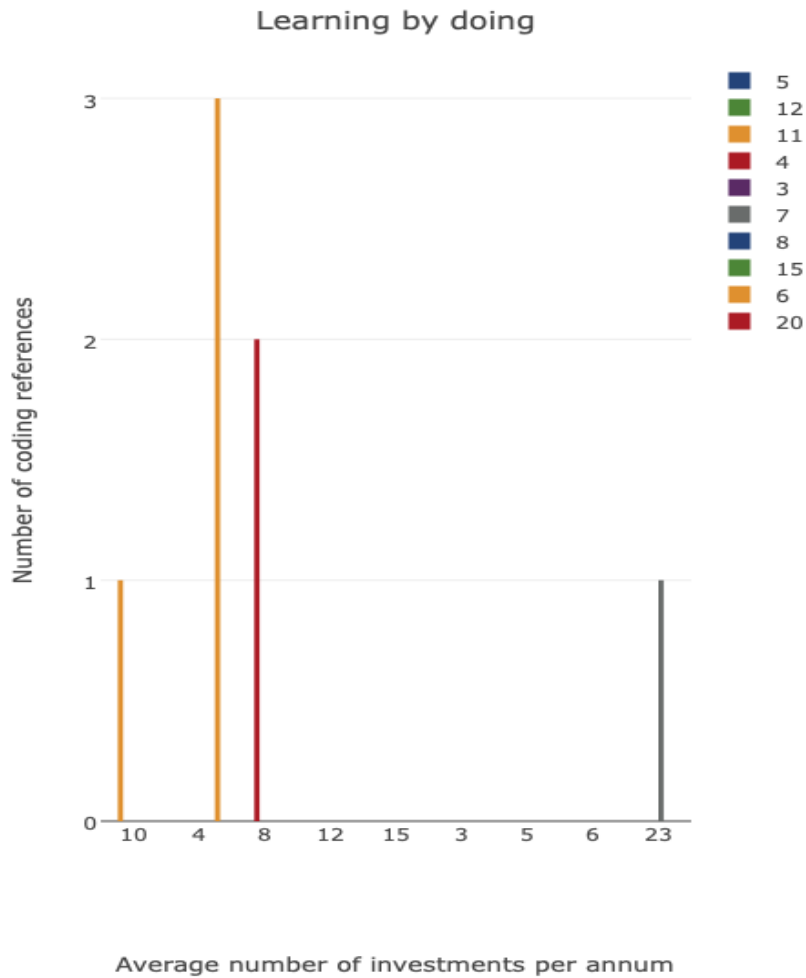


FIGURE 22: LEARNING BY DOING – INVESTMENTS PER ANNUM / EXPERIENCE IN YEARS

Apart from the above-mentioned drivers of evolution, two (2) investors also made interesting statements found in the child-themes of "deal closing speed" and "responsibility in relation to career development". These insights evolve around their career and how decision-making autonomy has had a potential impact on evolving in project selection, as seen below.

*“I ran the investment department of (names corporate VC firm). So there you don’t have a say, whereas now I am the managing partner where I control so to speak my destiny and I control what is going on, we are very flexible, fluid and have the ability to execute very quickly unlike corporate VC funds.”*

*“So, my ability to close deals very quickly is a big evolvment and has been the biggest improvement over my entire journey in the VC space.”*

In both cases, "decision-making speed" as a factor in execution together with its impact on project selection evolution has been mentioned. Particularly interesting is that the autonomy as general partner or fund manager allowed the investors to take decisions without barriers or a hierarchy that required satisfaction first. This could potentially be an indication that the combination of controlling own destiny, autonomy, and responsibility are some potential factors to be considered when looking at drivers either behind "experience" or behind the general project selection evolution.

#### ***4.2.6.5 Forced multi-tasking in relation to fund structure***

Linking project selection evolution to skills found in this child-theme is another vertical one (1) investor perceives developmental, as seen below:

*“It’s not that we have like an admin person or consultant doing all these things for us. Still to this day we do everything ourselves, so I think mostly evolved has the multi-tasking and the people skill.”*

This statement could potentially be linked back to experience and the time factor as skills are improved over a certain period via re-occurring activities in a potentially similar "learning by doing" format. A supporting reason could be the child-theme "founder and team as core criteria", where professional investors have mentioned the importance of the founders as an investment criteria.

*“Founders, the founders can make or break a project.”*

Potentially linking this statement to a statement further above and within this child-theme, where one (1) venture capital investors made a similar comment in terms of project selection evolution:

*“And that’s actually my experience in understanding that there is a human driver behind all of this and a deeper meaning, which goes beyond lifestyles.”*

In both cases, the focus is on the human aspect and the founders. To distinguish if a founder meets the criteria, data sets must be present and primary research must be conducted to understand and categorize a successful vs. potentially unsuccessful founder. This could potentially tightly link the time factor of developing the "people

skill," which is the result of multiple and reoccurring interactions over time, with the necessary experience required to evolve in project selection.

#### ***4.2.6.6 Technology in relation to investment selection***

One (1) investor has supplemented own skills through extensive use of technology, as described in this child-theme, by linking emerging data to skill development:

*“How to cover that gap. I look at all these points using a lot more technology too. When I started compared to now, we use much more technology to evaluate industries and trends, which helps a lot and makes investing actually easier with these tools”*

This could be an indication that technology could be a potential skill cue for an investor to execute as successfully as possible in the required capacity.

### **4.3 How does a surplus of available information influence decision-making?**

How does the illusion of control affect decision-making when there is a surplus of information available about the venture?

Zacharakis and Meyer (2000) found in their research that more available information is not equal to a more informed investment decision and that venture capitalists tend to avoid extra information or not give it the required amount of attention, merely achieving an additional boost in confidence.

The study seeks to explore in this part how a surplus of information affects the decision-making process of professional venture capital investors when a surplus of information is shared by founders about the start-up they are creating and what the general reaction towards these insights is. With the help of the taxonomy, emergent data in the following one (1) parent-theme is examined:

- Information shared by founder



### 4.3.1 Information shared by founder

Name	Definition	Files	References
Information shared by founder	Learning about the level of information required by founders and how VC's interpret the shared details.	17	62
Accepts different thinking processes	VC has no issue with different perspectives on the vision and philosophies of a startup compared to the founder.	1	1
Access to information	How the entrepreneur gives access to information about the startup.	5	6
Accessibility of information in a nascent ecosystem	It is difficult to get access to information as the entrepreneurial ecosystem is young and underdeveloped in the region.	2	2
Analysts need to filter quantity of information	The analysts job is to find just the right amount of information.	1	1
Detailed due diligence process generates information	VC highlights importance of due diligence process in relation to information.	2	2
Differentiation between analytical and emotional thinking	VC views information as extremely important since it helps in separating analytical and emotional decision-making.	1	1
Early stage startups might not have a team	At times the evaluated startups are at such an early stage that they do not have employees. In such cases the VC requests information about	1	1

	potential candidates for hiring or any additional leaders.		
Founders sharing information by themselves	Values founders that understand the importance of sharing honest information.	1	1
Further interest depends on startup	The VC finds that the threshold of information to keep the conversation going depends on the startup.	1	1
Information about customers is relevant	Views information related to customers as highly relevant.	2	2
Information about the product is relevant	Views information around the startups product as relevant.	2	4
Information beyond the startup	VC feels that information beyond the nature of the startup is required.	2	2
Information extraction over time yields better decisions	The VC experienced that the more is spent on extracting information the more fruitful the investment will be.	1	1
Information helps building a long-term relationship	The importance of information to form a long-term relationship between VC and entrepreneur.	2	2
Information leads to determining support	Requires information to assess the right level and kind of support for the startup.	1	1
Interested in how the team thinks about the founder	VC wants to learn through which lens the team is seeing the founder and if they are inspired by the vision as ultimately information about the founders and team is important.	1	2

Interested in scalability	VC is interested in learning about the growth potential moving forward.	1	1
Interested in the founders perspective	VC seems to be interested in learning about the way a founder thinks from a personal and industry specific viewpoint.	4	5
Investigating claims depends on startups	Depending on the startups nature and the type of statement made by the founders, a deep dive might be required occasionally.	1	3
Knowing the founder business is conducted with	Information helps to grasp the personality of the entrepreneur and is very important as the VC wants to know its business partner.	2	2
Only aligns with same philosophy	VC requires information to determine if the business philosophy aligns between the two parties.	1	1
Overcoming uncertainties	VC views information as important, especially when feeling uncertain details help in overcoming.	1	1
Prefers more information than less	VC prefers being informed and having access to rather more information than less.	8	9
Relationship building in relation to accessing information	The VC experienced that building an early relationship with an entrepreneur and progressively working on it resulted in access to information, which usually would have not been accessible.	1	1

Requires information to create value	VC requires all the information possible to determine if value can be added.	2	2
Requires the right amount of information	VC requires certain amount of data to take it further, yet believes in a balance between too much and too little information.	1	3
Shares examples of investment failures in the region due to lack of information, governance and transparency	VC shares an example of an investment that failed in the region due to various factors lacking substance.	1	2
Steady information flow over time	VC prefers to follow journey of VC for a while to collect information and observe before taking decisions.	1	2

Seventeen (17) investors share various views and opinions on the surplus of information and how it affects their decision-making. Even though each investor has their own ideas and preferences, it's interesting that one (1) investor says that finding the right amount of information is like walking a thin line between two extremes:

*“...I think that’s where it becomes a bit of an art and really depends on the nature of the start-up.”*

This is consistent with Zacharakis and Meyer's (2000) conclusion that more knowledge does not equate to a better educated investment choice. Typically, venture capitalists omit unnecessary information or pay less attention to it than they should, which boosts their confidence. The emphasis on the amount of information required varies drastically between the two sides of the spectrum, with some investors making similar statements as seen in the example below by one (1) investor:

*“I want to know everything about the business, rather too much information than too little.”*

And with other investors seemingly following a more limited methodology in terms of information:

*“Personally, I first of all prefer more information than less, but there are thresholds like drinking water out of a firehose is not pleasant right?”*

#### **4.3.1.1 Prefers more information than less**

In terms of a surplus of information, eight (8) investors state that they want information and that they want rather more than less information for various purposes as seen and discussed further below. This could potentially go to a degree where one (1) investor is not even interested in taking a conversation further if there is not a certain depth to the amount of information received as stated below:

*“I don’t know if I could say that if you won’t tell me your secrets, I will not deal with you (laughs)...”*

Figure twenty-three (23) illustrates that, in terms of gender, female as well as male investors share a very similar interest in surplus of information in terms of the recorded references for this child-theme:

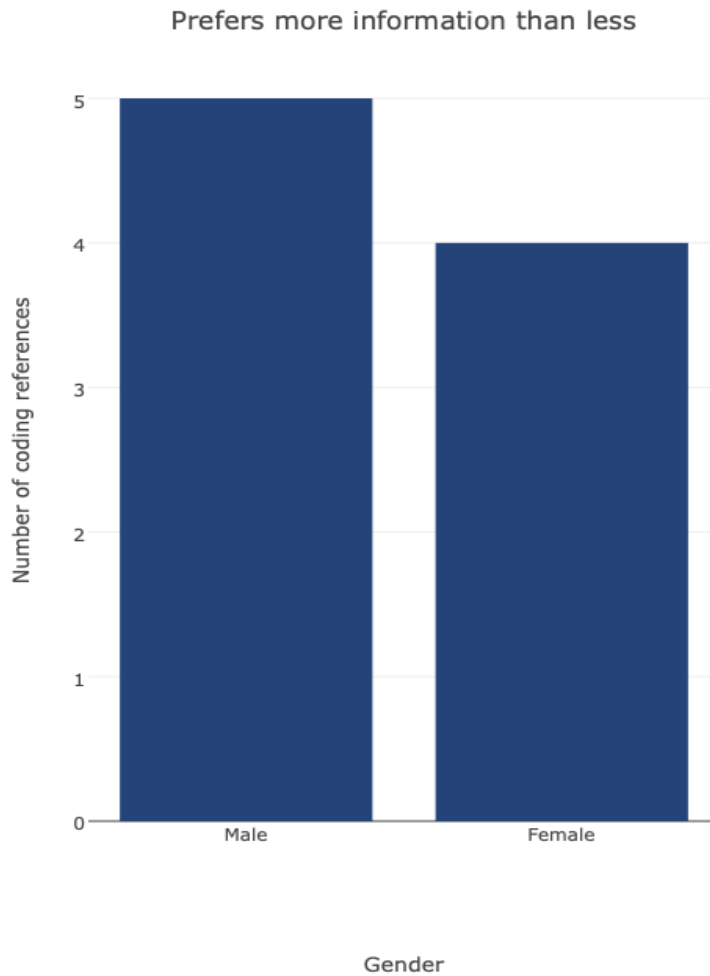


FIGURE 23: PREFERS MORE INFORMATION THAN LESS – GENDER

As for the type of information, it seems that investors have clear preferences about the information they need, which mostly has to do with the founders, since they stress that they need information about the founders and would rather have more than less, as shown in the examples below:

*“It’s very important to us that we know who we do business with.”*

*“So the personal and human side of things is very important to me...”*

*“...but also about the entrepreneur’s history is very important to us. Has the entrepreneur ever led a company before, educational background, hobbies, clubs, passions and so forth.”*

*“Information and transparency directly from the founder is such a key subject*

*for me.”*

*“Firstly, you need truthful and great founders that you can talk to and that understand the value of sharing their information with you.”*

*“But we just need honest and trustworthy founders, especially when we kick off a relationship that should last for years to come.”*

The data seems to portray the founder / entrepreneur persona as the core of the information required. This could be further supported by one (1) investor mentioning the following:

*“I would say I also want information from the team around the founder; ultimately these are the people that should be inspired by the work they do or they might be in a position to influence the founder so I definitely want to know who are the people involved and how does their roadmap look like. It’s what makes or breaks all the companies somehow, so team and founder information is very relevant for me.”*

Examining the type of information required from the founder persona, it seems that investors are looking for characteristics and attributes that allow the formation of a fruitful relationship with the founders, as explained by five (5) investors sharing insights from various child-themes below:

*“So, information is important for our strategy and to build a long-lasting working relationship.”*

*“We want to know how we deal with from A-Z to offer the right set of support besides the financial aspect.”*

*“A lot, because we align only with those that share the same philosophy and to achieve this we need information and transparency. And this leads back to information exchange, putting ego’s aside and sharing what the intention is about this business. But we just need honest and trustworthy founders, especially when we kick off a relationship that should last for years to come.”*

*“This goes back to learning if an entrepreneur is a team player and if we can even mentor that person.”*

*“So the information I want is not about forecasts it’s about the entrepreneur and how he thinks.”*

This could potentially be linked to the child-theme "founders and team as core criteria", where investors expressed the importance of the founders as a decision-making criteria. The statement by one (1) professional investor below elaborates more on that:

*“My priority quality that I am looking for is honesty and transparency.”*

#### ***4.3.1.2 Accessibility of information in a nascent ecosystem***

The reasons why investors could be keen on receiving as much data as possible on the founders could be the lack of available information since the startup ecosystem in the region is still very nascent. This is further described below by two (2) venture capitalists:

*“Especially in this part of the world where the due diligence processes are not that great at times, or the entrepreneurs come from places that are hard to access due to language barriers or malfunctioning governments or other factors.”*

*“We have people from all over approaching us, founders with big backgrounds and first-time founders and we need to be aware who we are dealing with and what their plans are.”*



#### ***4.3.1.3 Interested in the founder's perspective***

In line with the above data on the information about the founders, four (4) investors further shared the importance of learning the founder's perspective. Examining this set of data closer, the following two (2) points of view emerge from the data:

Firstly, the transparency of the founder, as explained by two (2) investors below:

*“And this leads back to information exchange, putting ego's aside and sharing what the intention is about this business.”*

*“...so the information I want is not about forecasts it's about the entrepreneur and how he thinks.”*

Secondly, the team aspect and working together towards the bigger picture as portrayed by two (2) investors below

*“This goes back to learning if an entrepreneur is a team player and if we can even mentor that person.”*

*“Where to expand to? What are the product side expansions? Do they feel like leaders in their geography or domain?”*

Interestingly, unlike the gender balance portrayed in Figure twenty-three (23) in the child theme "prefers more information than less", in this specific child-theme investors mostly interested in the founder's perspective, according to the coding references, seem to be female investors, as seen below in Figure twenty-four (24):

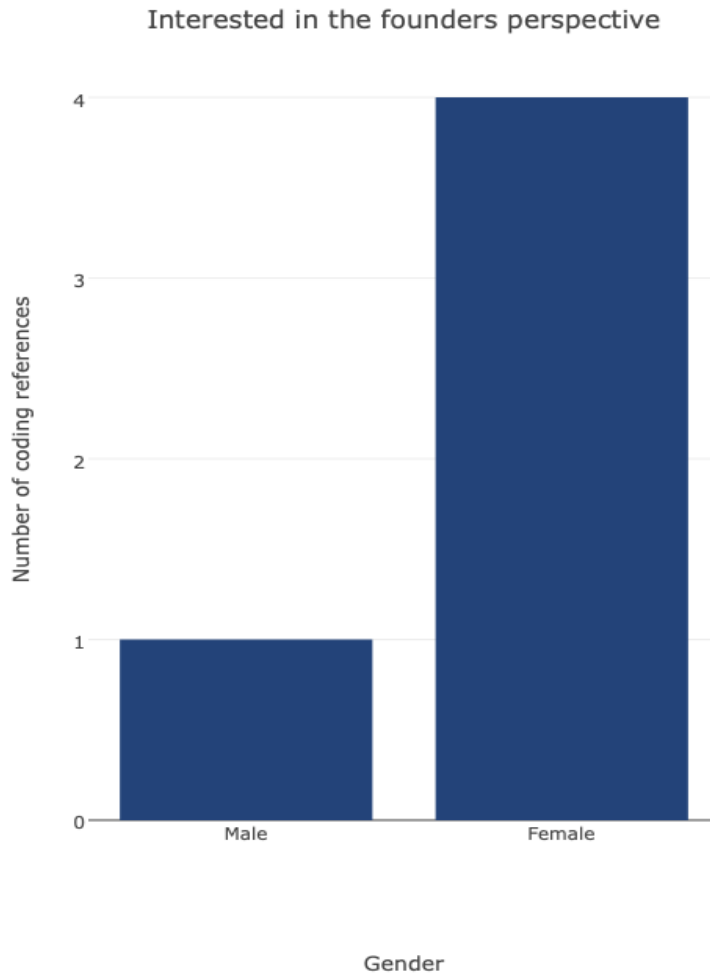


FIGURE 24: INTERESTED IN THE FOUNDERS PERSPECTIVE – GENDER

#### ***4.3.1.4 Requires information to create value***

Focusing further on the seemingly crucial, yet not always simple due diligence process, potentially due to the data availability in the nascent region, two (2) venture capital investors share the important impact the due diligence process can have on decision-making and interaction with founders:

*“Our value creation framework is based around our due diligence. So, here is why we are so extensive and hooked on the dd process. We are extremely hands on with founders and for us we can only do this if we get all the information form the dd processes.”*

*“I did this because usually I take decisions on my own after the due diligence process and after learning more about the founders and the company’s growth potential.”*

From a variable comparison perspective, the data produced interesting insights. Figure twenty-five (25), twenty-six (26) and subsequently Table five (5) below, portray how the two (2) investors in this child-theme are positioned on the complete opposite side of the spectrum in terms of average investments annually, experience in terms of years, and even gender. The only variables that are somewhat close are the fund size. These insights could indicate that investors from both ends of the spectrum, regardless of the variables, require information to create value.

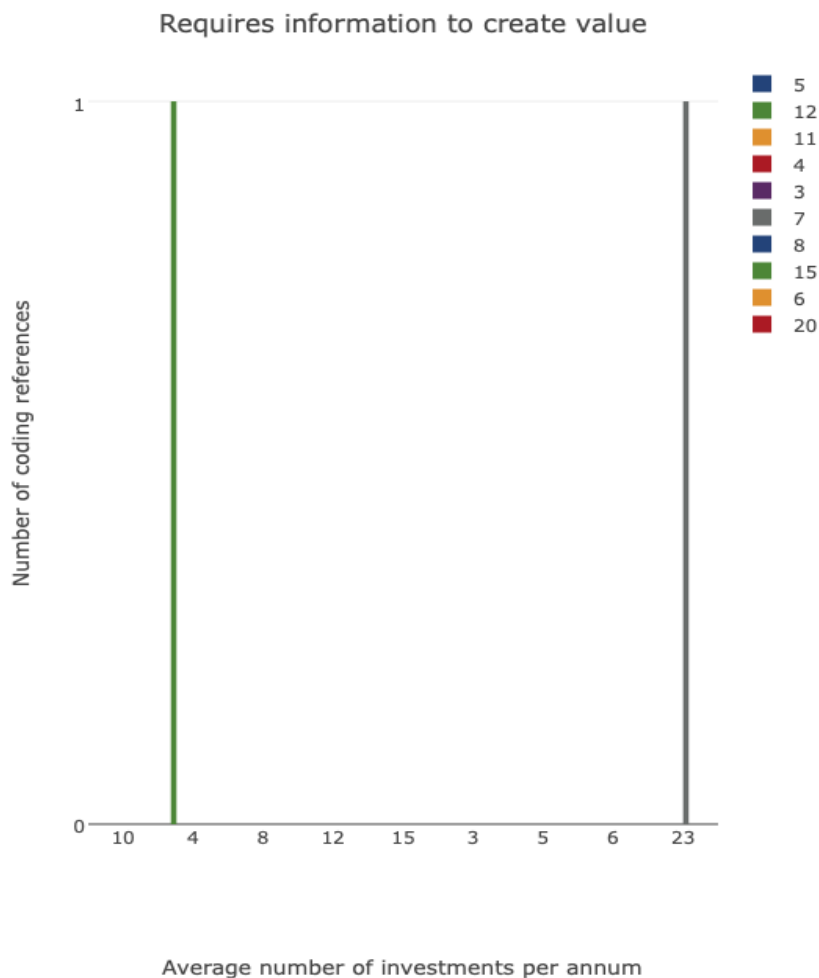


FIGURE 25: REQUIRES INFORMATION TO CREATE VALUE – AVERAGE NUMBER OF INVESTMENTS PER ANNUM / EXPERIENCE IN TERMS OF YEARS

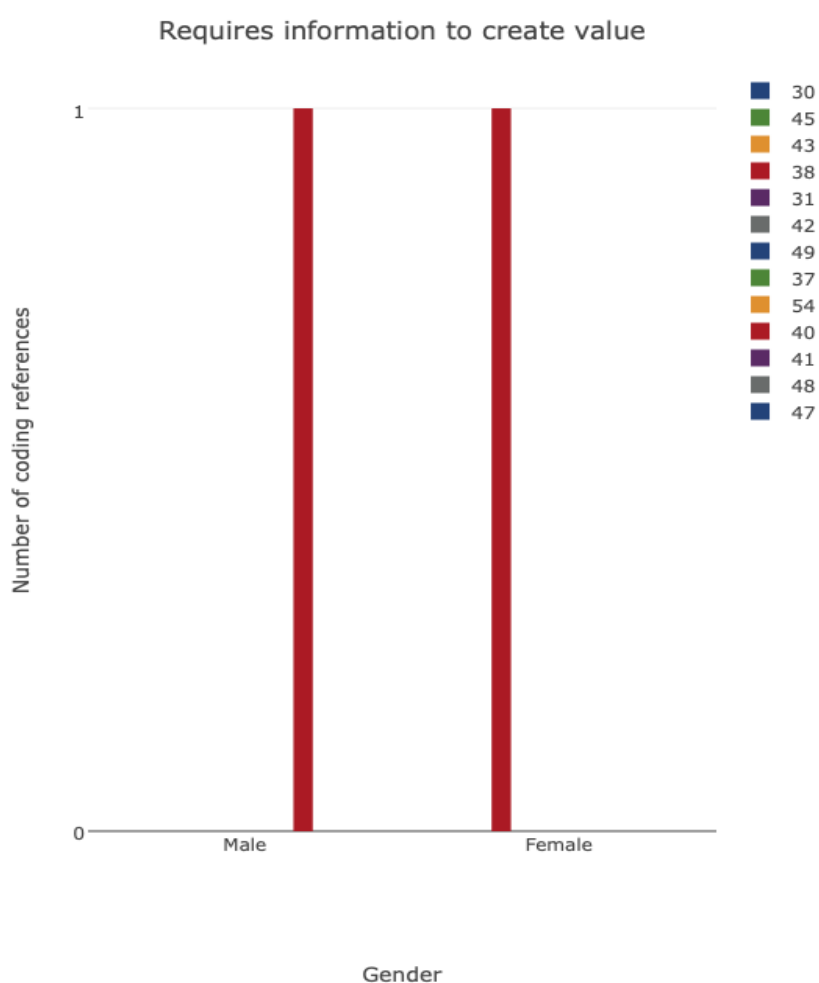


FIGURE 26: REQUIRES INFORMATION TO CREATE VALUE – GENDER / AGE

Variables	Investor A	Investor B
Average number of investments per annum	4	23
Experience in years	12	7
Fund size in USD millions	35	30
Age	40	38
Gender	Male	Female

TABLE 5: REQUIRES INFORMATION TO CREATE VALUE - VARIABLE COMPARISON

#### ***4.3.1.5 Information extraction over time yields better decisions***

It seems that investors are keen on the volume of information in relation to the founders to find out if a potential relationship could be shaped up. Furthermore, one investor seems to look at information from another perspective and states that time is a crucial variable, as the more time is available, the more information can be gathered, as explained below:

*“The more time you have, the more information you can extract the more you can see the better the decision making becomes.”*

#### ***4.3.1.6 Investigating claims depends on startups***

Besides the potential crave for information stated above by the professional, there is one (1) investor who seems to be more selective on a case-by-case basis when it is about data:

*“...but then there is usually these one or two things where we feel there is more deep diving required. and that’s where you need to drill down a bit and this occurs on a case-by-case situation.”*

The same investor further adds:

*“Personally, I first of all prefer more information than less, but there are thresholds like drinking water out of a firehose is not pleasant right?”*

As indicated in the Figure twenty-eight (28) below, investors towards the lower end of the range in terms of age, thirty-one (31), thirty-seven (37) and forty (40) seem to be the most concerned with information.

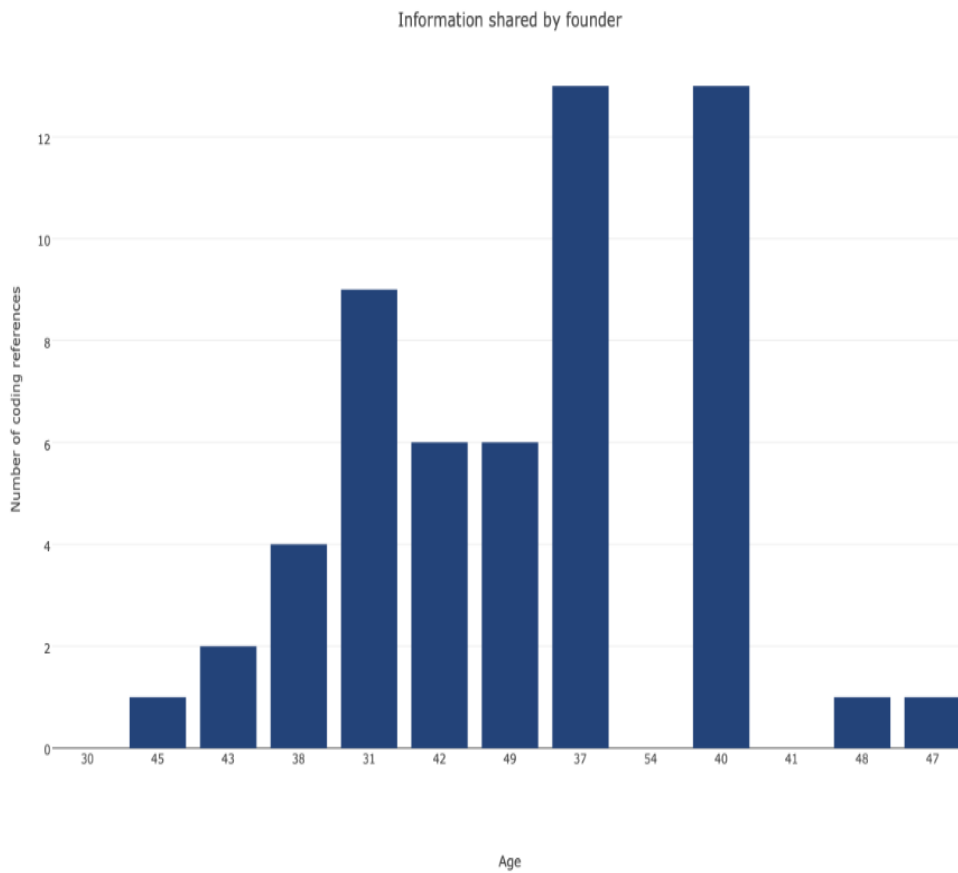


FIGURE 27: INFORMATION SHARED BY FUNDER – AGE

Further analyzing the variables and comparing age with the annual average number of investments. Data in Figure twenty-eight (28) below demonstrates that not only are younger investors more concerned with knowledge, but they are also the investors that make the fewest investments annually.

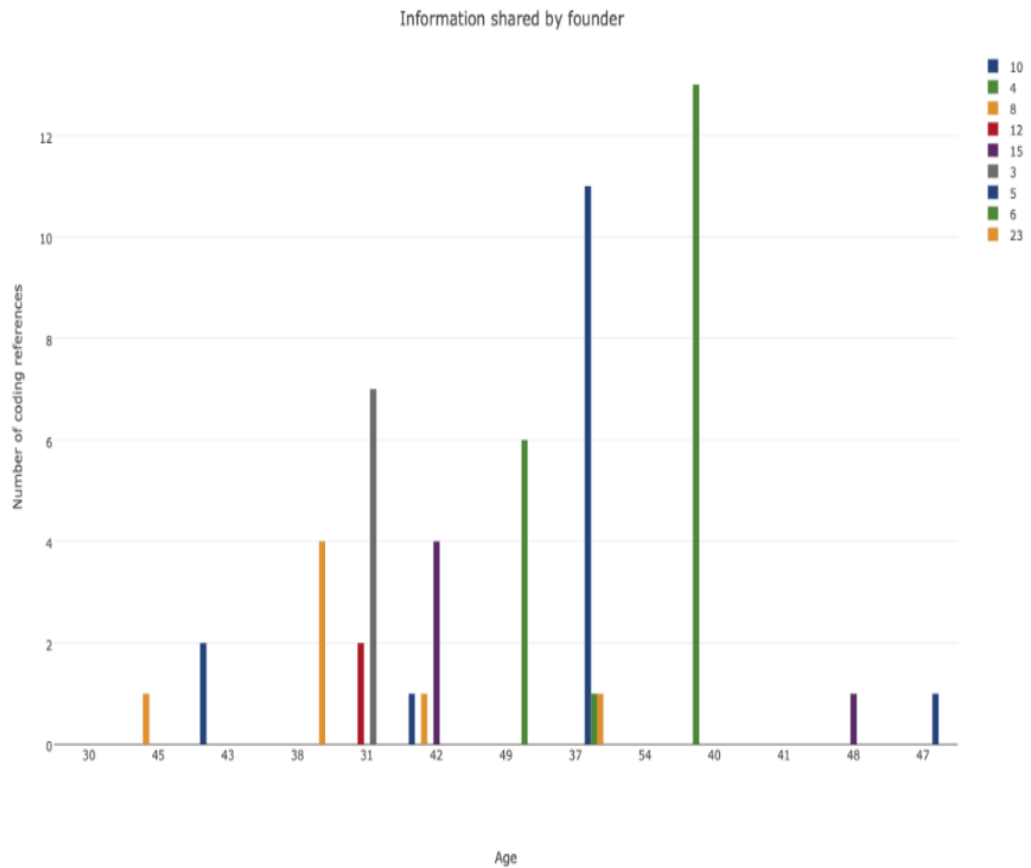


FIGURE 28: INFORMATION SHARED BY FOUNDER – AGE / AVERAGE NUMBER OF INVESTMENTS ANNUALLY

In addition, in Figure twenty-nine (29) it is fascinating to compare the total fund size of all participants. The professional investor with the largest fund of USD 150mio (twice the size of the next-largest fund) is also the fund with the highest coding density relative to all other funds. This could indicate that this investor is very vocal about the surplus of data.

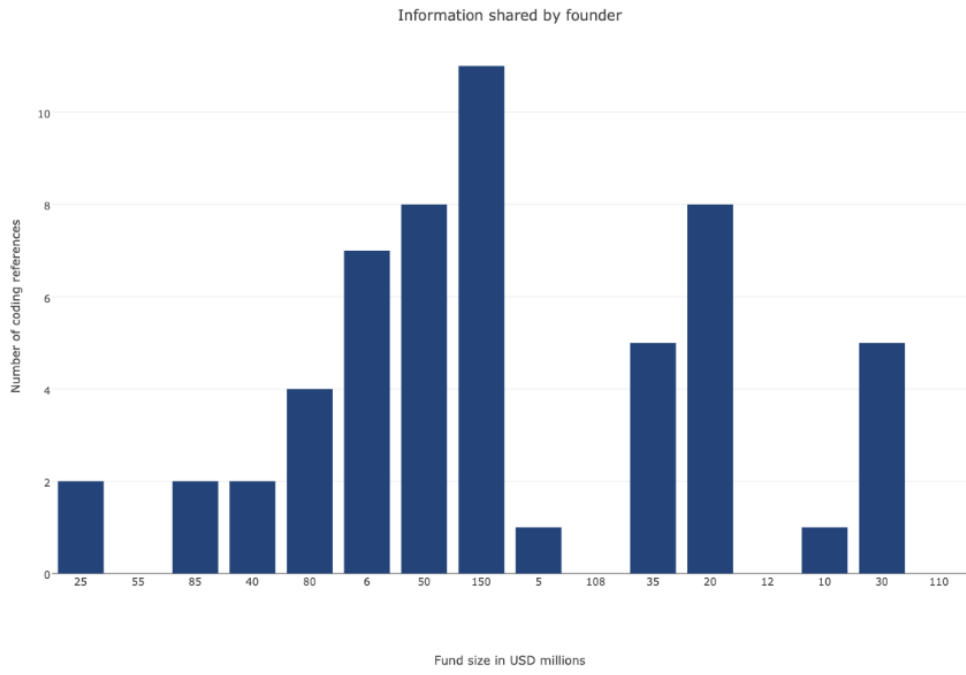


FIGURE 29: INFORMATION SHARED BY FOUNDER – FUND SIZE IN USD MILLIONS



#### **4.4 How do previously failed investments influence decision-making?**

How does control illusion affect the decision-making of investments in projects similar to those that have previously failed or resulted in less success than anticipated?

Previous researchers have identified potential reasons for failure that can be linked to positive illusion and its sub-forms, such as control illusion. For example, Whyte, Saks, and Hook's (1997) conclusions show that people with high levels of self-efficacy tend to overestimate their own abilities, leading to failures or underperformance. Other studies, like those by Fenton-O'Creedy et al. (2003) and Makridakis and Moleskis (2015), show that more people need to be aware of how positive illusions can affect different situations and decisions in their personal and professional lives.

Based on this, the study looks at how professional investors see new opportunities that might look similar to those that have failed in the past and how control illusion might affect their decision-making through the parent-themes listed below via the taxonomy:

- Failed investment experience
- Investment risk to reward
- Investment evaluation

#### 4.4.1 Failed Investment Experience

Name	Definition	Files	References
Failed investment experience	Investment experiences that turned out negatively.	6	8
50% fail	VC experienced that about half of all deals fail.	1	1
Execution primarily leads to failure	VC experienced that it is rarely a business concept that leads to failure, but more so the execution.	2	3
Failure let to learning more about founders	VC explains that negative experiences resulted in a deeper interest in founders and their motivation beyond basic due diligence / lifestyle information.	1	1
Founders lacking self-awareness	VC experienced that founders linked to startup failures often were not mature enough to understand how their entrepreneurial role fits in their private life.	1	1
Irrational to project failures on new opportunities	VC explains that failures might add to the filtering process, yet they should not impact future investments.	1	1
Negative ROI on expense of co-investor	VC believes that out of 10-12 portfolio companies two will most likely be failures as they are in collaboration with another investor that has turned out not to be suited for any co-investments.	1	1

Six (6) professional venture capital investors shared data in regards to their experiences with investments that turned out to be failures, resulting in a loss. Three

(3) investors related the failed investment back to the lack of execution capability of the founders. Investors further experienced different yet common denominators, or characteristics, between the founders and their teams that failed, as highlighted by two (2) investors:

*“But when I look back at some of the founders that did not well, often it was because they had not taken the time to introspect about how this start-up fits in their own human journey and not professional journey.”*

*“...but at times you meet somebody with a great product and a great idea but zero capability of executing it. Unfortunately, I have so far only realized that after investing (laughs).”*

#### ***4.4.1.1 50% fail***

Considering the above statements, it does seem like the investors are going through a learning curve with experience being a crucial factor in determining the value and success probability of a potential investment. To build on this further, one (1) investor mentions that out of fifty (50) investments throughout the investor's career, around forty percent (40%) to fifty percent (50%) have resulted in a loss as per the below statement:

*“I have done over 50 deals in my career. 15 where funds and 45 were companies and I have burned my hands at around 20-25 deals.”*

#### ***4.4.1.2 Execution primarily leads to failure***

This statement could further emphasize the value and importance of experience in this field gathered with each deal conducted when investing. Looking further at the reasons why the founder's execution capability is perceived as a factor in the case of investments that fail, the below statement is interesting:

*“So, the risk is more in the capabilities of the founders. That's also where you have the highest rate of failure. We have not had too many failures so far, all*

*of them had to do with the quality of the team. All three I'm thinking of over the past years had a common factor amongst the team."*

The common factor among the founders and teams, which is leading to failure, might be individually different and seems to depend on a case-by-case scenario. However, the below statement, discussed in the next child-theme "failure let to learning more about founder" might provide a potential reason for what a common denominator could look like amongst all the founders.

#### ***4.4.1.3 Failure let to learning more about founders***

*"Well, we definitely burned our fingers and there is no shame in saying this. In fact, what I have realized is that over time I am looking at deals in a way deeper sense or level, because I am really trying to understand the founder, which I have certainly done before already, getting to know the basics and all the high-level lifestyle information."*

Learning more about the founders underlying motivation could also be linked back to another statement by the same investors above, speaking about the "human journey". This could indicate that professional investors need to develop a skill set and build experiences that could help them to analyze a founder's potential determination factors like grid, present distractions in their life, family planning, financials, and much more. This could mean that an investor would need to dig as deep as possible into the founder's private life and lifestyle to determine if their "human journey" matches the ethos of the investor's fund.

Linking this back to the child-theme "founder personality determining success or failure", a similar trend emerged from the data amongst VCs in this nascent ecosystem, which categorized and distinguished between potentially successful and unsuccessful founders. There, the time factor of developing said people skill was in focus, which is the result of multiple and reoccurring interactions over time paired with the right experience required to develop. Similarly, the above investor mentions:

*"I have burned my hands at around 20-25 deals."*

This could be further connected to the time factor, as the investor has had these experiences over the span of the entire career spanning fifty (50) deals.

#### ***4.4.1.4 Irrational to project failures on new opportunities***

One (1) venture capitalist said the following about how past failures might affect future investment opportunities that might be like the ones that failed:

*“You can set guidelines on the industry or type of start-up, but it wouldn’t be rational to let failures impact further investments.”*

This could imply that a professional investor does not draw discouragement from a failed investment and would seemingly look at a fresh chance through a new lens. This goes hand in hand with the established literature by Zacharakis and Meyer (2000). They found venture capitalists to be inconsistent in their use of their own decision-making criteria. The researchers emphasize that venture capitalists see each investment as a unique chance, linking prior experience and expertise with the investment opportunity at hand. This relationship results in poor intra-judge reliability because particular memories or circumstances associated with a previous choice encourage venture capitalists to concentrate more on some areas than others, hence introducing bias into the decision-making process.

#### 4.4.2 Investment risk to reward

Name	Definition	Files	References
Investment risk to reward	Exploring the interpretation of risk to reward.	12	29
Balance between daring and returns	VC explains that the nature of modern investing is daring whilst maintaining healthy returns for investors.	1	1
Benchmarks have to be considered	VC finds that industry metrics have to be respected. 95% fail and only 5% become considerably big.	3	4
Controlling variables	VC conducts a lot of research on controllable variables to gain an edge on them.	1	1
Founder personality determines success or failure	VC perceives founders to be factor determining success or failure.	5	8
Investment risk related to stage	VC evaluates earlier stages as attractive due to cheaper price tag, yet they are the most risky ones compared to a later round with more data.	1	2
Phased investing in relation to risk management	VC explains that milestone based investment structure helps in minimizing overall risk for total investment sum.	2	3
Risk in relation to experience	VC banks on experience to achieve less risk and higher returns.	1	1
Risk interpretation in relation to strategy	VC explains that the funds strategy also defines its tolerance to rewards vs. risks.	2	3

Risk lies with execution of founders	VC sees the main risk to be with the execution capabilities of the founders.	2	4
Type of founder in relation to risk	VC explains that based on experience a certain type of entrepreneur is just a higher risk investment regardless of business potential.	1	1
Uncertainty in relation to portfolio management	VC highlights uncertainty of investment turn out in relation to importance of portfolio management.	1	1

The data of twelve (12) investors is represented in this parent-theme referencing different views on founder personalities and how founders are the key variable when driving a start-up, the risk to reward ratio and the importance of understanding and interpreting risk the right way for all stakeholders involved, as stated below by one (1) professional investor:

*“VC is very risky for LP’s as well as for us making investments.”*

#### ***4.4.2.1 Founder personality determines success or failure***

Five (5) professional investors stated that the founder’s personality is the key differentiator and driver behind the success of any startup, as seen below in an example of one (1) venture capitalist:

*“...because it tells me also with my previous role in corporate VC that the biggest differentiator between successful and unsuccessful start-ups are always founders and the team. Always (raises voice).”*

An emerging theme amongst the investors seems to be the financial ability vs. leadership skills, meaning that regardless of the amount founders raise their leadership capability determines the entire outcome of the venture, as stated below by one (1) venture capitalist:

*“You can be brilliant and have a lot of money in your pocket from investors, but you don’t have the right leadership skills and you can end up losing.”*

Besides the leadership skills, it further seems that the founder’s personality and characteristics play a major role too in the success of a venture, as described below by one (1) professional investor:

*“It’s interesting to see what founders survive and who is not fit enough and especially what character traits are different between the two.”*

The above statements put the founders in the driver's seat of the venture, naturally equipping them with a certain power in the founder-investor relationship. This could further potentially classify venture capitalists as pure enablers. From a monetary perspective, this could question the degree of power and influence a venture capitalist has on the startup and the level to which protective contractual mechanisms could avoid this kind of complete exposure. On the contrary, leaving enough freedom to founders to maneuver the operations in the way they see fit is considered by one (1) venture capitalist as the pivoting skill:

*“The focus lies mostly on founders in my opinion as they have the ability to turn around a product or a business if it doesn’t work or pivot in the right direction if necessary.”*

The freedom of decision-making and pivoting, if necessary, could, on the other hand, potentially off-set strict protective contractual mechanisms as the founders seem to need some space to move accordingly to the market sentiments, which could, however, leave the venture capitalist in the enabler position as mentioned above.

#### ***4.4.2.2 Benchmarks have to be considered***

Three (3) venture capital investors in this child-theme are expressing their opinions on the industry standards / benchmarks regarding the number of investments failing and how an investor must be prepared to operate according to these standards as shown in the statement below:



*“You have to commit to the scheme knowing the risks, you know its 95:5. 95% of all startups fail and 5% will get to let’s say 100 million USD in revenue.”*

Similarly, to the child-theme “50% fail”, homogenous expressions about investment success were made, whereas one (1) investor stated a lower fail rate of 50%:

*“I have done over 50 deals in my career. 15 where funds and 45 were companies and I have burned my hands at around 20-25 deals.”*

On the other hand, one (1) investor shares the below:

*“Fact is minimum of 70% of your portfolio will fail. This is fact.”*

*“At the same time the people investing in you know, or should know (smiles) that 8 or 9 out of 10 investments fail or be not as profitable and you don’t get your money back.”*

The data emerging from these codes could suggest that venture capital investors experience investment failure differently, which could potentially be due to an array of undiscussed factors causing an investment to fail. However, considering the statements and the way the data emerged, it seems that professional venture capital investors must achieve winners large enough to outperform a losing rate of anywhere between fifty percent (50%) to ninety-five percent (95%)

Investigating the variables in Figure thirty (30), interestingly, the investors with the highest coding density have the least experience, with only four (4) years, whereas other investors with, for example, eight (8) to twelve (12) years of experience have significantly fewer coding references, as showcased in the graph below:

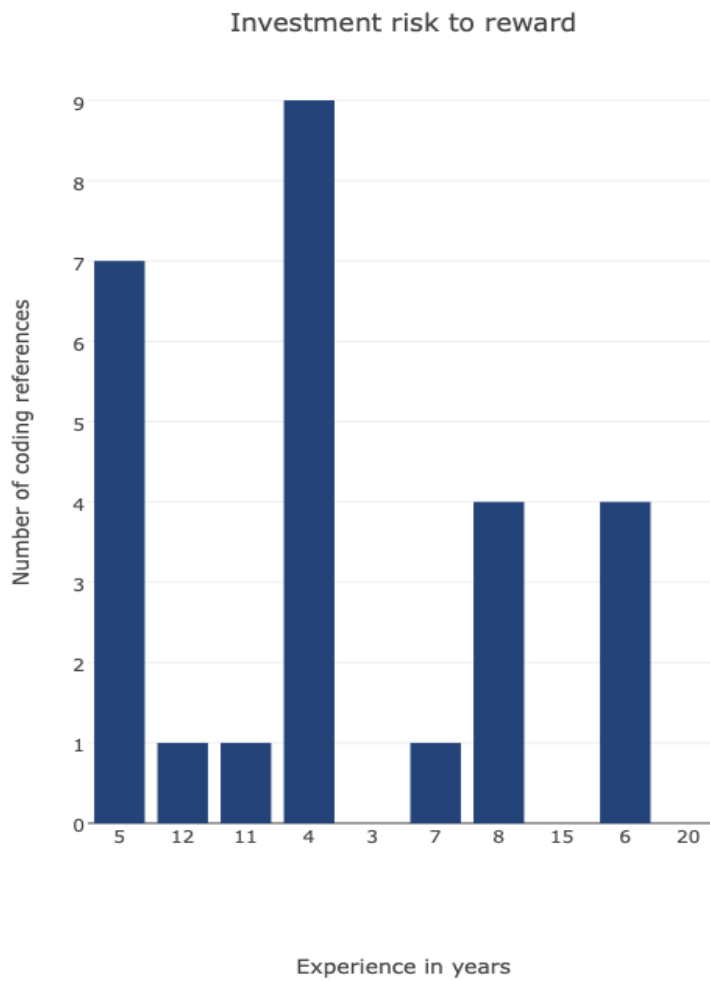


FIGURE 30: INVESTMENT RISK TO REWARD – EXPERIENCE IN YEARS

In the next step, when the number of years of experience and the average number of investments per year were compared, the results showed that the investor with the most coding density and four (4) years of experience was also the one who only made four (4) investments per year. This is surprising, because investors with twelve (12) years of experience and four (4) investments per year or even seven (7) years of experience, but with twenty-three (23) investments per year, have significantly fewer coding references. This is presented in Figure thirty-one (31) below:

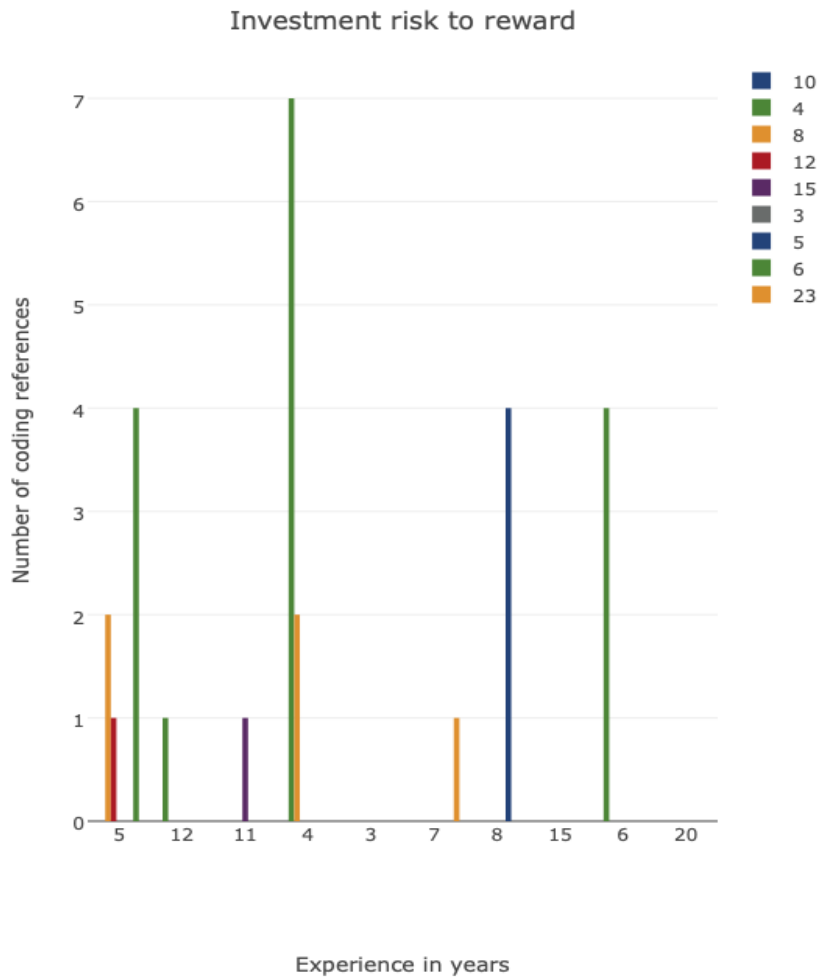


FIGURE 31: INVESTMENT RISK TO REWARD – YEARS OF EXPERIENCE / AVERAGE NUMBER OF INVESTMENTS PER ANNUM

This could potentially indicate that the risk to reward ratio of investing is perceived differently according to the level of experience. However, in this case, it seems that experience really matters, as for example, the investor with seven (7) years of experience and twenty-three (23) investments per annum has conducted one-hundred-sixty-one (161) deals, which is a significantly higher number, which should lead in parallel to enhanced experience, yet the perception of risk to reward is, according to the data, different. On the other hand, basing the experience solely on the number of investments could raise a potential conflict, as the investor with twelve (12) years of experience and four (4) investments per year would have numerically less experience than the investor with seven (7) years, yet the reference density is as low as for the investor with seven (7) years of experience. Furthermore, just because one (1) investor conducts more investments than another investor, it does not mean that the investments are of higher quality or lead to a better level of experience. Linking these potential

insights to the literature, the research by Parhankangas and Hellstrom (2007) explores the relationship between a venture capitalist's experience and risk reduction. The venture capitalist's experience determines the risk perception of a possible investment, and academics correlate this kind of behavior with the illusion of control, overconfidence, and risk speculation, which are prevalent in the area of entrepreneurship.

#### 4.4.3 Investment evaluation

Name	Definition	Files	References
Investment evaluation	Identifying how VC investors go about the evaluation of potential investment opportunities.	20	136
Analysts are the first point of contact	VC structures evaluation in a way that analysts are the first to be in touch with startup.	3	3
Analysts presentation vs. GP evaluation	Analysts present startups of interest, whereas GPs ask questions to fully evaluate opportunity.	2	2
Balanced evaluation approach	VC explains that multiple factors matter when evaluating a company.	1	1
Complexity in relation to valuation calculation	VC explains that calculating a valuation is a complex process.	1	3
Continuous decision-making along stepwise evaluation	VC follows a step-by-step process with decisions required in each phase during evaluation.	1	3
Continuous development	VC explains that the evaluation process continuously develops over time.	2	2

Control in relation to minimizing evaluation exposure	VC aims at controlling variables to handle exposure if investment.	1	1
COVID-19 interferes with in-person evaluation approach	VC explains that due to COVID-19 favored in-person valuation approaches are impossible currently.	2	2
CRM system in relation to evaluation criteria	VC explains how evaluation data is stored and handled by analysts.	1	1
Decision speed to weed out uninterested projects	VC takes swift decisions early on to not get stuck with projects that are not of interest for the fund.	5	6
Decision uncertainty in relation to speed	VC allows to feel uncertain, yet has to identify and resolve uncertainty swiftly to move forward.	1	1
Direct access to founders	VC gives an example of where direct access to founders is blocked and a problem.	1	1
Disciplined process	VC emphasizes on the disciplined process required for evaluating a potential investment.	8	11
Evaluate investment readiness	VC meets founding team to understand decisions and to evaluate investment readiness.	1	1
Evaluating founder personality	VC wants to learn about the founders behavior in certain situations.	2	2
Evaluation approach varies depending on the lead	VC explains that lead generation impacts the evaluation of a startup.	1	1

Evaluation difference between early and late stage	VC explains the difference between early and later stage evaluation.	1	1
Evaluation difficulties in relation to available data in early stage	VC explains that the lack of data makes evaluating early stage startups more difficult.	2	2
Evaluation in relation to common valuation	VC explains that finding a common valuation acceptable for all stakeholders has proven to a key factor.	1	2
Evaluation in relation to profitability	VC explains that road to profitability within a certain timeframe plays a role in evaluating a startup.	1	1
Evaluation opinion in relation to time	VC explains that sentiments towards a startup are changing over time.	1	1
Evaluation steps to determine founder effort	VC uses the initial evaluation steps to determine founder willingness.	1	1
Evaluation support in relation to team quality	VC finds that a good team can support the process drastically.	1	1
Expects founders to engaged GP during evaluation	VC expects founders to entertain and engage VC during evaluation.	1	1
Experience in relation to primary evaluation	VC believes own experience in evaluating over less experienced professionals presenting deals of potential interest.	1	1
Founder personality	VC wants to learn and understand the founder personality.	1	1

Full analysis is performed after initial discussions	VC first holds initial discussions before performing full analysis.	3	3
Global trends in relation to evaluation	VC researches global startup trends and looks for patterns in evaluating opportunities.	1	1
GP's big picture evaluation lens helps team when focus is too narrow	VC explains how looking at the big picture can help the team.	1	2
In-person evaluation over virtual evaluation	VC prefers to conduct in-person evaluation over virtual interactions.	2	4
In-person meeting in relation to investment abroad	VC wants to meet founders when investing geography is not in the region.	1	1
Inconsistent evaluation process approach	VC explains that the evaluation speed and process varies between projects.	1	1
Industry specific	VC does not evaluate startups from each and every industry.	3	3
Lack of reliable evaluation data in the region	VC explains that the lack of reliable data in the region makes evaluation difficult.	1	1
Likeability of founders in relation to personality	VC aims at grasping very early on how likable founders to determine team / founder dynamics.	1	1
Multi-layered approach involving GP, IC and VC team	VC explains that for any cheque to be issued a startup has to go through multiple layers composed of various fund stakeholders.	1	3

Multiple IC reviews for startups with potential	VC explains that potential startups go through multiple IC reviews during evaluation.	1	1
Multiple meetings to gather data	VC meets with startups multiple times to gather sufficient amount of data for internal reviews.	2	3
Pitch deck as first step in evaluation	VC explains that sharing an initial pitch deck / business plan is the first step in the evaluation process.	1	2
Primary and secondary data in relation to evaluation	VC relies on collected data via various approaches to evaluate opportunities.	1	1
Rating system approach	VC explains a rating system approach in terms of evaluation.	3	3
Red flag in relation to evaluation	VC stops evaluation as soon as there are any red flags.	3	4
Referral vs. cold call evaluation	VC explains evaluation difference between referrals or cold calls.	1	1
Relationship in relation to evaluation	VC builds a relationship with founders whilst evaluating the project.	1	1
Small team size in relation to evaluation	VC explains evaluation process through the lens of a small team.	2	2
Stakeholder opinion in relation to evaluation	VC collects references from various stakeholder to understand different sentiments towards an investment opportunity.	1	2
Team work	VC explains that an internal team is	6	8



	part of the evaluation process.		
Team work in relation to certainty	VC explains that internally team members convince each other why an investment has potential or not.	4	12
Uniqueness in relation to evaluation	VC explains that each investment opportunity is unique.	8	13
Universal checklist approach	VC evaluates startups according to a checklist.	4	8
Valuation formula is funds IP	VC explains that the formula to achieve a fair valuation is secret.	1	1
Valuation in relation to founder personality	VC immediately asks about valuation to gather insights on company and founder thought processes.	1	1

Twenty (20) professional investors have shared the processes, steps, modes of interaction, and various factors making up the evaluation process of a potential investment.

#### ***4.4.3.1 Uniqueness in relation to evaluation***

Eight (8) investors generated insights, each sharing data on the unique perception they have towards potential investment deals. Below are two (2) examples of two (2) venture capital investors:

*“Companies are different, founders are different, and I think venture capitalism is a case-to-case business.”*

*“Each investment wears its own shoe and is different.”*

The above statements are interesting because they show how venture capitalists must look at each investment with a new perspective. It seems that these investors use a

similar perception to evaluate an investment's viability, however one (1) investor further emphasizes the complexity of this process below:

*“There are so many variables involved that it is hard to generalize.”*

Looking at a potential opposite perception or a similarity between the investment opportunities, investors seem to keep emphasizing the individual uniqueness of each deal, as shown below:

*“Look, on paper start-ups might look similar but in reality, they are all different.”*

*“...and their visions might be similar at times but at heart all of them are unique.”*

The following statements evolve around negative experiences drawn from the outcome of previous investments. Interestingly, these statements seem to showcase that there is hardly a carry-over in terms of negative sentiments or hard feelings and that investors must prime themselves to look at each investment opportunity through a fresh lens:

*“So, in my case I don't let negative experiences impact me because I know that companies vary between each other because of the founders, its a fact.”*

*“Each investment opportunity is different, and it doesn't mean that if one does not work out the other will crash too.”*

*“We have not been in this situation yet, however as I mentioned for me every start-up is a new book with new chapters and new founders.”*

The above statements highlight that each investment must be evaluated from scratch, however the real breaking point seems to be with the founders and their skills, abilities, characteristics, and personas as they are a critical variable in the decision-making process besides other factors as previously discussed in the child-theme “founders and team as core criteria”, with examples from three (3) venture capitalist below:

*“Founders, it’s all about the founders. My main factor is the founder, especially in this region.”*

*“Founder is number one for us, especially in this nascent region where unfortunately people at times want to be entrepreneurs but are just not cut out for it.”*

*“My priority quality that I am looking for is honesty and transparency.”*

These statements emphasize the importance of the founder as a factor in decision-making, yet they also point out some characteristics preferred in founders, which could potentially be linked to the above data gathered in this current child-code. This could mean that the evaluation of each investment opportunity must start without any presumptions, yet the characteristics and personal traits of founders might be roadblocks, as similar characteristics leading to an unsuccessful outcome might have been experienced before. Furthermore, a startup must first be attractive enough to make it to a stage where founder persona analysis comes into play and matters.

Additionally, the below two statements from two (2) investors could potentially support the above discussion. Where an investor sets up a process that a possible deal must go through to see if it even qualifies to evaluate and compare the founders against possible success and failure metrics or experiences:

*“...secondly when you do such thorough due diligence you will find hardly similarities when you really dig deep. Yes they might be in the same sector and they might be looking similar from the outside, but not necessarily from the inside.”*

*“I think every company is unique and evaluated on its plans.”*

#### ***4.4.3.2 Disciplined process***

Eight (8) investors emphasize the evaluation process and its details when considering potential investment opportunities. One (1) investor, as shown below, seems to link

said process back to the personal decision-making process to justify why a startup qualified for an investment based on the evaluation process:

*“So, I think as long as I can say I did my best with all the tools I have, and I checked every box a I usually do during this process I try to remain as pragmatic as possible.”*

The above-mentioned process of checking boxes also emphasizes mechanics to enhance pragmatism and potentially eliminate any emotional decisions or interferences when evaluating a venture. In addition, this kind of pragmatic check-box approach could potentially help in looking at each startup through a fresh lens regardless of past experiences made with similar startups and vice versa with start-ups that might not seem very interesting at first glance. Supporting this potential effort of treating each startup like a unique / new opportunity is the below statement of one (1) more professional investor:

*“But I wouldn’t say that the process of evaluating a new opportunity suffers, because this is engrained in any VC, it has to be disciplined, it’s not going to be just invest in a company.”*

This statement highlights further the requirement for a well-oiled and disciplined evaluation process for the overall approach of investing in this space. Further strengthened by six (6) professional investors, emphasizing the utilization and need for a process:

*“That’s also where the decision are made at a later stage after discussing over and over again and doing the necessary steps.”*

*“...and there is a process...”*

*“Now, for us to identify which companies we want to invest in and which we don’t want, there is thorough process,”*

*“I think it helps to have a certain process or steps during the evaluation of startups...”*

*“We usually follow a certain clear process.”*

*“To be realistic it’s not about my personal certainty or my emotions, it’s about following our process and the majority votes.”*

Based on the data gathered from the investors, the evaluation process seems to be an important function within investment decision making. Professional investors seem to draw conclusions from this process that affect and touch different parts of the decision-making process at different stages.

#### ***4.4.3.3 Decision speed to weed out uninterested projects***

On the contrary, venture capital investors receive a high volume of investment leads via various lead generation channels. Five (5) venture capital investors explain their views and processes for dismissing investment opportunities that do not fit their requirements. For various reasons, such leads need to be dismissed at a primary stage of the evaluation process to avoid wasting resources, time, and effort on opportunities that could have been dismissed earlier.

Interestingly, based on the statement of one (1) professional investor, it seems that many inbound leads get dismissed at the first point of interaction with the VC fund, as the investor emphasizes a low standard of inbound leads as shown below:

*“We review on weekly basis new proposals, many of these proposals come to us below the standard we would want.”*

This indicates that the investment evaluation needs to be structured with multiple forks, giving the evaluation team the chance to dismiss a project not meeting the required standards without deep diving too much into it. This is further supported by one (1) investor below:

*“At the early stage when you are first meeting the aim is to take quick decisions to avoid keeping projects around which are not interesting... We do an initial screening of the team, the company, the business plan followed by a light-weight due diligence understanding the market the competitors to determine the opportunity...”*

In this case, it seems that time is of essence and a scarce variable, since investors are highlighting that the speed of dismissing projects is very important in the initial screening process stated by the below investor:

*“We actually deep dive into these companies and they are very few, because you have to be very specific and especially specific when you deep dive to not waste your time on something that’s not interesting enough.”*

Interestingly, investors also speak of excitement when evaluating a potential investment, which is an emotional expression in a seemingly systematic process. This could potentially further highlight the fine line between systematic and rational approaches previously discussed in "decision rationalism vs. emotions" and as seen below in an example of two (2) investors:

*“There is hardly one which is like wow that’s amazing. They are all good and exciting one way or the other, but after evaluating in detail so many different businesses and ideas and niches and angles it’s just not that exciting anymore.”*

*“That’s why I have become more selective with the companies I am meeting to make sure I am meeting only those that I am really interested in.”*

#### **4.5 How does positive illusion impact VC investment decision-making criteria?**

How do unrealistic optimism and illusionary superiority influence judgment on the decision-making criteria for conducting an investment?

As previously established in the literature, sub-forms of positive illusion are the illusion of control, unrealistic optimism, and illusory superiority. Whereas the illusion of control is discussed above, the below parts focus on unrealistic optimism and illusory superiority. Unrealistic optimism was described by Brickman, Coates and Janoff-Bulman (1978) as a phenomenon where individuals have the tendency to believe that the future will always be better than the present. Along similar lines, individuals also tend to believe that they are less likely to be involved in misfortunate events such as car crashes (Robertson, 1977). In contrast, illusory superiority evolves around self-perception. For example, Greenwald (1980) highlighted how individuals perceive themselves through a positive lens. This is further stated by Alicke (1985) and Brown (1986), who found that individuals have the tendency to describe themselves through their positive personality characteristics rather than their negative attributes.

With the help of the established taxonomy and the related parent themes, the most relevant parent-themes seem to be:

- Middle East start-up ecosystem
- Investment process timeframe
- Evolvement of VC fund
- Investment philosophy

### 4.5.1 Middle East start-up ecosystem

Name	Definition	Files	References
Middle East start-up ecosystem	Gathering insights and views on the startup ecosystem in the region.	15	117
Age of regional startup ecosystem	VC highlights the youth of the ecosystem.	1	1
B2B investing in relation to readiness of ecosystem	VC explains the downside of b2b investing in the region due to young ecosystem players.	1	1
Bubble	VC believes the region to be in a bubble with many coming out as losers.	1	1
Capital control in relation to transparency	VC feels a few decision-makers control the vast majority of capital in the region.	1	1
Co-investing activities	VC highlights excitement of co-investing in the region.	2	3
Complexity in relation to ecosystem development	VC believes that raising money is not the answer to the complexity of the ecosystem growth.	1	2
Creative structure to cope with environment	VC explains that the young environment requires different adoptions.	1	1
Cultural sentiments in relation to ecosystem growth	VC perceives cultural differences to impact the ecosystem growth compared to other regions.	1	3
Demand for early stage investing education	VC shares experiences about the demand from big players in the region to learn from VCs in relation to early stage investing.	1	1



Different thinking process between GPs and founders	VC highlights the opposite thinking process of founders and VCs in the ecosystem.	1	1
Disconnect between LPs and VCs	VC sees a disconnect between stakeholders on funding aspects of the ecosystem.	3	3
Diversity in relation to age of ecosystem	VC mentions the lack of diversity in the ecosystem due to its young age.	2	2
Ecosystem got discredited by a large fraud for many years	VC emphasizes on a previous scandal hurting the ecosystem for a substantial amount of time.	1	1
Entrepreneur-favoritism over VCs	VC feels abundance of support for entrepreneurs but not for VCs.	1	1
Exit multiple in relation to the region	VC explains that exit multiples over 3x are considered high in the region.	2	2
Exit options in relation to ecosystem age	VC explains the difficulty of exit options in the region.	3	5
Expat job trend in relation to ecosystem growth	VC explains that expats are coming for local jobs instead of creating new ones.	2	2
Expensive places in relation to survival	VC explains that some of the hotspots in the region are too expensive for startups to sustain.	1	1
Female founders in relation to experience	VC perceives female founders to have less business experience in the region.	1	1
Full of opportunities	VC perceives the region to be full of opportunities and excitement.	3	7

Hidden agenda as sign of nascent ecosystem	VC explains that a lack of transparency hinders the ecosystem from growing.	2	4
Inexperienced VCs as result of nascent ecosystem	VC believes many professional investors are not experienced enough.	3	7
Inflated success stories in nascent region	VC explains history of pumped enthusiasm in relation to nascency of the ecosystem.	1	1
Investment speed in relation to representation	VC explains how investment speed is perceived as representation in the region.	1	1
Kuwait ecosystem in relation the region	VC perceives Kuwait to be the strong part of the regional ecosystem.	1	2
Lack of collaboration in relation to slow growth	VC explains how the lack of collaboration between players in the ecosystem slows down growth.	4	8
Limited capital available for startups	VC explains how the region has little capital for startups compared to other regions.	5	6
Limited LP structures in relation to slow ecosystem growth	VC blames the lack of major LP players for the slow growth of the ecosystem.	1	2
Minority entrepreneurs in the region	VC highlights the difficulties for minority entrepreneurs.	1	2
Minority trends in relation to actual focus	VC projects potential saturation of the minority approach of VCs running funds in the region.	1	1

Nascency of founders in relation to behavior	VC sees that ecosystem nascency is replicated by founder behavior.	3	8
Nascent ecosystem flaws in relation to established regions	VC explains the hurdles faced in the nascent ecosystem compared to other geographies.	3	3
Nascent market in relation to technology	VC explains why the region is not ready yet to adopt high tech.	3	3
Pre-growth stage startups	VC feels that the region hosts a couple good pre-growth startups.	1	1
Region as a whole in relation to its size	VC explains view on the general ecosystem compared to some geographies only.	1	1
Regional B2C investment focus	VC explains the high focus on various b2c businesses in the region.	1	1
Required growth in relation to perception of high quality startups	VC compares international standard of growth to local startup stars.	2	4
Showcasing returns in relation to LP confidence	VC explains how showcasing returns to LPs is directly linked to their confidence.	3	3
Speed of news in relation to small ecosystem	VC highlights how the size of the ecosystem accelerates the spreading of news.	1	1
Supporting founders irrespective of funding	VC perceives the support of young founders to help the ecosystem overall.	2	3

Tremendous growth over past years	VC perceives the local ecosystem to grow rapidly.	1	2
Uneven ratio of local and expat talent	VC explains that parts of the ecosystem have strong local talent compared to others having many expats.	2	2
Unforgiving region in terms of failure	VC explains that having similarities to businesses that have failed is tough.	1	1
VC activities in relation to supporting growth	How VCs perceive activities as helping the ecosystem's development.	1	1
VC influence in relation to supporting the region	VC explains how support can help weak founders with great ideas to have an impact on the region.	1	1
VC strategy in relation to founders	VC explains that if the portfolio strategy is not in line with profitability and basic economics, the founders need to step up and understand the business economics very well.	1	1
Vulnerable to fast changing trends	VC explains that the small ecosystem is liable to dynamic trends.	1	2
Weak competitive b2c position	VC highlights b2c hurdles faced by companies due to weak competitive position.	1	1
Weak ecosystem framework in relation to nascency	VC points of flaws of the ecosystem due to its young age.	1	2
Wealthy angels in relation to slow ecosystem development	VC feels that wealthy angels in the region have influenced the natural progression of startups negatively.	1	2

Fifteen (15) professional investors shared details and information about the characteristics of the start-up ecosystem in the Middle East. Below is an example of the region's economy through the lens of one (1) investor:

*“That’s a great question, as I mentioned money alone isn’t the problem in this region it is the entire ecosystem that is very young...”*

#### ***4.5.1.1 Full of opportunities***

Three (3) investors seem to be bullish and optimistic about the region as a whole and share positive impressions, as stated by one (1) investor below. Interestingly, the nascency was a re-occurring variable linked to many challenging aspects of operating in this young region:

*“With all that capital coming in and with the regulations being favorable... plus the barriers to enter in this region of the world aren’t as high anymore...”*

It seems that in both statements above, investors agree on the fact that liquidity is not the region's problem. In terms of the structure of an ecosystem, this could emphasize that the market's floating liquidity could create value between stakeholders.

The first investor seems to point out that money cannot solve all the problems caused by the nature of the young ecosystem, whereas the second investor seems to look at the youth of the ecosystem through a more optimistic lens and points out why the future of the ecosystem could be great.

The data appears to present two opposing viewpoints: The first, which appears to be less optimistic about the overall health of the ecosystem, and the second, which appears to be more optimistic about the future. This could mean that the context and the way a person feels about a topic could affect how opinions are formed and whether it is optimistic, enthusiastic, and / or negative.

The optimistic view of the second investor seems to be supported by one (1) more investor below, who showcases optimism and a possible link to the industry or the fit, since there are still a lot of industries and verticals where one can invest:

*“It is also exciting you know, because we are in a region where you really have a lot of great transformations in the making... but you still have so many verticals that are open and have not really been touched. This makes it very exciting for an investor to be here.”*

Interestingly, the above data seems to indicate that perceptions of the continuously evolving ecosystem are dynamic. From an unrealistic optimism point of view, if the general view an investor has about the ecosystem's behavior is already influenced by unrealistic optimism, every subsequent decision and process could further be influenced by unrealistic optimism, which could trickle down the decision-making chain.

The data also seems to tell that investors perceive the opportunity at hand differently, which could be linked to the willingness of risk taking. Through the lens of an opportunist, the investor favoring the bullish views on the future of the ecosystem could reap the benefits of the first mover in an untapped area, whereas the investor highlighting the nature of the young ecosystem to be a problem could look at the concept of the first mover advantage differently. A potential link in this case could be risk to reward connected to unrealistic optimism as the determined optimism could not only have an impact on the strategic outlook and general perception of the investor but also again on the investment decision-making criteria in the next step.

Furthermore, it is interesting to combine the position towards first mover advantage with the findings of Makridakis and Moleskis (2015), who conclude that from an opportunity cost perspective, avoiding positive illusion and embracing limited information, such as accepting to not know the outcome of investments, is technically preferable, as this approach may lead to or cause less harm overall, regardless of whether the market moves. Therefore, it remains questionable whether the fear of missing out or the opportunity cost might impact the way how unrealistic optimism is influencing the decision-making process.

From a variable perspective, it is interesting that the shared optimism mainly comes from investors with four (4) to five (5) years of experience, which, according to the research participant table (Table 3), is on the lower spectrum in terms of age. Figure

thirty-two (32) compares experience in years with the average number of average investments, which varies between four (4) and twelve (12).

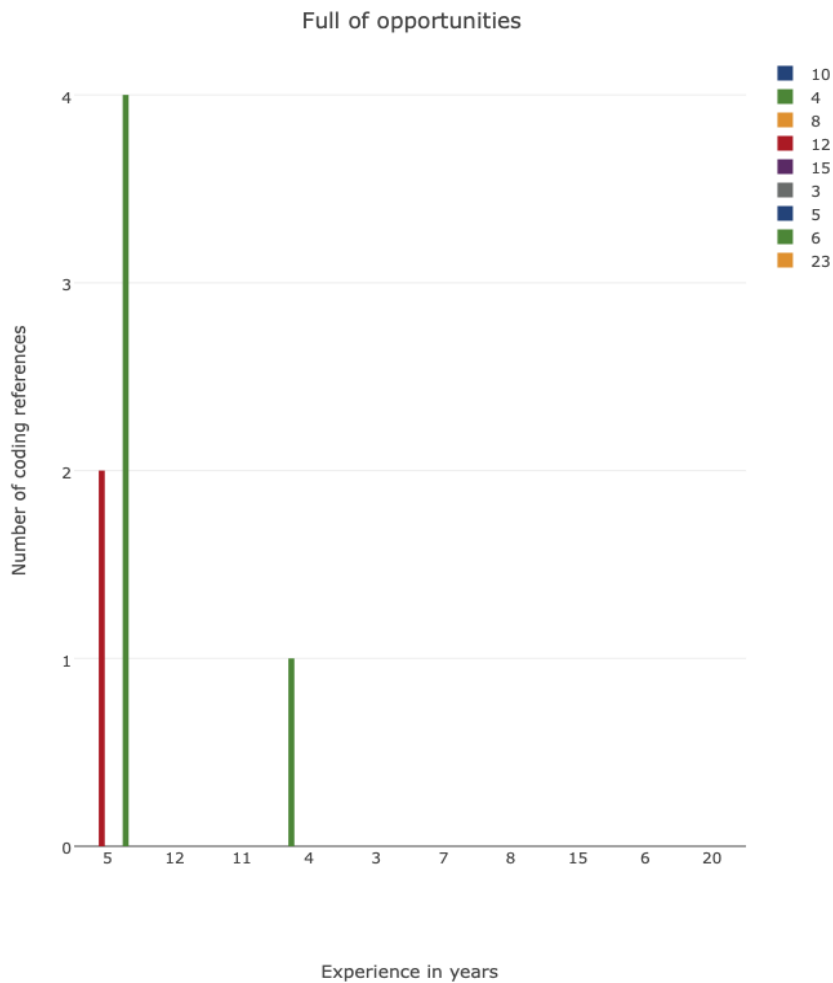


FIGURE 32: FULL OF OPPORTUNITIES – EXPERIENCE IN YEARS / AVERAGE NUMBER OF ANNUAL INVESTMENTS

#### ***4.5.1.2 Nascency of founders in relation to behavior***

Three (3) professional investors have contributed data, highlighting the position between the investor and a founder / entrepreneur, whereas the investor could be perceived as the superior individual due to industry experience, knowledge, and resources. Interestingly, the data presents investors as seemingly compassionate and helpful when interacting with founders with less knowledge, as showcased in the below statements of two (2) investors:

*“Not because the entrepreneurs are not good, but more so because the start-up ecosystem is so nascent in the middle east that many don’t even know how to build a pitch deck and what to focus on. You know, basic things like that are a difficulty at times.”*

*“We spend a lot of time with the founders before we invest. A lot of time in helping them to work on their plans, because a lot of them never had proper training in handling a business independently.”*

From an investment decision-making criteria perspective, these findings are very intriguing. Firstly, the data seems to present a lack of illusory superiority in the above cases, as the young ecosystem is to blame for the underdeveloped founders and investors seem to understand this and are fair and rather supportive. Therefore, investors do not seem to act on their enabling superiority in this case. However, previous data analyzed in specific objective one (1) has, in line with the literature, indicated that founders are the number one (1) criteria for investors to invest in a startup.

Therefore, it could be questionable what kind of filter related to the founder criteria investors apply, when founders are not equipped enough to build a pitch deck or require further training to be able to handle a business independently. Previous analysis has also shown that investors value certain character traits over others when picking founders to invest in. However, to get an investment, a founder must first pass a preliminary project evaluation. If, at this stage, some of the decision-making material, such as the pitch deck, is not up to par, how can an entrepreneur qualify further?

Synchronizing the above data with variables, and especially experience, Figure thirty-three (33) indicates that the comparatively less experienced investors have showcased understanding behavior towards founders in relation to the nascent ecosystem.



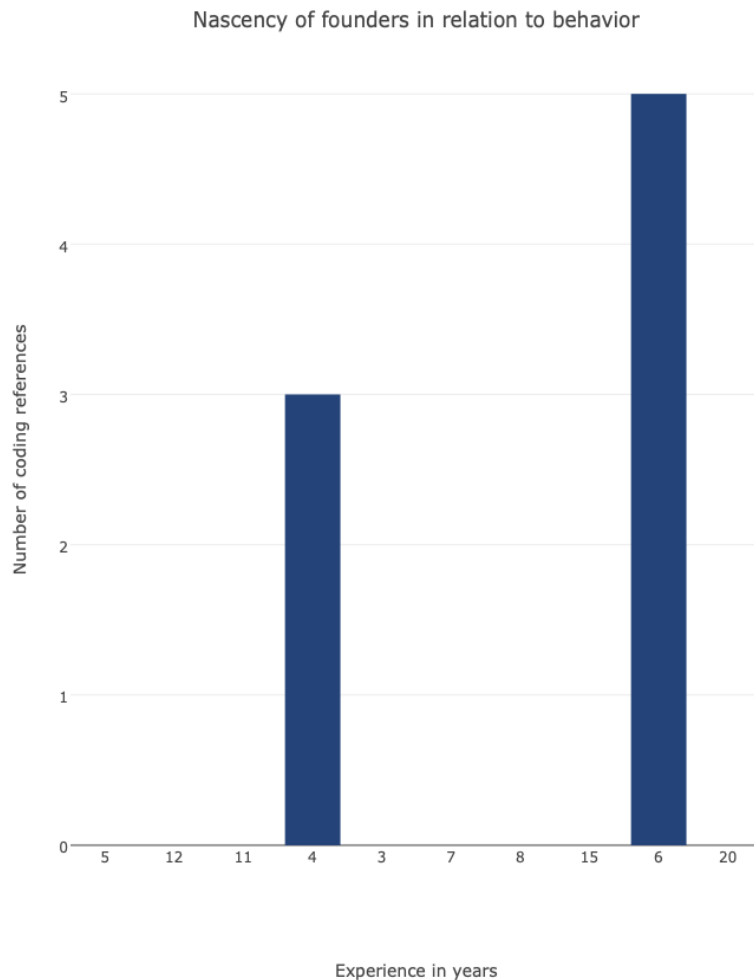


FIGURE 33: NASCENCY OF FOUNDERS IN RELATION TO BEHAVIOR – EXPERIENCE IN YEARS

Linking this back to the investment decision criteria, in this case, the team does not seem to be the primary driver from an experience perspective, yet investors seem to be more inclined towards personality or character traits. Another avenue to explore based on linking the data to the criteria and illusory superiority could be the ability to add value, fit, and valuation. Since investors describe their hands-on approach to supporting founders exercising the ability to add value, naturally interpersonal relationships might build, which could impact the degree of negotiations when looking at a valuation or which could determine the fit between individuals from an emotional perspective. In such a case, an investor could exercise illusory superiority by taking advantage of the founder's "mentee" role compared to the investor's position.

Furthermore, two (2) investors also blame the young ecosystem to be the reason for underdeveloped founders as highlighted below:

*“I mean at times you expect founders to negotiate but then again you invest that early in such a nascent ecosystem that the founders simply don’t know how to negotiate.”*

*“But then again, we are dealing with a lot of first-time entrepreneurs... and I hate to say it but for a lot of them their marketing is just so bad (laughs) and they really need help with that.”*

This additional data could indicate that a nascent startup ecosystem could offset the core variable identified by Gompers et al. (2020) and other researchers, requiring a different approach compared to for example more developed ecosystems.

#### ***4.5.1.3 Inflated success stories in nascent region***

Lastly, the statement of one (1) investor could indicate a potential trend found in the young ecosystem, warranting positive illusion throughout and building up further on a previously discussed child-theme "inexperienced VCs as a result of a nascent ecosystem". This could be justified in a way that stakeholders could potentially wish for more than the ecosystem can currently produce:

*“You know, I am not sure how much you know about the start-up ecosystem in the MENA region as a whole, but many years ago when I started a lot of people were talking about success which didn’t exist back then. Simply didn’t exist...”*

#### 4.5.2 Investment process timeframe

Name	Definition	Files	References
Investment process timeframe	Learning about the views in relations to investment process timeframes.	3	8
8-12 weeks	VC explains that an investment decision is made in the span of 8-12 weeks.	1	1
Access to capital in relation to time	VC bases the investment time frame on the very small likelihood of startups finding other VC's in the meantime that could be more interested and faster.	1	2
Comfort in relation to time	VC defines the investment process duration as finding comfort achieved via multiple interactions over the course of a minimum of 3-4 weeks.	2	2
Dependency on IC meetings	VC aligns the investment process duration with quarterly IC meetings.	1	1
Evaluation time frame as probability of startup finding another VC	VC discusses the probability of a startup finding a new investor sharing the same interest in relation to the time component required for the evaluation / decision-making process.	1	2

Three (3) venture capitalists shared opinions on the time required to form a conclusion towards taking an investment. The data is interesting from an illusory superiority point of view because time and execution speed are crucial variables for founders operating a start-up, yet investors are entitled to take as much time as they require for their respective processes and to decide. In fact, in 4.3.1 child-theme "information shared by founder," one (1) investor states that the more time, the more information can be gathered and the better the decision-making will be. According to these insights, time

could be a powerful variable in connection to the investment decision-making criteria and process.

#### ***4.5.2.1 Evaluation time frame as probability of startup finding another VC***

One (1) venture capital investor below portrays a particularly interesting view behind the speed of decision-making in relation to the founders:

*“So, we can get our information within 2 weeks or we can take 5 months., the chances that start-ups will find another VC down the street that actually invests in them within a faster period than we do is .000000001%.”*

The potential consequences for a founder when negotiating with an investor having the above-mentioned attitude could result in potential pitfalls as this behavior could be linked to the investor exercising some form of superiority, since the power of determining the timeframe could go against a startup's commitments and execution processes, harming a start-up in various ways. For example, founders depending on an investment round and running out of runway might have to delay product releases, updates, new offerings or even supplier or salary payments. Therefore, this data could be linked back to the investment criteria. If an investor would delay the process on purpose under the context of determining the founder's personality, grid, or survival spirit, the urgency for cash on the founder's side heightens drastically, bringing the founder into a situation where potentially less favorable terms related to the valuation of the company could be accepted, which in this case would be a win for the investor.

In addition, and depending on the stage of the negotiations, investors could propose a no-shop agreement in a term sheet. This would prohibit founders from going to other venture capital firms to leverage the potential term sheet or status of the negotiations for more or potentially better offers. The reason for such a clause can vary, and the intention might be linked to other factors, strategies, or the attractiveness of the opportunity. However, illusionary superiority could play its part from two (2) points of view. Firstly, an investor could perceive that their own fund is better suited than others, and secondly, due to the urge to maintain control over the situation. Depending on how stressed a founder is, this could lead to a better valuation for the investor in the contracting stage. If founders play along, it could also influence the fit between the

investor and the founder, since an investor might think a founder is willing to do what they say.

#### ***4.5.2.2 Dependency on IC meetings***

It is important to highlight that professional investors are entitled to a time frame of their liking when making decisions. Also, time must be considered when it comes to the structure of the fund, as one (1) investor says below:

*“However, we have one investment committee meeting per quarter, unless something exceptional happens, so we have an IC every quarter and it depends where a startup falls within that quarter, so it can be anywhere between 3 to 6 months”*

The first glance at the above statement through the lens of a founder could be shocking, as a time frame of three (3) to six (6) months is a rather long time to take an investment decision, yet the investor explained further:

*“Why 6 months? Because of due diligence. Especially in the region you have people from all over the world and due diligence and research just takes its own time, even with technology. So, let’s be realistic, having at times also different jurisdictions and backgrounds coming into play just takes time.”*

The nascency of the region and the young environment mixed with potential traits of positive illusion seem to have an impact on the investment criteria of investors, potentially expressed in a slowdown of certain processes or even altering the fundamental reason for which the criteria are evaluated.

### 4.5.3 Evolvement of VC fund

Name	Definition	Files	References
Evolvement of VC fund	VCs views on development plans for their respective funds.	8	20
Adding partners	VC plans to look for an additional partner to add to the fund to diversify the workload better.	1	2
Believes in long term value creation	VC explains that value creation over time will result in more liquidity for this stage of investing.	2	3
Exits for success	VC explains that a fund can only develop properly via follow up rounds or exits.	1	1
Industry antagonistic to specialized industries	VC mentions a fund restructure back to an evolving model focusing only on a few industries.	1	2
Industry antagonistic to specialized industries	VC mentions a fund restructure back to an evolving model focusing only on a few industries.	1	1
Maintenance of fund DNA	VC explains that keeping fund ethos and DNA is upmost importance.	1	1
PE opportunity in the region	VC explains the PE opportunity in the region due to a small number of players in this space.	1	1
Portfolio manager	VC explains the need for a portfolio manager for enhanced interactions.	1	1
Raising a larger second fund	VC explains that raising a larger second fund with increased team size and investment power is the goal.	1	1

Shift from VC to PE	VC explains potential shift from VC to PE due to the availability of more cash in PE.	1	2
Shifting away from early stage	VC explains that eventually the focus will shift away from early stage investing into later stage.	1	1
Takes time to get name into the market to attract startups	VC explains that it takes time to become known in the market.	1	1
Team needs to grow in tandem with portfolio	VC explains that team and portfolio growth go hand in hand.	1	1
Ticket size of investment depends on fund strategy	VC highlights that the investment size depends on the fund's structure.	1	1
Years of fund being active and growth	VC highlights the difference between being active as fund and when growth started.	1	1

Eight (8) professional investors shared insights on the development of the fund they are managing. Interestingly, some of the data could potentially be linked to the decision-making criteria and unrealistic optimism.

#### ***4.5.3.1 Believes in long term value creation***

One (1) professional investor is particularly optimistic about the life-time of the fund as seen in the below statement:

*“The vision for this fund is to still exist in 20 years from now, I will not be there anymore, but the fund should.”*

Interestingly, the same investor also stated:

*“That’s how we see it, as a value creation vehicle with time especially in the region that doesn’t have a lot of liquidity options at this stage, but where you can create that with many portfolio companies and all the different verticals.”*

A comparison between these two (2) data points potentially showcases that in the first statement, the professional investor was very optimistic about the survival, lifetime, and future of the fund, even without own involvement, whereas in the second statement, the professional investor mentions the nascent region, the challenges in regards to liquidity options, which are challenging the liquidity statements in the child-theme "full of opportunities", and the fact that time is a key variable. Analyzing this comparison further, it seems that the first statement could potentially be linked to unrealistic optimism because the investor is optimistic and bullish on the idea of the fund being active in twenty plus (20+) years, yet the same investor seems to be aware of the challenges in the current market and how the ecosystem still has to evolve to become more mature, catering to long-term views. This contradicts the optimistic view portrayed in the first statement, as an immature ecosystem could potentially be very vulnerable or susceptible to external changes or events, as previously analyzed with the impact of COVID-19.

The insights of this investor create multiple avenues to explore further. Firstly, the data seems to present that unrealistic optimism could potentially emerge in only certain instances and certain mind frames, whereas rational reasoning could trump unjustified optimism in other cases. Furthermore, the investor mentions adding value to the nascent region over time, which could be linked to the investment criteria identified by Gompers et al. (2020) and specifically to the ability to add value. Furthermore, another interesting concept emerging from the investor’s statement is the opportunistic approach. The investor mentions the uniqueness of the opportunity of building a portfolio of companies in various verticals. This opportunistic approach might be like the first mover advantage previously discussed in the child-theme "full of opportunities", where the impact of optimism towards the future potentially impacts the decision-making criteria with a more future-orientated tendency.

Another set of data from one (1) investor, who played the long-game since the seemingly very early days of the ecosystem makes survival and a long-term future seem possible as stated below:



*“Well look, we are one of the first players throughout the entire ecosystem in this region and we have really learned the hard way, the very hard way growing slowly with the entire ecosystem around us. It’s crazy, because we have made a lot of steps forward and progressed immensely and so has the ecosystem over the past 15 years,”*

This statement could enforce the possibility of a long-term view and that unrealistic optimism related to the long-term context could be proven right with the example of this investor. Yet it also seems that the ecosystem is developing in parallel with all the stakeholders involved potentially highlighting that the ecosystem is only as strong as the stakeholders and vice versa.

#### 4.5.4 Investment philosophy

Investment philosophy	Exploring VC's ethos behind investing	19	61
Calculated risk	VC perceives the ethos to be a combination of taking risk yet in a measurable and definable format.	1	1
Cautious approach in relation to risk	VC explains that their background in the financial industry prevents them from pumping money by following a cautious approach to deployment.	1	1
Clear philosophy since start	VC follows a clearly defined approach since the first day of operating.	1	1
Democratizing VC investing	VCs agenda is to make VC funding accessible to everybody.	3	5
Diversification	VC explains that a part of the funds philosophy is not to put all eggs in the same basket.	1	1
Empowering all stakeholders	VC aims at creating value for each stakeholder in the entrepreneurial ecosystem.	4	7
Entering a marriage	VC expects from invested founders to commit to a long term relationship.	2	4
Entrepreneurs investing in entrepreneurs	Vc believes themselves to be entrepreneurs hence where the largest value add comes out of.	1	1
Experience in relation to ethos	VC perceives the gathered experience as reason for continuous integration of ethos in decisions.	3	3
Future growth in relation to stage	VC is looking for companies that have growth potential and potential market	1	1

	capture since investment stage is early.		
Good business will be successful	VC explains investing time in finding good businesses will lead to success.	1	3
Hands on approach	VC believes in supporting founders in their journey.	4	4
Investing in people	VC explains that the funds ethos supports foremost to invest in people / founders and not businesses / products.	1	1
Investment support in relation to success	VC believes that the support coming together with investing makes the company big.	3	3
Long term value	VC believes in matching the right set of components to achieve growth and success over time.	4	7
Monetizable	VC strictly focuses on the future monetization potential of a startup.	4	9
Right time right place	VC shares thoughts on conducting investments.	1	1
Sees potential in the entire region	VC likes to look at the entire ecosystem in the region due to the general growth opportunity.	1	1
Set number of investments per year	VCs goal is to invest in a set range of companies each year.	2	2
Strategy is susceptible to business dynamics	VC explains that the change in the business environment has impacted the strategy.	2	2
Sustainable growth over profitability	VC explains that endless cash-burn and growth strategies are pursued by the ecosystem rather than focusing on measurable growth.	2	3

Nineteen (19) investors share information about their investment ethos, and various points of views, efforts, and strategies are explained, as seen below by comparing the statements of two (2) professional investors:

*“Our philosophy on trying to be cautious, smart and daring is probably different than many other VC’s”*

*“We look at our investments like in the stock market (laughs) we want to go long.”*

#### **4.5.4.1 Empowering all stakeholders**

The data presented is generated by four (4) investors, explaining how they create value for stakeholders involved in the ecosystem, as seen below by one (1) investor:

*“...and although we don’t position ourselves as an impact fund we like to invest in companies that create a social impact, however social value is quantified. We for example just invested into a seafood company in the region that is led by two phenomenal female scientists. They basically are generating shrimps from stem cells to avoid shrimp exploitation from the oceans, which is highly sustainable as the shrimp industry is in fact one of the dirtiest around the world with high levels of pollution.”*

Interestingly, the ideology of pursuing social value and creating value for multiple stakeholders is in tune with many existing business theories and concepts, such as, for example, the stakeholder theory (Freeman, Harrison, Wicks, Parmar and De Colle, 2010). However, most of these take place in mature ecosystems, therefore pursuing such an effort in a nascent ecosystem which is under development seems daring and could potentially be linked to unrealistic optimism as the environment might not warrant or facilitate the efforts yet.

From an investment criteria perspective, however, the approach driven by some degree of unrealistic optimism could be considered interesting, as in line with the nascent ecosystem, many business verticals are nascent too, providing the investor with a large playing field. Therefore, the affected decision-making criteria could be: industry,

business model, market, product, and ability to add value, as these all relate to an open playing field. Nevertheless, it is important to emphasize that, again, the underlying factor seems to be the nascent ecosystem influencing optimistic illusion in relation to the decision-making criteria.

One (1) investor explains further:

*“So, our philosophy is to focus on the human side of things... For us and the very young ecosystem here... but grow year over year in a sustainable way to create value for themselves, the ecosystem and automatically us.”*

Comparing the above two (2) investors and their individual examples, both mention a social / stakeholder centric approach whilst trying to achieve quantifiable / sustainable growth. This could indicate that whilst impacting many stakeholders is critical, the focus remains on growth. Relating this back to the first investor portraying a seemingly daring approach in a nascent ecosystem in relation to unrealistic optimism, it could indicate that unrealistic optimism selectively impacts variables crucial to operating a business.

On the other hand, the below is an example of one (1) investor explaining how they create value for their internal stakeholders:

*“We are also very open with our investors, if they see an opportunity they like, and it makes sense overall let’s go for it. It’s about the inclusion and learning as a whole rather than a distancing and playing smart. We are committed to keep making 3-4 investments per year, some might call it conservative, I call it daringly smart (laughs) and of course within the spaces we understand where success can come out of.”*

From this specific example, the data indicates how the immediate stakeholders of the venture capital fund benefit, yet the ecosystem around them seems not to be impacted as much as from a social / stakeholder impact perspective, as with the other venture capital investors mentioned. Even though the same investor also states:

“...but has helped us in making our investment decisions which are hopefully benefiting the greater good and the ecosystem and not only the immediate stakeholders.”

From a variable comparison perspective, it is interesting to observe that the investors who generated these insights are on the lower end of the spectrum in terms of experience compared to their peers in the study. From an age perspective, there is no conclusive indication as the investors range from thirty-seven (37) to forty-eight (48), which is, according to Table three (3) research participants, not considered outliers. This could show that age is not necessarily a key factor in this case when looking at unrealistic optimism. Instead, experience seems to be a more important factor, as shown in Figure thirty-four (34):

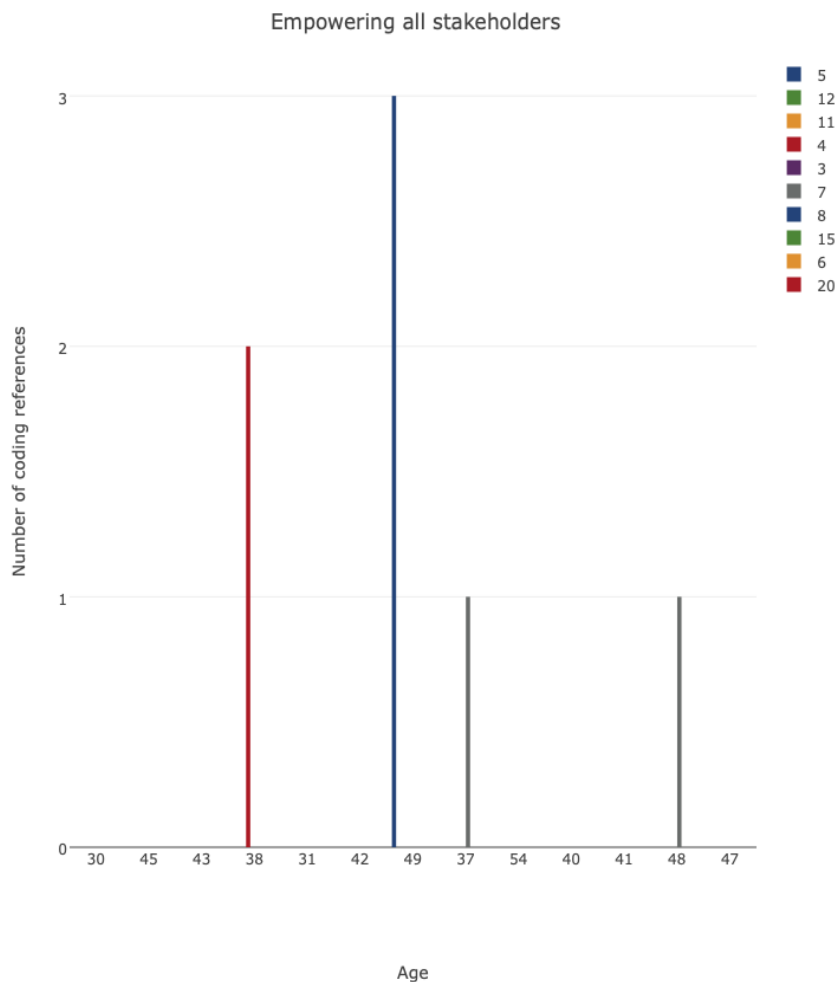


FIGURE 34: EMPOWERING ALL STAKEHOLDERS – AGE / EXPERIENCE IN YEARS

#### 4.5.4.2 Democratizing VC investing

Interesting data points emerge in relation to unrealistic optimism, where three (3) investors share their actions on making venture capital more accessible to minority groups. It is inherently challenging in a nascent ecosystem to grow and operate a fund as many stakeholders have not been exposed to the concept of venture capitalism. Therefore, and as one (1) venture capitalist below explains:

*“Also, there is not a lot of information in the market about what we do and how we want to benefit female entrepreneurs with this capacity building arm, essentially helping to push this nascent ecosystem in the region. So, this PR machine has not really picked up yet”*

To execute accordingly this investor depends on alternate channels such as public relations to communicate the vision and mission of this fund. Therefore, the potential obstacle this investor faces could be the willingness of the general ecosystem around the venture capital industry. The data does not emphasize intention, value behind the efforts added to the ecosystem or the views. One (1) more venture capitalist highlighting similar efforts:

*“Since our fund is mission driven, meaning we are investing in women led tech companies,”*

However, the question remains on the feasibility, which could again be linked to unrealistic optimism since multiple uncontrollable channels seem to be required to push the efforts and whether this approach is at this current point in time with the ecosystem being that nascent, feasible or not, remains to be observed. This finding is rather interesting because, in this case, unrealistic optimism would add a different perspective to the current analysis, as this type of unrealistic optimism seems to put the investor in a position of an enabler for not only themselves or their usual investments, but as a facilitator for others in need to be impacted positively. This could indicate that unrealistic optimism is also in a relationship with an individual’s personal mission.

#### 4.6 How does positive illusion influence the respective hierarchies?

How do unrealistic optimism and illusionary superiority influence the respective hierarchies between the venture capitalist and the entrepreneur?

The below part of this study seeks to analyze data generated from direct interactions between investors and founders to determine if and how positive illusions might impact the behavior or potential hierarchy of the investor-entrepreneur relationship.

Based on the established taxonomy and the associated parent themes, it seems that the following parent themes are the most pertinent:

- Founder characteristics and attributes
- Founder relationship
- Opinions on founders

##### 4.6.1 Founder characteristics and attributes

Name	Definition	Files	References
Founder characteristics and attributes	Exploring the personality traits and skills required in a founder.	14	60
A blend of patience and ethics	VC feels the success formula for long term success to be a mix of patience and ethical behavior throughout the process.	1	1
Ability to pivot		3	5
Aware of own skills		3	4
Commitment level to measure quality of founder	VC explains that their due diligence process is based on a questionnaire and that high quality founders can be shortlisted based on the commitment when filling out the questionnaire.	4	6



Ethical behavior	VC finds high moral standards as well as ethical behavior to be crucial in founders, as this sets the tone for relationships, growth and general operations.	3	5
Financial understanding	VC explains that founders must understand the basic economics and financials of their funding round in order to be taken serious,	1	4
Founders are multitasker	VC believes that founders have to be multitaskers since they have to be able to manage each and every department.	1	1
Honesty of founders		9	11
Identifying size of problem	VC explains the importance of determining if the founder has done research on the problem, related to its size.	1	1
Leadership as top quality	VC believes that the leadership style determines success before funding power or smartness of founder.	2	2
Outlier personalities	VC speaks about different personality traits across geographies and that outliers tend to fail in the local ecosystem as they don't meet stereotypical requirements.	1	1
People skills	VC explains that people skills are very crucial in a founder in order to create a culture in the company.	2	2
Professional history		1	1

Ready to develop relationships	VC believes that the basic founder persona is generally ready to develop relationships fast, given one clicks with the founder.	1	1
Secrecy	VC does not favor founders that hold back information, regardless of the reason behind it.	3	8
Servant leadership style	VC mentions characteristics of servant leadership style to be important for a founder.	1	1
Shared characteristics	VC feels that founders with similar characteristics to VC are the right fit.	1	1
Support regardless of prior investment outcome	VC explains that entrepreneurs with the right attitude receive backing regardless if they have failed before or not, as failing is sometimes out of the control of the entrepreneur.	2	2
Theoretical vs. business understanding	VC mentions that sometimes founders with high level academic experience lack the feasibility and vision on the ground / business level and are not suitable.	1	2
Willingness to learn	VC learns over time if a founder is coachable.	1	1

Fourteen (14) investors discussed the personalities, traits, and characteristics of the founders. The views and experiences of how founders engage with investors vary a lot, with some investors having specific requirements for how a founder should interact to begin a working relationship, as stated below by one (1) investor:

*“and from the founder perspective I told you how founder driven I am so you can imagine the more honest and transparent a founder is with all his visions and ideas the better I can work with them.”*

Other investors, for example, are more focused on certain entrepreneurial skills, aiding the business to grow as stated below.

*“however from a VC background we need to understand that these entrepreneurs need to be agile, move fast..”*

#### **4.6.1.1 Honesty of founders**

Nine (9) venture capital investors emphasize honesty, which is, according to the investors, a top criteria when interacting with founders. Every investor in this child-theme highlights how honesty is crucial to them in starting a relationship, as stated below by two (2) investors:

*“but I am definitely very founder orientated and therefore information about the founder her or himself, about personal goals, start-up and business related goals are very important to draw a picture of the big scenario and to understand where this whole venture is going to.”*

*“Firstly, you need truthful and great founders rather than a person that can quote everything that happens in the industry and ends up making his own moves down the road without anybody knowing. There is nothing worse than a hidden agenda of a founder once you start a relationship.”*

As for any long-term relationship to develop between humans, honesty and / or transparency could be perceived as a universal key driver from various perspectives. However, looking through the lens of unrealistic optimism and based on the preceding statement, it may become increasingly difficult to first identify a founder with a hidden agenda and, second, even work with one as the positive alignment towards the future and, in this case, towards building a great venture may cloud reality.

Linking this back to the hierarchy, the above statements and data seem to give the impression that it is the founder's responsibility to convince an investor of honest

intentions, which could also be perceived as some sort of superiority. However, since the relationship is more transactional, it could also resemble the simple barter concept. Yet looking through the lens of unrealistic optimism, it is rather interesting because an investor might be enticed by an idea when painting the larger picture of the opportunity ahead. Building on the above comment by one (1) investor about how the founder's honesty and transparency help to understand the big picture, investors seem to have different mechanisms to measure trust, as seen by one (1) investor below:

*"...but I need to be able to see eye to eye and trust that person. Trust is the major trade when looking at founders."*

Therefore, it remains questionable to what degree unrealistic optimism clouds an investor's perception in relation to a founder if a project seems to be enticing from a vision perspective and matches all the requirements, including, for example, an investor's current standing in the community or pressure towards delivering returns, and vice versa, a project might not be as good as desired, but the founder is a very trustworthy individual. The above data seems to show that investors, whilst looking for the same variables (honesty, transparency, and trust), have different ways of achieving this point, with mechanisms and thresholds of building an actual level of trust to avoid being deceived by the founder, as stated below by one (1) investor:

*"These people I like, the rationalism and honesty, I like it. And this is a big factor for me to invest,"*

In terms of hierarchy, an investor might even feel superior as they are from a psychological and industry perspective the specialists and in high demand, with founders having to prove themselves first in the interaction. On the other hand, it is also interesting to look at the below statement of one (1) investor:

*"We look at founders as the drivers in early-stage start-ups so them being honest is so important to us too."*

This could also indicate that a hierarchy might change when the relationship is established and the founders prove their capabilities and themselves to the investor, as the founders then move into the driving seat of the operations.

An interesting concept in terms of hierarchy evolves from the data. When looking at the process, it seems that a founder has to first earn the trust of an investor. In the meantime, it seems like investors consider the project's potential but should not be too enticed as the intentions of the founder are not yet certain and unrealistic optimism towards the future based on current circumstances of the investor could have an influence on that decision. Once trust is established with a threshold identified by investors individually, the founder seems to be getting into the driver's seat, which could indicate a full switch in the hierarchy, as now the founder is the valuable criteria.

Furthermore, studying Figure thirty-five (35), the experience of the investors preferring honesty in founders covers a wide range of the participants. This could indicate that regardless of the level of experience a professional seems to have, the honesty of founders is a crucial characteristic.

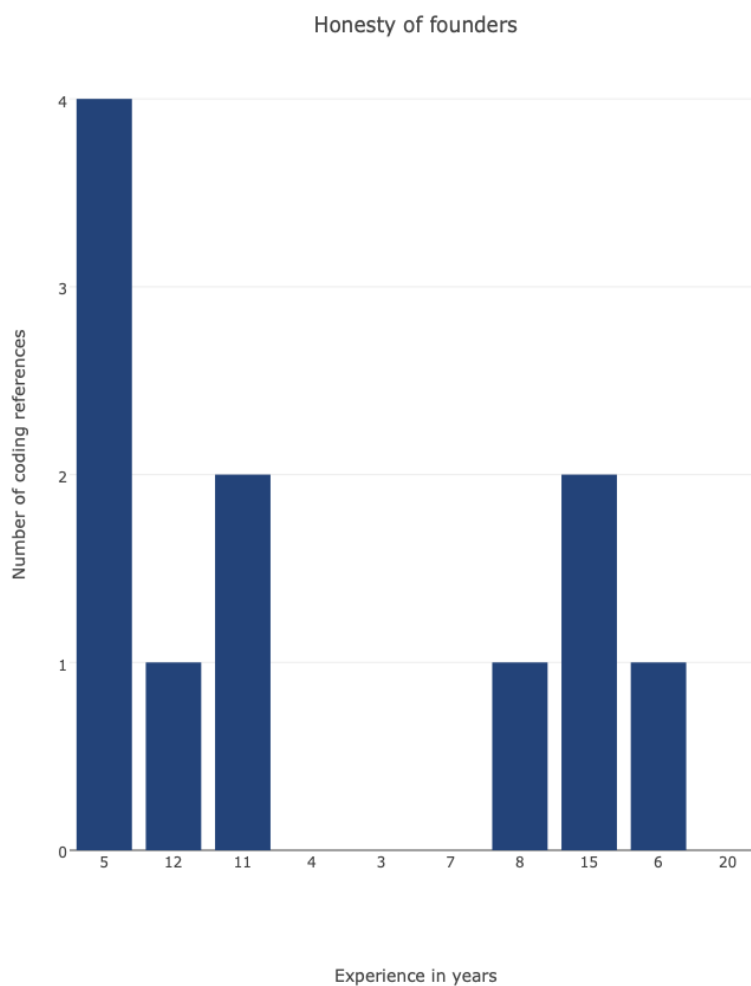


FIGURE 35: HONESTY OF FOUNDERS – EXPERIENCE IN YEARS

#### ***4.6.1.2 Commitment level to measure quality of founder***

Expanding further on the team criteria, a study by Gompers, Mukharlyamov and Xuan (2016) found that the commitment and quality of the management team are of the highest importance during the venture capital evaluation process and are more critical to the venture's success than criteria surrounding the business or even the market.

Four (4) investors share data on the commitment level of founders and how it helps to measure their respective quality and commitment. The statements in this section are interesting, as the investors seem to use different methods when measuring commitment levels and their respective quality, like in the previous child-theme "honesty of founders". This is further explained by two (2) examples of two (2) venture capitalists:

*"...is he a real entrepreneur or a "want to be entrepreneur", we focus a lot on this space and the mentioned things."*

*"Is he a hustler? Can he get stuff done? I think especially at the seed level..."*

The lingo used by professional investors to identify the commitment of the founders seems to be rather blunt and straight-forward in what they seem to perceive as a suitable founder. Furthermore, the definition of "want to be an entrepreneur" can be understood in various ways. Looking through the lens of positive illusion and, to be specific, through illusionary superiority in relation to the hierarchy. The description of "want to be an entrepreneur" could be perceived as derogatory, emphasizing the investor's superior view compared to the founder. Another way of connecting this data could be the link to the nascent ecosystem, as, for example, the ecosystem being rather young does not produce too many high-quality founders.

Focusing on the above-mentioned process, one (1) investor below uses an extensive due diligence process as tool to identify the founder's seriousness and commitment. The investors states:

*"I mean they want to raise money right and the level of commitment is so visible with our questionnaires that at the end of the day we can filter the quality*

*founders based on their replies, time they need to revert how elaborate they are etc.”*

*“we sent them all our dd questionnaires and they reverted within 24h and that means for us okay, that means they really like our process, want our capital and are really organized and want to work with us.”*

Whereas the two (2) investors further above state what they are looking for in a founder to judge commitment, this investor seems to identify the commitment of the founder based on filling out their due diligence paperwork. It is interesting in this case that the crucial variable is not necessarily the filling out of the paperwork, but more so the timeframe in which it is reverted apparently indicating the degree of commitment. Compared to other processes, this one does not seem to have any face-to-face interactions, letting work ethic and time be the variables. This could further highlight the different ways investors use to judge founders, where some investors use mechanical processes and others use more emotionally based processes, which potentially have a heightened chance of positive illusion to interfere.

In addition, Figure thirty-six (36) below seems to showcase how the quality of the commitment level is equally as important among investors, whether investors conduct four (4), six (6) or even twenty-three (23) investments on average per annum. This could indicate that the commitment level of a founder plays a role for investors of all types and investment frequencies.

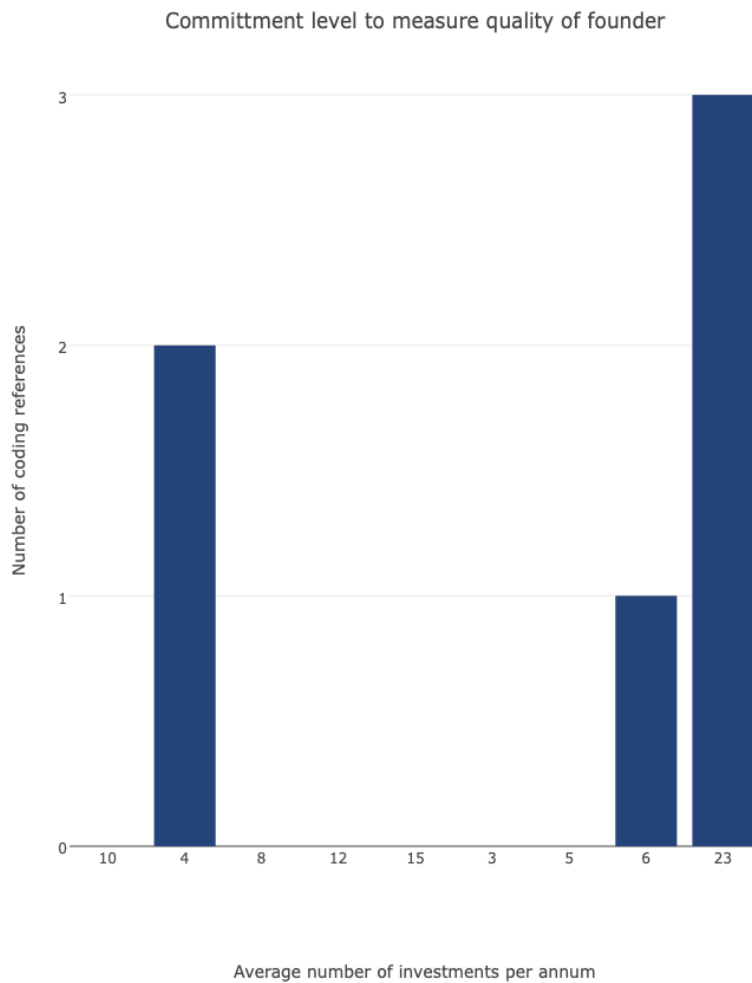


FIGURE 36: COMMITMENT LEVEL TO MEASURE QUALITY OF FOUNDER – AVERAGE NUMBER OF INVESTMENTS PER ANNUM

#### 4.6.1.3 Secrecy

Three (3) professional investors share insights on secrecy and how it affects them when interacting with founders. Interestingly a re-occurring topic throughout this parent-theme is the discussion around finding out whether founders are being transparent or not whilst having potential positive illusion impacts in relation to the hierarchy. Along these lines below are two (2) interesting examples from two (2) investors:

*“At times you meet people who are not honest or just say what you want to hear as an investor. This happens all the time...”*

Considering this happens all the time, it would indicate that an investor should be prepared when entering the first conversations with a founder to expect untruthful



information. However, this seems difficult as described below by one (1) venture capital investor:

*“Not many investors are able to see through these intentional deceptions or lies”*

This could mean that in a first meeting, an investor could come across as more distanced, sheltered, or in relation to positive illusion from a more superior angle, as this could be the reaction to the high frequency of untruthful founders. Interestingly, in this case, illusory superiority would be beneficial. Taylor and Brown (1988, pg. 199) highlighted a similar concept of where positive illusions, when used as a tool for motivation, would be good. However, in this case, the application would be different yet could be beneficial.

Examining the above comparison further, the second investor also states the following:

*“So it’s easier for the founders to simply tell you things that are not true, misrepresent things. So if a founder is smart and dishonest, than god help you because as a VC investor you will never find out until and unless you have invested and it’s too late already.”*

This emphasizes the fact that when a founder plans to be dishonest, it is very tough to detect in virtually every regard within the first interactions, with the above investor even going to a degree where one can only detect it after an investment has been concluded.

The variable comparison of experience in years and the fund size in USD millions reveals an interesting insight in Figure thirty-seven (37) below. In fact, the investor with the least experience has the most coding references yet operates the smallest fund. The two (2) other investors, on the other hand, operate funds that are at least double to three (3) times larger and have two (2) to three (3) years more experience. This could be linked to the above comment by one (1) investor stating that not many investors can identify whether founders are honest or not, which might be due to the nascency of the stakeholders within the ecosystem, as in this specific case, investors

with much more experience seem to not be as impacted by secrecy as less experienced investors.

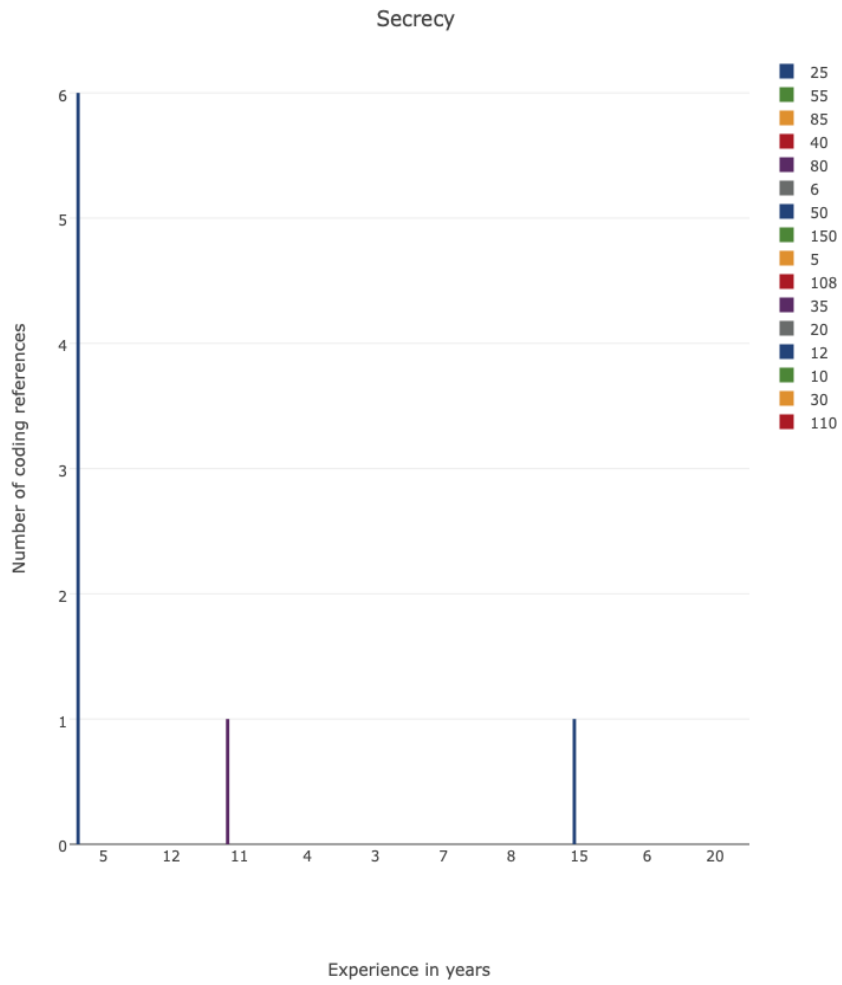


FIGURE 37: SECRECY – EXPERIENCE IN YEARS / FUND SIZE IN USD MILLIONS

#### 4.6.2 GP - founder relationship

Name	Definition	Files	References
GP - founder relationship	Looking at founders and a potential relationship through a general partners lens.	12	30
Banks on smartness of founders	VC feels that founders have to be smart enough to realize opportunity the VC provides.	1	1
Behavior in relation to future	VC explains importance of a good behavior of founders.	1	2
Being a founder is tougher than an investor	VC speaks of previous experience and finds the founder role more difficult than the investor role.	3	7
Expects founder to behave accordingly	VC expects founders to know how to talk to an investor in order to maintain engagement and heightened interest.	1	2
Founder respect	VC perceives general respect from founders when interacting.	1	1
In-person meeting	VC states that in-person meetings are a must when investing in a startup.	1	1
Not pressuring founders	VC does not pressure the founders and allows natural growth to occur.	3	5
Persona classification	VC explains that with more experience similar traits in founders are identified, which leads to classifying them.	1	1
Questioning founder decision-making	VC expresses dislike for VC's simplifying problems founders face.	1	1
Realizing capabilities	VC requires founders to be realistic and to understand own and the	2	4

	businesses' ceiling.		
Transparent relationship to prepare	VC prefers to work close with founders to introduce them to struggles ahead.	1	1
Trust	VC emphasizes on this crucial variable in a working relationship.	2	2
Universal characteristics	VC explains that irrespective of whether founders match with the funds philosophy or not, one way or the other all founders share similar characteristics.	1	1
Valuation as steppingstone for relationship	VC prefers to discuss valuation right away to understand the founders point of view.	1	1

Twelve (12) investors explained their relationships with the founders from various perspectives and viewpoints.

#### ***4.6.2.1 Being a founder is tougher than an investor***

Three (3) investors reflect on the sentiments towards founders and the difficulty of their professional lives, as stated below by one (1) investor:

*“In my experience, life as an investor becomes easier than as an entrepreneur because you give them the money and they go through hell (laughs).”*

Examining this statement could indicate that becoming an investor after having been a founder is like progressing through the ranks within the ecosystem. This doesn't have to be a sign of illusory superiority, but it could be seen as a type of superiority based on rank or hierarchy in the entrepreneurial ecosystem.

Exploring the data further, the below comment from one (1) investor shares the same ideology as the investor above:

*“It’s not really the stress where you are overwhelmed etc. because let’s be realistic, despite us and the fact that we are VC’s we invest in those people, the founders. Its them that are facing the stress and not us the managers, let’s be realistic (laughs).”*

This is an interesting statement, because the investor states "despite us and the fact that we are VC's". This could imply that the social stigma or public perception of stress associated with professional investors is not entirely accurate, as the same investor believes the real stress is with the founders, as stated further below:

*“I totally acknowledge that that the stress should come on the entrepreneur level...”*

Secondly, analyzing these statements through the lens of positive illusion and hierarchy, a similar situation as above might occur where an investor is positioned above a founder. This is because the investor makes it seem that, as an enabler, the stress is being passed on to the founder once an investment has been executed. In addition, this investor describes the investor role as "manager", which when taking a traditional view of this statement, a manager is above an executional employee from a rank and hierarchy perspective.

Lastly, one (1) more professional investor agrees with the fact that the stress on a founder level is much tougher compared to an investor as highlighted below:

*“I did both sides and being a founder is so much harder than an investor, being founder is just tough (laughs).”*

In addition, the data in Figure thirty-eight (38) highlights that in terms of experience the investors represented in this child-theme are compared to all the participants in this study, as represented in Table three (3) research participants, less experienced. This is interesting, because experience has so far played a key role in, for example, the child-theme "secrecy" and in the priorly discussed child and parent-themes evolving around illusional control.

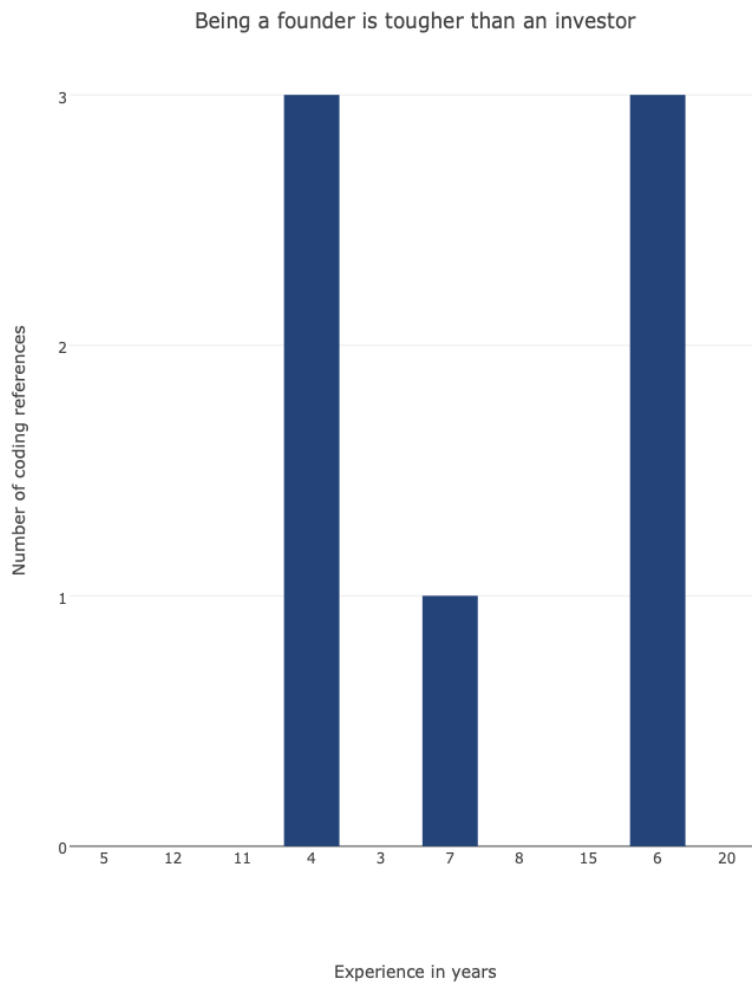


FIGURE 38: BEING A FOUNDER IS TOUGHER THAN AN INVESTOR – EXPERIENCE IN YEARS

#### 4.6.2.2 Not pressuring founders

Three (3) investors state that they do not pressure their portfolio founders for outcomes such as exits or that they try to avoid passing on stress from their side to the founders. Interestingly, as discussed in other child-themes, the building of relationships between investors and founders seems to remain an active topic. It is very interesting when looking at the below statement of one (1) investor, as the investor seems to almost look at the relationship from a strategic angle:

*“It is a lot like relationship building during which you need to be careful to not ask for too many updates in terms of numbers and development as companies*

*tend to get very jumpy very quick, because we are busy, and we have to deploy our money smartly.”*

From a hierarchy point of view, the data could indicate that building a relationship seems to be a fragile process where an investor must exercise caution. Yet the investor also seems to be able to coordinate the development of the relationship by applying the right amount of pressure, which would position an investor at the upper end of the spectrum from a hierarchical relationship perspective. Building on this further and looking at positive illusion, the data could indicate some condescending behavior towards the founder or an almost a parent-child like relationship with the investor being the parent gauging the right amount of pressure on the child or this case founder.

On the other hand, it seems that the investor almost lifts the founder onto a pedal stool, describing such as being jumpy therefore avoiding too many questions. This is rather interesting compared to the data analyzed further above, where the discussion point evolved around when the threshold of trust is established, as continuous questioning and milestone monitoring could help in establishing more trust.

In line with this analysis is the statement of one (1) more investor as seen below:

*“We have often first time founders that are already scared of raising funds, spending money and battling with success to reach that one stable point.”*

Interestingly, this statement could indicate a similar hierarchical analysis as above. However, these insights highlight that pressure is reduced or calculated as founders tend to be first timers in the industry, potentially indicating that depending on the experience of the founders, the level of pressure might vary. But it also seems that the investor’s role at this point is in the form of a guide for founders to avoid them becoming overwhelmed, which could also be linked back to the nascent ecosystem.

Moreover, when linking this back to the child-theme "nascency of founders in relation to behavior" in 4.5.1 and to the child-theme above "being a founder is tougher than an investor," it is interesting to explore similarities in terms of compassion and the role it could potentially play, as in all these codes the investor shows some kind of understanding towards the founder role. Whether that be related to the nascency of the

ecosystem, the job difficulty, or even as per this child-theme from a pressure perspective. From an experience perspective, interestingly the researched investors for this child-theme are less experienced as seen below in Figure thirty-nine (39) compared to all the participants in this study, as represented in Table three (3) research participants.

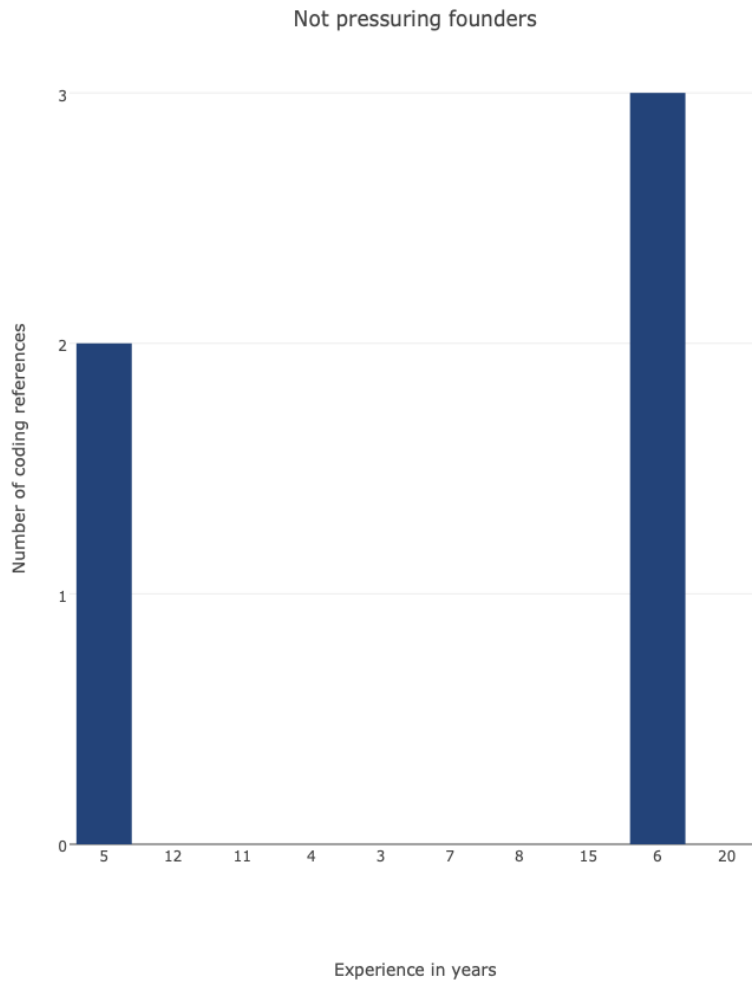


FIGURE 39: NOT PRESSURING FOUNDERS – EXPERIENCE IN YEARS



### 4.6.3 Opinions on founders

Opinions on founders	General opinions VCs have on founders and the environment they operate in.	5	8
Against replacing a founder	VC is against the concept of replacing a founder and does not believe this works well.	3	4
Covid is testing founders	VC explains that Covid pandemic is the ultimate test for founders to prove that they can survive and come out stronger.	1	1
Determining founder persona	VC explains that when founders embark on their journey, they should be aware from the beginning of what kind of founder they want to become and to what degree their startup is and can be scaled in relation to own ambitions.	1	1
Founders are the differentiator	VC believes that the reason why each startup is different is because of the founder persona.	1	1
Founders burn out	VC explains that founders acting as CEO's of startup often burn out once the company reaches a certain level. This means a fresh CEO is required to take the next step forward and to keep growing the company.	1	1

Five (5) professional investors shared their opinions and feelings about founders.

#### 4.6.3.1 *Against replacing a founder*

Three (3) professional investors share their opinion on replacing a founder within a startup. Interestingly, professional investors are against replacing a founder as seen in the below example by one (1) professional investor:

*“A founder is always a founder. I think you can replace or augment which a Chief Product Officer or a CFO or maybe in very rare case new CEO, but I think a founder is always there and is always a part of the team.”*

This is further supported by one (1) more investor who is against replacing founders or even the team:

*“I am not a fan of replacing anyone of the original team in the company,”*

These comments are intriguing as, through a hierarchical lens, it seems that the founder or even the founding team have their fixed place in the machinery of a startup. Additionally, it seems that the investors see the value of keeping the founders on board, which is another interesting aspect, as one (1) venture capital investor explains below:

*“Even replacing the team or adding individuals from our network to run the show is in my opinion more of a venture builder approach and not what we want to drive...”*

The investor goes as far as saying that replacing a team or even adding people would change the job title from venture capitalist to venture builder. These insights might suggest that investors have their own various reasons why they want to keep the team on board, yet the relationship / hierarchical order seems to be fixed with the founder being the operator / executer and the investor being the enabler / mentor / guide.

Expanding on the above statements, it would be interesting to understand the experience level of these investors. To comment reliably on the experience of replacing a founder, an investor first must go through the process of evaluating a startup for several years based on performance, compare such with other similar startups or founder characters and so forth. Therefore, Figure forty (40) expands on this by looking at the experience variable of the investors. Compared to Table three (3) research participants, the investors consist of what could be considered an experienced investor of this study with twelve (12) years, however also seven years (7) and six (6) years, which would be considered less experienced.

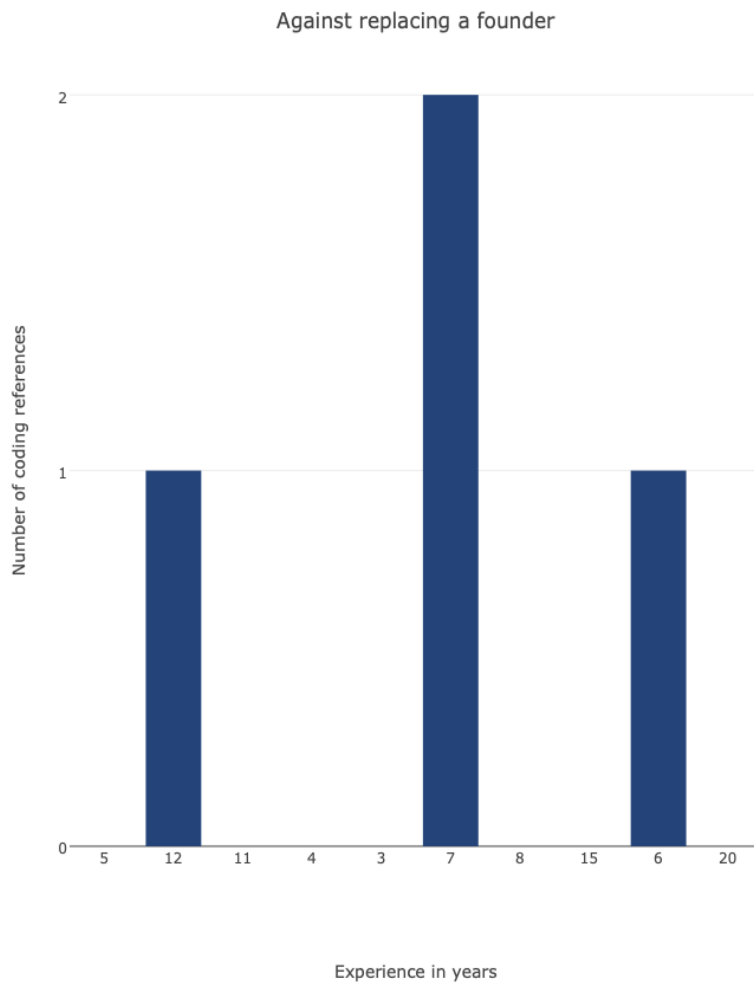


FIGURE 40: AGAINST REPLACING A FOUNDER – EXPERIENCE IN YEARS

## 4.7 How does positive illusion over-stimulate VC investment decision-making?

How do unrealistic optimism and illusionary superiority over-stimulate investment decision-making?

The human decision-making process as well as the effects of positive illusions on decision-making are very complex. Professional investors experience the impacts of various factors whilst operating within the nascent entrepreneurial ecosystem of the UAE. Furthermore, with the performance of a fund only being visible a couple years into the journey, each investment decision needs to be thoroughly assessed and thought through. Positive illusion and its impact on individuals are hotly debated topics. Interestingly, Robins and Beer (2001) concluded that the consequences of positive illusion cannot be generalized as only positive or negative, yet at the same time Fenton-O’Creevy et al. (2003) emphasize the need to educate individuals about positive illusion and its potential impact on the decision-making process in general. To identify how positive illusion potential might over stimulate decision-making, the following parent-themes are examined according to the established taxonomy to find relevant data:

- Investment behaviour
- Investing rational
- Investment philosophy

### 4.7.1 Investment behaviour

Name	Definition	Files	References
Investment behavior	Investigating the behavior and feelings of VCs towards investing in general.	9	24
Adding value in relation to duration	VC believes in adding value until it matures and helps finding a follow on investor to add new set of value.	1	2

Avoids investing based on primary excitement	VC explains that vetting a high number of different deals and opportunities reduces primary excitement leading to impulsive investment decision.	2	4
Deal pickiness in relation to failure	VC explains that failure rate is fairly low, as compared to other funds, the number of investments is also much lesser. Therefore, VC believes that being picky pays off.	1	1
Does not care about other VCs	VC feels confident with own way of investing and does not care about others in the industry.	1	1
Ease of investing vs. a plan	VC believes that everybody can execute on an investment, yet not everybody has a plan hence why having an exit plan is crucial for this VC.	1	1
Economy as stress test for startups	VC learnt that the health of the local / global economic environment acts as a stress tester for startups and therefore adjusted investment behavior to see who survives and who doesn't.	1	2
Execution over re-inventing the wheel	VC is about action and execution rather than re-inventing the wheel.	1	1
Experience shaped investment approach	VC blames previous professional experience in finance industry as driver for investment behavior.	1	1

Frisson feelings due to covid related remote approaches	VC explains that Covid changed the investment sentiment with looking at deals outside of Middle East, whilst exciting the VC feels scared since the entire process is remote without in-person meetings.	1	1
GP promises determine behavior	VC explains that the investment behavior is largely steered by the promises given to LPs.	1	2
Hockey stick investments in relation to the region	VC expressed dislike for hockey stick investments in the region as the exit opportunities are not warranted for such types of investments.	1	2
Involvement in selected activities	VC expresses discomfort with current involvement in the funds processes.	1	1
Own money in relation to deal	VC looks at the investment opportunity as if it were own money to be investment, this helps in decision-making.	1	1
Quick decisions	VC prefers to take decisions rather quick on an investment, however if there are unanswered questions than it is a no.	1	1
Replicating mature market trends	VC likes to invest in companies with models proven in more mature markets already, as it then gets down to the execution team only.	1	1
Representation in relation to speed	VC does not like to drag processes as this reflects negative on the funds representation and all stakeholders involved.	1	1

Round leading in relation to time	VC explains that investors in the region generally do not know how / do not prefer to lead a round, which causes rounds to close with a considerable time effort.	1	1
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Nine (9) investors shared data on feelings and general views towards investing and their individual investment behavior. Interestingly, investors throughout this parent-theme portray a rather neutral approach towards investing.

#### ***4.7.1.1 Avoids investing based on primary excitement***

Two professional investors are sharing their experiences in relation to excitement towards investment opportunities. Interestingly, whereas the investors seem to have a slightly different stance towards initial excitement, both investors do not seem to be bullish overall on this feeling, as seen in the below examples:

*“You get less excited after seeing so many different deals. When people first start investing, especially as angels they get burned because they get excited about the first deal, second deal and third deal and then they hit five deals and they realize they run out of money and once they reach 20 deals they realize that this 20th deal is actually better than all the previous deals they have invested in (laughs).”*

*“...but sometimes you look at things and you feel something is off, then I follow this feeling, because I have experienced not feeling happy with investment because the first glance made me so excited and I shot at it immediately and it turned out bad.”*

The first investor seems to blame the high deal flow as a reason for a more neutral stance and quotes that, for example, angel investors are more bullish towards the first couple of investments. This could be because retail investors might not have clear strategies behind their investments and are more emotional when executing a deal compared to professional investors. Furthermore, positive illusions might play a big role for retail investors, as, for example, unrealistic optimism, motivates investors to

imagine that their investment could be the next unicorn, making them rich and famous. Situational factors and the lack of experience might also play a role in this case. This could indicate the level of expertise has a direct impact on the degree of positive illusion.

In the second statement, interestingly, the investor seems to build a certain emotional feeling towards the investment, preventing an initial decision, which is interestingly not based on data but on feelings. However, on the other hand, the experience mentioned by the investor could also serve as a natural barrier to taking more excitement-based investments as the investor does not want to replicate the feeling again.

However, in both cases, it seems that positive illusion is widely tamed and does not over-stimulate the decision-making process, as in the first statement, the professional investor seems to be aware of the downside faced by the retail investor approach, and in the second example, the investor seems to have experienced an unrealistic optimism approach towards investing and does not want to replicate it.

Expanding the analysis via the variables in Figure forty-one (41), it reveals that interestingly, both the investors are on the higher end in terms of the average investment per annum, which could indicate that the experience won from executing deals could play a role in coping with positive illusion.



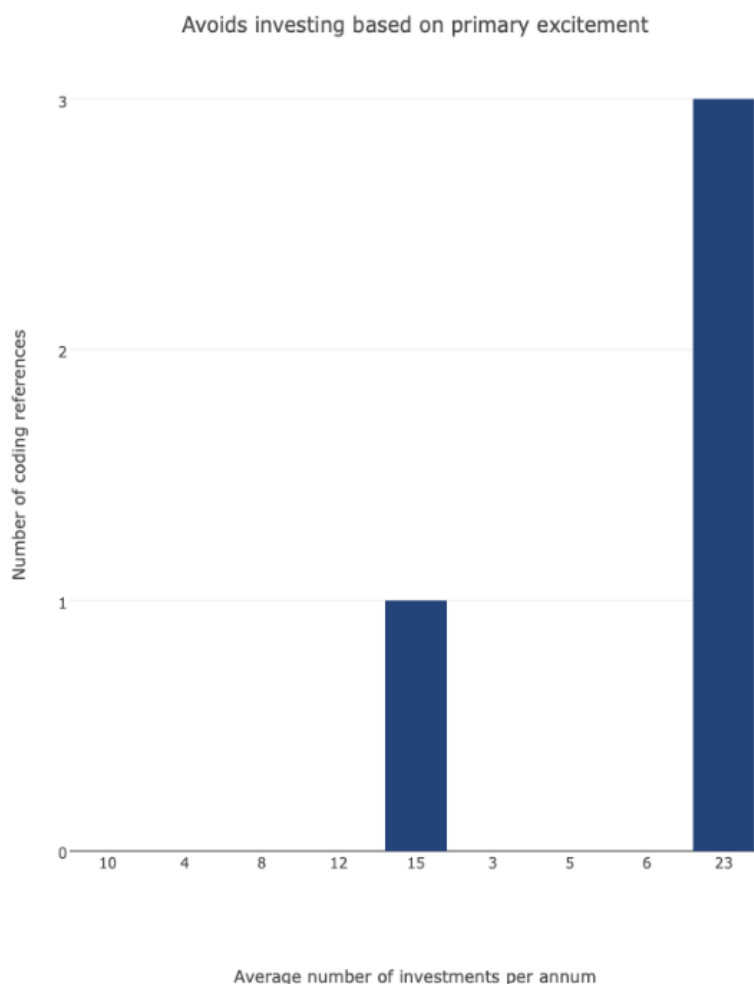


FIGURE 41: AVOIDS INVESTING BASED ON PRIMARY EXCITEMENT – AVERAGE NUMBER OF INVESTMENTS PER ANNUM

Moreover, supplementing the variables in Figure forty-one (41) with the years of experience below in Figure forty-two (42), it turns out that the investors have respectively taken one-hundred-sixty-five (165) and one-hundred-sixty-one (161) investments when multiplying the two variables, which could indicate further that experience helps in coping with positive illusion.

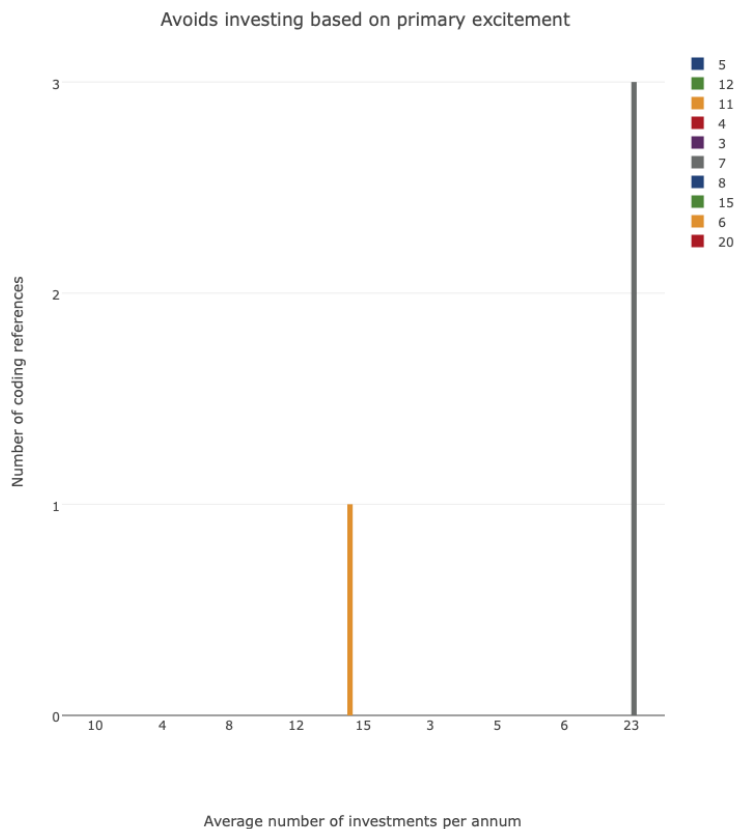


FIGURE 42: AVOIDS INVESTING BASED ON PRIMARY EXCITEMENT – AVERAGE NUMBER OF INVESTMENTS PER ANNUM / EXPERIENCE IN YEARS

#### 4.7.1.2 Round leading in relation to time

One (1) investor potentially expresses some form of positive illusion, seemingly triggered by the dynamics of the nascent ecosystem, potential status due to experience amongst other professional investors, and maybe even a certain group-pressure / movement. The investor explains in the below statement that seed rounds in the region take a significant amount of time, which is due to investors lack of experience in leading a deal:

*“Look at seed funding in MENA, average company takes 3-6 months to raise a seed round here and that’s insane and why? Because nobody wants to lead, they don’t know how. So, when I come and lead everyone wants to tag along.”*

The above statement could be linked to illusory superiority, where the investor perceives themselves through a very positive lens compared to other investors. Also, the investor potentially implies superior experience compared to other investors in this space. Considering the experience of this investor, it turns out that this investor has

been in the business for fifteen (15) years, as shown in Figure forty-three (43). This is one of the highest amounts of experience, according to Table three (3) research participant.



FIGURE 43: ROUND LEADING IN RELATION TO TIME – EXPERIENCE IN YEARS

#### ***4.7.1.3 Experience shaped investment approach***

One (1) investor generated data on how previous experience in the finance industry has impacted the current investment behavior as stated below:

*“Very much, because we are strongly trying to divide an analytical fact-based approach with emotions. As I have told you about my background in the finance has kind of learnt me this approach.”*

Interestingly, previous experience in the finance industry caused this investor to approach venture capital with a more rational, data-driven approach instead of an emotional one. The investor also emphasizes the effort of distinguishing analytical facts from emotions linked to experience in the finance industry. There could be an array of potential reasons why previous experience in the finance industry enforces analytical over emotional approaches, yet it is critical to mention that the investor stated previous experience and exposure to the finance industry that leads the investor to take decisions in a more analytical format. In relation to positive illusion, this could indicate that industry-relevant experience acts as a professional buffer in terms of emotions, which limits the impact of positive illusion on decision-making.

### 4.7.2 Investing rational

Name	Definition	Files	References
Investing rational	Correlation between human emotions and the rational of investing.	7	16
Banks on experience	VC uses experience to cautiously approach investments and to avoid spending time on emotional excitements.	1	1
Emotions in relation to win probability	VC does not put emotions aside, yet explains that high emotions towards a certain project can lead to neglecting other projects with the same unknown probability of success.	2	2
Evaluating risk in relation to emotion	VC feels it is tough sometimes to distinguish if an investment decision is being taken based on own emotions towards a product or if it makes systematic sense with low risk.	1	2
Fear of LPs	VC explains that putting what's best for LPs first helps in being methodical in terms of making investments to avoid at end any implications with LPs.	1	1
Peer validation to avoid emotional decision	VC avoids emotions taking over in an emotionally attached deal by consulting with peers beforehand to check attractiveness of deal.	1	1
Processes to separate emotions from reality	VC explains uses processes to avoid emotions taking over whilst interacting with a founder and without understanding / knowing the market potential / opportunities.	3	5
Systematic elimination of investment irrelevant noise	VC uses a systematic approach towards investing to avoid irrelevant distractions to influence a potential investment opportunity.	4	4

Seven (7) investors have generated data about the impact emotions can have on the rational of investing.

#### *4.7.2.1 Systematic elimination of investment irrelevant noise*

Four (4) investors share their views about the external distractions or emotions triggered by circumstances when entering the critical investment decision-making phase. The investors throughout this theme mentioned how crucial it is to approach investment opportunities with a rational / analytical mindset over emotions, yet at the same time they seem to highlight that on an emotional level they are affected by circumstantial events in their everyday life as every other person. However, when it is about investment decision-making, they must determine the irrelevant feelings and cut them out, as seen in the below examples by two (2) venture capital investors:

*“I wouldn’t be human if certain situations wouldn’t affect me, but I think that I can close the door very well between the situations and when it is about investing I am very systematic actively making sure I am not affected by whatever is going on in my business.”*

*“I cannot go with my fund raiser passion into a meeting where I get pitched by a founder, since my enthusiasm would not match my system or my rational strategy.”*

Interestingly, it seems that investors are very self-conscious about recognizing potential vulnerabilities due to external emotional triggers, yet at the same time, investors seem to be able to shut down any such feelings from impacting investment decisions. In relation to positive illusion, this could mean that the investor has potentially experienced the impact of certain emotions and feelings related to self-enhancement and their impact on decision-making. However, they decide to not engage with such feelings, which could in this case speak against the presence of positive illusions.

One (1) other investor seems to showcase a similar attitude towards investing yet shares insights about the rationale behind having conducted an investment and looking at the next opportunity as highlighted below:

*“But that first cheque is not going to make any difference. So you have to look at it mathematically not emotionally.”*

This is rather interesting, because in terms of positive illusion and its sub-forms like unrealistic optimism or illusory superiority, the investor seems to eliminate any optimistic or superior feelings by deciding to look at the situation through a mathematical and rational lens and not an emotional one.

For one (1) investor in this child-theme, the emerged data seems to highlight the role of the due diligence process and how it is used by the investor to keep a rational approach and to determine right from wrong information. This approach could indicate that the investor uses the due diligence process as a systematic tool to eliminate not only irrelevant data leading to a point of decision but also helps in maintaining an emotion-free approach, as explained by the investor below and seen in previous child-themes revolving around building a relationship with founders:

*“...think we are very analytical when it comes to the due diligence process. We believe strongly in getting the right information before rushing into a decision.”*

The investor furthermore mentions "rushing into a decision". This could potentially lead back to previous experiences with emotional rather than data-driven decisions. Regardless of what drove this investor, the emphasis remains on the importance of taking a steady approach when making decisions based on the information gathered through the due diligence process.

#### ***4.7.2.2 Processes to separate emotions from reality***

Three (3) investors generated data in relation to emotions and how to separate overwhelming emotions when interacting with an attractive project or founder. Investors mention, for example, the interactions with the founder or uncertain feelings to be a trigger for emotions or excitement to take over and to impact the behavior thereafter, as explained by one (1) investor below:

*“Often you get very excited about a company and when you meet a founder who sort of is like the heart of a project it gets very fast very emotional and irrational because of the excitement, but that’s where due diligence comes in strongly to bring you back to reality.”*

The investor shares an experience of how easily emotions come up when dealing with individuals that share the same interest and passion, which highlights the difficulty of suppressing emotions when interacting directly with people. However, the investors use due diligence as a mechanism to eliminate all emotions coming up at the stage of interaction, which seems to be an efficient way of avoiding any overly optimistic or emotion-driven decisions. In addition, the same investor shares the below and highlights another potential mechanism to maintain a distance between emotional and analytical approaches:

*“Even when we do pitch events, we use score cards because otherwise it is pretty easy to fall in love with the founders without understanding the addressable market or the fact if they will ever make money on this.”*

These insights could be analyzed from a perspective that professional investors use due diligence or other mechanisms as explained above by one (1) investor to create a distance between emotional and analytical approaches. Since emotions are completely separated, this would also mean that positive illusions would have less of an effect on the decision-making process.



### 4.7.3 Investment philosophy

Name	Definition	Files	References
Investment philosophy	Exploring VC's ethos behind investing.	19	61
Calculated risk	VC perceives the ethos to be a combination of taking risk yet in a measurable and definable format.	1	1
Cautious approach in relation to risk	VC explains that their background in the financial industry prevents them from pumping money by following a cautious approach to deployment.	1	1
Clear philosophy since start	VC follows a clearly defined approach since the first day of operating.	1	1
Democratizing VC investing	VCs agenda is to make VC funding accessible to everybody.	3	5
Diversification	VC explains that a part of the funds philosophy is not to put all eggs in the same basket.	1	1
Empowering all stakeholders	VC aims at creating value for each stakeholder in the entrepreneurial ecosystem.	4	7
Entering a marriage	VC expects from invested founders to commit to a long term relationship.	2	4
Entrepreneurs investing in entrepreneurs	VC believes themselves to be entrepreneurs hence where the largest value add comes out of.	1	1
Experience in relation to ethos	VC perceives the gathered experience as reason for continuous integration of ethos in decisions.	3	3
Future growth in relation to stage	VC is looking for companies that have growth potential and potential market capture since investment stage is early.	1	1
Good business will be successful	VC explains investing time in finding good businesses will lead to success.	1	3
Hands on approach	VC believes in supporting founders in their journey.	4	4
Investing in people	VC explains that the funds ethos supports foremost to invest in people / founders and not businesses / products.	1	1

Investment support in relation to success	VC believes that the support coming together with investing makes the company big.	3	3
Long term value	VC believes in matching the right set of components to achieve growth and success over time.	4	7
Monetizable	VC strictly focuses on the future monetization potential of a startup.	4	9
Right time right place	VC shares thoughts on conducting investments.	1	1
Sees potential in the entire region	VC likes to look at the entire ecosystem in the region due to the general growth opportunity.	1	1
Set number of investments per year	VC's goal is to invest in a set range of companies each year.	2	2
Strategy is susceptible to business dynamics	VC explains that the change in the business environment has impacted the strategy.	2	2
Sustainable growth over profitability	VC explains that endless cash-burn and growth strategies are pursued by the ecosystem rather than focusing on measurable growth.	2	3

Nineteen (19) professional investors shared insights on the individual reasons or purposes of investing. Interestingly, many kinds of ethos emerged in the data, with investors explaining the drivers behind their philosophy and the stimulants for executing on their game-plans.

A very interesting statement linked to positive illusion and its forms is the below by one (1) investor:

*“My philosophy is that after a certain point in time, it becomes a game of (takes a couple seconds to think) pathetic truth... It's like a game of king making. It's like this start-up will succeed when its backed. It's not necessarily that I will pick the winner because it is a winner... in other words, it's not like the lottery ticket. If I pick it and put all the weight behind it, it will become a winner.”*

It seems like the investor does not see VC investing as a game of chance but rather as "king making", where the VC investor acts as a guide or a factor that makes it possible for the startup to succeed. This could be a strong indication of illusional control as the

investor believes to be able to control chance events by looking at them in a different context and through a suitable lens supporting this context. Furthermore, the study of Miller and Ross (1975) is interesting as it indicates that individuals tend to take too much credit for their involvement if the outcome of a certain situation is in their favor. This finding is supported by the larger literature, and a potential connection can be made with this investor's statement.

The investor seems to be influenced by a control illusion. Furthermore, the "king maker" perception could be linked to illusory superiority since the investor seems to have the upper hand, stating: "If I pick it and put all my weight behind it, it will become a winner." This could be an indication that, depending on the context, different forms of positive illusion can appear together.

Interestingly, if the idea of "king making" were applicable to every professional investor, then a potential outcome could be that the investors in fact determine the trends in the entrepreneurial ecosystem, without any failures, determining new products for consumers and much more. Another slight inclination of unrealistic optimism could also be present, whereas the investor believes that tomorrow is going to be better for whichever investment is picked compared to today. In this specific case, the data seems to suggest that decision-making could be overstimulated by positive illusions.

#### ***4.7.3.1 Hands on approach***

Four (4) investors have shared information about their individual involvement when investing in start-ups and how they perceive their support to be effective. The child-theme evolves around the post-investment support, or in other words, the post-investment decision-making help that portfolio companies receive from the individual investors. Nevertheless, it is interesting to analyze the emerging data through a lens where investors explain what they perceive to be their philosophy behind adding value. As seen above with the example of the "king maker", the data has presented an example where the investor does not only believe to be the determining factor behind the success of a start-up but also has the power to decide or pick the one that should succeed.

One (1) investor highlights the passion around support below:

*“To be as much involved as possible is something we live by, starting with recruiting to strategy, to fund raising discussions to sometimes financing on their behalf like everything and we love that.”*

This investor highlights the degree of involvement and "loves" to be as included as possible. In selecting the words to describe the degree, level, or even passion behind the involvement, the investor seems to choose "love," which could be considered a basic human emotion. This data could potentially be further extended by looking at the hormones involved when experiencing love, like for example, dopamine. Dopamine gives a sense of pleasure to individuals and is linked to the reward system (Marsden, 2006). Therefore, the question arises if the investor knowingly seeks this pleasure hormone prior to investing whilst evaluating and thinking about the opportunity or if the investor can separate the passion from the analytical approach. From the point of view that self-improvement can lead to pleasure, this could be a direct link to positive illusion and its different types.

Another interesting statement by one (1) investor is:

*“...and if I can help making their journey a bit easier, I am happy.”*

Linked to the above statement, this investor also seems to experience a certain pleasure from supporting founders on their journey. However, in comparison to the previous statement, this investor seems to experience pleasure from a generic point of view by investing in founders and enabling them to take the next step in their journey. Zooming in on the wording, the investor also seems to showcase a certain empathy by saying a bit easier. This seems to indicate that the investor is aware of the tough journey a founder has. This could potentially be linked back to the child-theme “being a founder is tougher than an investor”, where investors have stated that being a founder is much tougher than being an investor. From a positive illusion perspective, the data could be perceived in both directions of the spectrum.

Firstly, it seems there is no fixed conclusion on any of the sub-forms since the investor shows a form of empathy yet does not use it to boost themselves when taking an

investment. On the flip side, and referring this phenomenon back to the previous investor, this investor does define the reward as “happy”. With a happy feeling being an emotion related to serotonin, which is a neurotransmitter linked to happiness and optimism (Nishimura, Oliveira and Zatz, 2009), it could be potential that there is some form of unrealistic optimism present, since the investor could believe that the founder’s future could be better with the involvement of the investor.

On the other hand, and not linked to emotions, is the statement of the below investor when reasoning why support is extended:

*“Because we invest very early and because a lot of entrepreneurs in this place of the world have very little experience, we take a very hands-on approach.”*

This could be linked to the young region and could mean that the investor identified a need for a hands-on approach for an investment to potentially succeed. In comparison to the above investors, this venture capitalist bases the reason for involvement in the startup on the founder’s experience level and further references "this place in the world" indicating the nascency of the ecosystem to be a problem, as previously highlighted in several child-themes. Unlike the above investors, there does not seem to be an emotional element to why this investor is hands-on, which could eliminate a potential impact of positive illusion in this type of decision-making.

#### ***4.7.3.2 Long term value***

Four (4) investors perceive their philosophy as creating long term value for themselves, the founders, stakeholders, and the ecosystem. This is further explained below by one (1) investor, even quoting the stock market as a reference in terms of playing the long game:

*“We look at our investments like in the stock market (laughs) we want to go long.”*

One (1) more investor stated a very similar comparison in terms of creating long term value:

*“The goal of this fund or with my banking background I like to call it investment holding is to create value over a long time period.”*

Interestingly, when comparing these statements, it seems that the investors have a very clear-cut view on the value they intend to establish without many emotional aspects referenced. In the case of the second statement, this could be linked to the previous experience in banking, where a rather rational investment approach is portrayed compared to an emotional one. This could potentially be further extended, highlighting that experience plays a role in the way decision-making in correlation to the investment philosophy is conducted.

Furthermore, one (1) investor below highlights the structure of shaping up deals and subsequently investments:

*“I structure the deals in a way that they make sense not only for immediate needs but that there is clarity for long term growth as well...”*

This clear structure could potentially be an indication that the decision was not particularly impacted by positive illusion, as positive illusion and its sub-forms are more closely tied to emotional or impulsive decisions and not structured / thought through and potentially analytical approaches. Furthermore, creating long-term value requires a vision that is sufficient in terms of a longer timeline and horizon, which from an emotional decision-making perspective of impulsive behavior, could turn out to be difficult.

## **Part 5: The model**

The purpose of this part is to analyze the data considering the overall research objective: To explore the phenomenon of positive illusion on venture capital investment-decision making. This effort is split into four (4) parts. The first part is the general takeaway on positive illusion that emerged from this study, followed by the second and third parts directed at the individual discussions in line with the specific research goals. Finally, the fourth part is the new model expanded on the theoretical model set up for this research.

### **5.1 Positive illusion**

Throughout this study, the nascent ecosystem has played an important role in the dynamics of the individual investors. An interesting finding appeared in the child-theme "full of opportunities", which suggests that positive illusion and its forms influence an individual at the root of the context, which in the case of professional venture capital investors would be prior to the investment decision-making process, the relevant criteria, evaluations, emotions, interactions, etc. In relation to this study, the context through the investor's lens is the entrepreneurial ecosystem in the UAE, which is affected by global trends, innovation, knowledge, new regulations, an international audience, government initiatives and by its continuous effort to develop.

Interestingly, each context starts with a first perception or decision and is followed by more subsequent decisions, emotions, actions, etc., depending on the importance, circumstances, value, and meaning to the person. Looking at this through the lens of a hierarchical perspective, this could suggest that positive illusions are not randomly influencing individuals in certain cases and places. Depending on the depth, involvement, and expertise of an individual in a particular context, it could well be that the influence of positive illusion has already started at the source and right at the beginning of when the context was established.

This could further mean that a trace of positive illusion could be present throughout the entire context, influencing and being influenced by subsequent decisions, thoughts, emotions, and further positive illusions.

Moreover, this could be compared to the decision-making process venture capitalists follow. Using the below statement for this example, extracted from the child-code "secrecy":

*“So it’s easier for the founders to simply tell you things that are not true, misrepresent things. So if a founder is smart and dishonest, than god help you because as a VC investor you will never find out until and unless you have invested and it’s too late already.”*

If a founder lies to a venture capitalist right from the start, the entire context and story of the investor's investment evaluation process is sabotaged, which could have catastrophic outcomes, especially if linked to positive illusions.

As a result, positive illusion could have the unique ability to influence a context right at the source of its establishment. However, this is not an exclusive and generalizable conclusion. Another interesting scenario of positive illusion that has emerged is in relation to its forms and applicability. It seems that the type and shape of positive illusion and in how it appears depends strongly on multiple factors such as the task at hand, the associated emotions, the internal and external environment, the overall situation and the desired outcome or goal of an action. Below is an example from the parent theme "investment philosophy" of an investor who seemed to be influenced by all three types of positive illusion at the same time. This could illustrate that a person could be influenced by multiple types of positive illusion at the same time.

*“My philosophy is that after a certain point in time, it becomes a game of (takes a couple seconds to think) pathetic truth... It’s like a game of king making. It’s like this start-up will succeed when its backed. It’s not necessarily that I will pick the winner because it is a winner... in other words, it’s not like the lottery ticket. If I pick it and put all the weight behind it, it will become a winner.”*

This further emphasizes the context at hand and questions whether positive illusion was present since the beginning or not, because this data suggests that the more extensive the web around a context is built, the more space seems to be present for positive illusion and its sub forms to evolve. The phenomenon of positive illusion seems to be as highly complex as the decision-making process itself.



## 5.2 How does control illusion impact VC investment decision-making criteria?

### 5.2.1 Illusional control

In the context of this study and its theoretical framework, control illusion is linked to several situational factors influencing professionals. Whereas some of the initial situational factors like stress or competition are mentioned in the data analysis, additional UAE entrepreneurial ecosystem-related factors emerged. This leads somewhat to the opposite finding compared to the existing literature by Sørensen and Stuart (2001), who emphasize the fact that each venture capitalist has distinct investment criteria that they use throughout the screening process of the pre-investment phase.

The data in this study suggests that each investor has distinct different cognitive, emotional, or applicable traits in the investment decision-making mechanism, leading to somehow similar investment criteria. For example, the literature emphasizes the founders, entrepreneurs, or the team as being a key variable in the investment-decision making process as per the jockey and horse theory mentioned in the literature by Wells (1974); Poindexter (1976); Tyebjee and Bruno (1984); MacMillan et al. (1985; 1987) and Gompers et al. (2020). The data of this study supports these findings further, linking it to positive illusion and decision-making, as emphasized and seen by two (2) investors in the child-theme "founders and team as core criteria":

*“Founders, it’s all about the founders. My main factor is the founder, especially in this region.”*

*“Founder is number one for us, especially in this nascent region where unfortunately people at times want to be entrepreneurs but are just not cut out for it.”*

Yet, the reason why the founder criteria is crucial besides business-related variables or the fact that founders are the key drivers behind start-ups and their success or failure, seems to be more so that in a nascent ecosystem, the founder’s personality has turned out to be highly important. The weight towards the founder’s personality in relation to

the young ecosystem can be linked to the mentioned flaw of the nascent ecosystem, which is the availability of data and insights on founders.

Investors appear to balance this issue with mechanisms such as due diligence, which allows them to learn more about the founders. However, if there are not enough insights available or collectable on a founder, professional investors must rely on their experience, intuition, or "people skills" to control a situation. This ultimately causes investors to either trust a founder or not. Trusting a founder without sufficient information or the motivation to control an unpredictable outcome does not come without risk, as explained below by one (1) investor in the child-theme "Secrecy":

*“So it’s easier for the founders to simply tell you things that are not true, misrepresent things. So if a founder is smart and dishonest, than god help you because as a VC investor you will never find out until and unless you have invested and it’s too late already.”*

As a result, it is not always a previously identified situational factor that causes control illusions to appear, but rather the level of control an investor believes to have over a founder and the outcome of a startup, even though the required data is not available and potentially would not warrant control nor success. It is possible that this manufactured overconfidence in a potential opportunity is what leads to a bogus feeling of security as a reason for the illusion of control to occur, which in turn becomes a part of the decision-making mechanism.

Nevertheless, zooming out and looking at the bigger picture, the catalyst, besides potential situational factors, is the nature of the nascent entrepreneurial ecosystem linked to the missing data. Unlike other financial professions such as stock traders, whose decisions are based on technical or fundamental analysis, where past and current data play a significant role, venture capital investors in the UAE do not have the same insights available and can only attempt to predict how business trends will evolve over the next few years in combination with due diligence related data, resulting in a significantly high failure rate, with some venture capital investors claiming it to be around ninety percent (90). Furthermore, stock traders success can be measured in close proximity, a venture capital fund’s performance can only be realistically measured after a couple years of operating and investing.

Returning to the above statement about a founder with malicious intentions and synchronizing it with the time factor associated with the performance of a venture capital fund, a founder with malicious intentions can get away with pretending until the start-up's performance indicates otherwise, implying that even if an investor believes to be in control or perceives a sense of control over a founder, it could be the opposite. This could be the case for years, until one of the parties defaults on their performance targets and thus illusional control would be rather self-deceptive than self-enhancing.

The definition of control illusion is that individuals tend to think that they can personally control the outcome of chance events or events where it is not realistic to have any control over (Langer, 1975). Trusting the wrong founder too quickly could have negative impact on the fund or even ruin the investors representation, which according to the below statement and again the nature of the entrepreneurial ecosystem in the UAE could mean that the career as professional investor might be over

*“Quite frankly, in this part of the world particularly representation is currency...”*

Interestingly, studying decision-making further, the findings indicated that investors prefer to take rational and data-driven decisions over emotional approaches or gut feelings, even though the separation seems to be tough in some cases according to the data. Using a systematic data-driven process behind investment-decision making could outweigh control illusion, as the emotional element is removed from the decision-making process altogether. However, and as discussed above, the weakness of a young and emerging ecosystem is the fact that there is no centralized or reliable enough data base, which especially becomes critical when decisions should be based on data and not interpersonal interactions, which would in fact contradict the methodology of using a systematic and data-driven process as decisions boil again down to emotions. One (1) investor from the child-theme "decision rationalism vs. emotions" says more about this below:

*“So, you need to be 100% sure of the accuracy of the data and this pressure puts a lot on the daily decision-making, because you don't take decisions based on emotional factors anymore you start methodically thinking...”*

As founders are the primary decision-making criteria for investors participating in this study, data accuracy regarding the founder or the founder's personality itself needs to be highly reliable in either case. Along these lines, investors have emphasized that the founder's personality is a critical element and that character traits like honesty, transparency, and trustworthiness are highly valued and required from founders. These character traits are essential for two aspects. Firstly, to create a fruitful relationship between an investor and a founder, which requires two (2) compatible parties, as seen in the below example of one (1) venture capitalist found in the child-theme "prefers more information than less":

*“But we just need honest and trustworthy founders, especially when we kick off a relationship that should last for years to come.”*

Secondly, and as previously discussed, a disadvantage of this specific nascent start-up ecosystem with its unique global position is the huge turnover of expats that prevents access to reliable data about the founders. Therefore, the founder's personality needs to be reliable enough to draw adequate conclusions for the investor in relation to the investment-decision making, emotions, and control illusion.

### **5.2.2 Experience**

Experience, whether indicated by the data in this research or whether studied in relation to control illusion is a key component throughout, especially for the investors operating in the UAE's young entrepreneurial ecosystem.

An interesting pattern throughout the analysis was the behavior of what could be considered less experienced or younger investors when comparing the variables across various parent and child-themes. However, it is important to emphasize the lack of a threshold to define what an experienced investor vs. an unexperienced investor is. supplemented by some investors seemingly having sharp opinions against the general level of current investor experience in the ecosystem, as seen in an example below by one (1) investor:

*“...because many funds are so inexperienced that they take whatever founders say without understanding the scalability nor the scope of the opportunity. My*

*issue with that is that a lot of new funds in the market, lack the depth and the experience... don't have the experience and my problem with lots of these funds is none of them has led a deal."*

Figure eleven (11) represents a comparison between the investor's experience in years with the average number of investments per annum in the child-theme "inexperienced VCs as a result of the nascent ecosystem." Table four (4) represents numerical results when multiplying the experience with the average number of investments. Together, they build further on the threshold of experience, seeking to differentiate unexperienced from experienced investors.

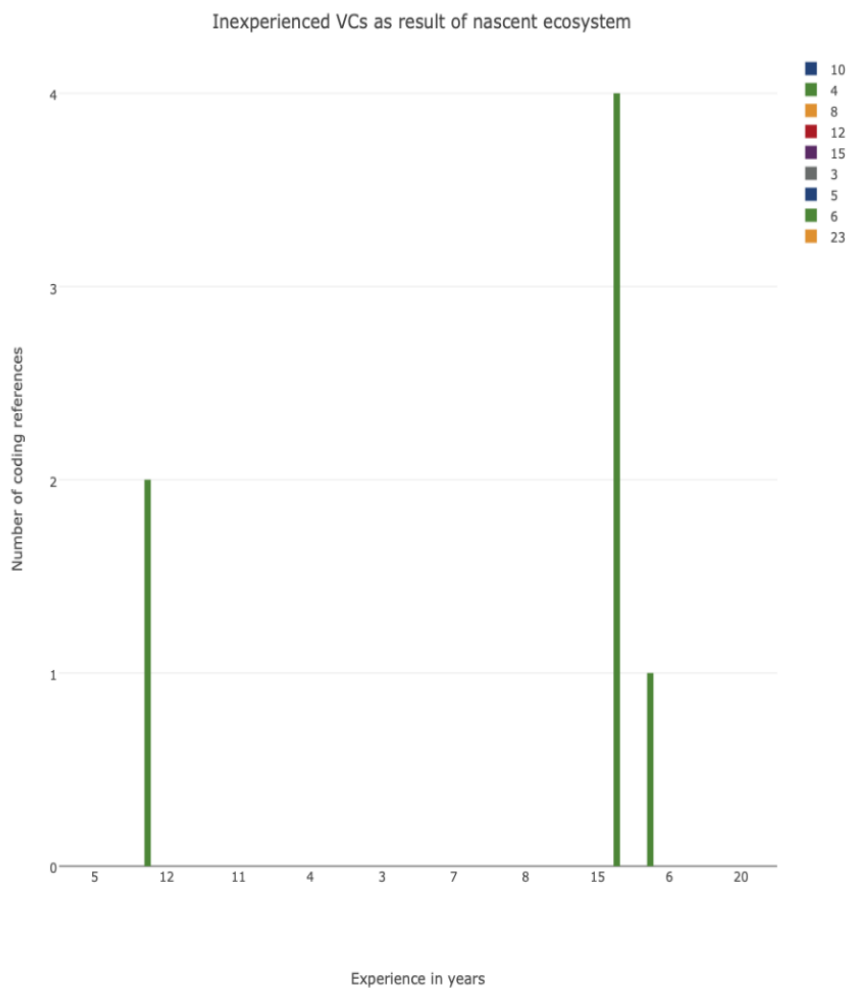


FIGURE 11: INEXPERIENCED VCS AS RESULT OF NASCENT ECOSYSTEM – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS PER ANNUM

Investor	A	B	C
Experience	Six (6)	Twelve (12)	Fifteen (15)
Average number of investments	Four (4)	Four (4)	Six (6)
Total investments	Twenty-four (24)	Forty-eight (48)	Nintey (90)

TABLE 4: EXPERIENCE COMPARISON – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS PER ANNUM

The data shows that experience and the average number of investments grow in proportion between investors A and B, whereas investor C is out of proportion with significantly more investments but only three (3) years more experience than investor B. This further emphasizes the level of experience and the questionable threshold for determining whether an investor is experienced or not. An important factor to add is the quality of experience an investor has, thus judging an investor by the total investment sum does in this case not warrant superior experience.

Further insights along the same lines of determining the impact of experience in relation to control illusuion emerged via the variable comparison below. The data emerged in the following child-themes: Scalability / Target market / Outlook in exiting.

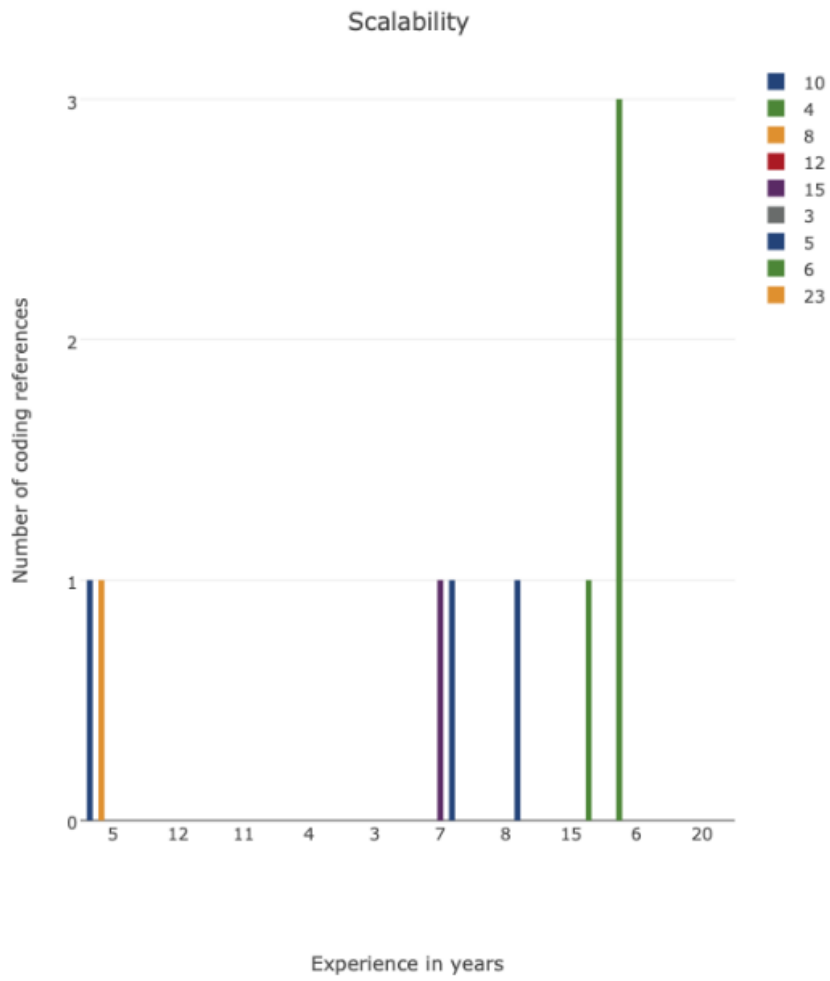


FIGURE 15: SCALABILITY – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS ANNUALLY

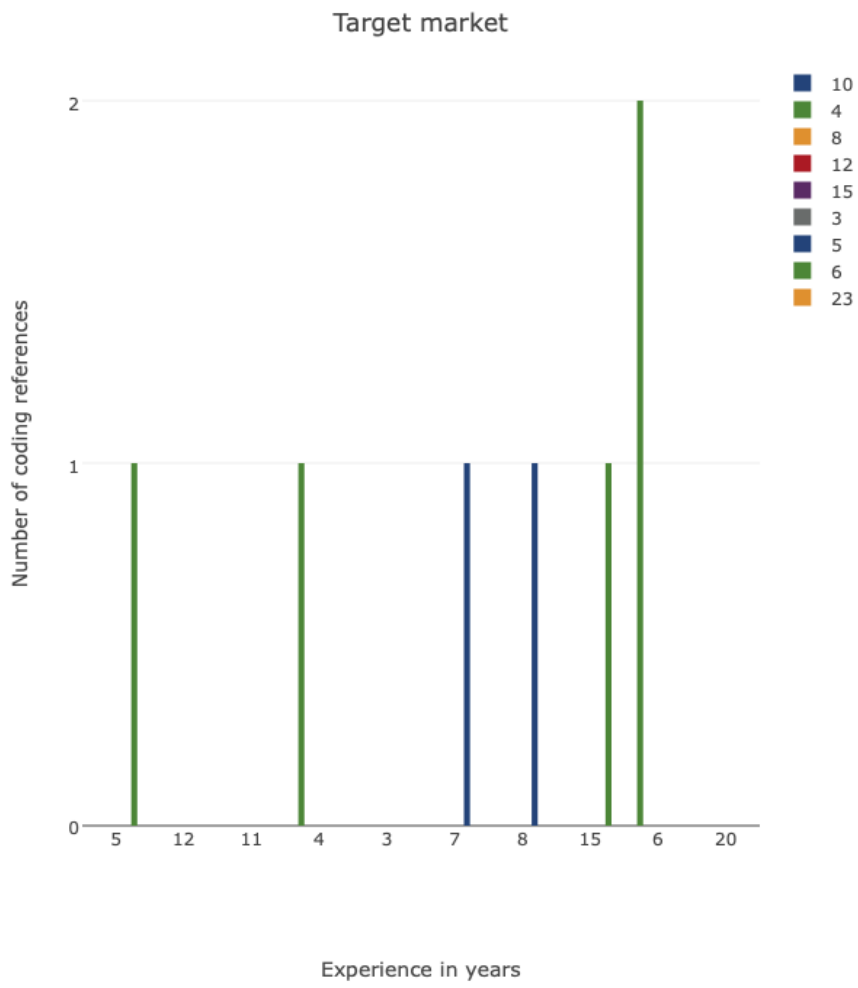


FIGURE 17: TARGET MARKET – EXPERIENCE IN YEARS / AVERAGE NUMBER OF INVESTMENTS ANNUALLY



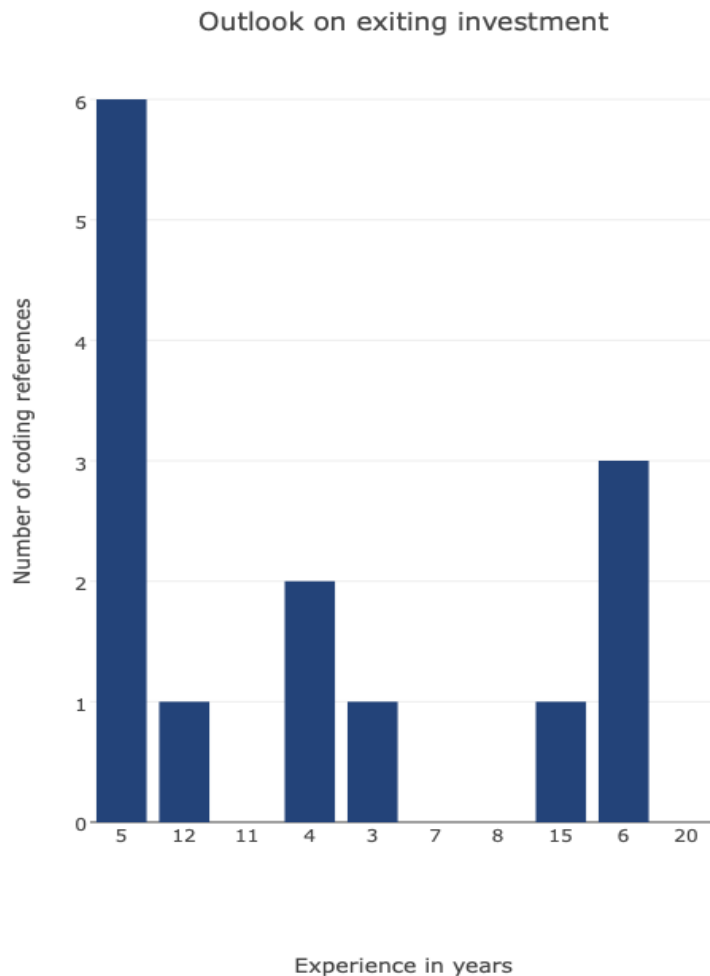


FIGURE 18: OUTLOOK ON EXITING INVESTMENT – EXPERIENCE IN YEARS

Variable comparisons between the investors indicated that less experienced investors have a higher interest in scalability, the target market, or in the outlook for exiting an investment. This data is further supported by data from the parent-theme: "Information shared by founders," where younger investors conduct the least number of investments per annum and seem to be the most concerned about insights shared by founders.

Connecting these findings with illusional control, a potential bridge could be that more experienced investors know / experienced that they do not have any control, nor can they predict via a surplus of data outcomes at an early stage whilst operating in a young and highly volatile ecosystem. Below is an example of one (1) investor who does not look at exits when making an investment:

*“In general, I never look at an exit when I make an investment, regardless of how certain I am and regardless of how much I believe in a startup.”*

Whereas investors lacking experience or being below a certain age might believe they can make up for it via a surplus of data, resulting in more control over the outcome. Since they might have not mastered the skills yet or lack experience at the current stage of their career, collecting as much information as possible could be a mechanism to build up certainty, as success, from an investor's point of view, is measured as high market share, massive scalability, or a unicorn like exit. Seasoned investors might have realized through their experience that desired outcomes occur naturally, as stated by one (1) professional investor below:

*“...and then the next step and next step and so forth based on what we see and the thoughts around an exit then arrive rather naturally.”*

This could mean that illusional control might be a phenomenon that is more evident in investors with less experience and could become a buffer to make up for the lack of experience. Interestingly, the literature considers a different perspective on control illusion linked to overconfidence or high professional experience. Sitkin and Pablo (1992) and Weber and Hsee (1998) indicate that experience is a major contributor to risk, and investing choices are directly related to risk. The researchers hypothesize that the tendency of investors to be more prone to risk-taking, regardless of the presence of more pronounced perceptions of market and agency risk, stems from their perspective on illusions of control, overconfidence, or specializations around risk that are linked to the entrepreneurial environment. In other words, the researchers believe that investors are more likely to take risks due to higher levels of experience, and this is linked to control illusions. Furthermore, Mahajan (1992) and Zacharakis and Shepherd (2001) explain that experienced venture capitalists tend to commit to an investment more quickly, limiting their ideas about acquiring further information. This amount of self-assurance may contribute to a false feeling of security or serve as the impetus for an illusion of being in control of the situation.

Another interesting perspective emerging from the data impacting decision-making and potentially also illusional control was the further involvement of the limited partners in the decision-making process. The involvement, experienced by some investors as passive and by others as more active stress, seemed to play a role leading up to the decision-making moment, as described by one (1) investor in the child-theme "Lp's in relation to decision-making approach" below:

*“So, if you would ask me if there are investments, I would have loved to take but couldn’t because of LP’s clouding my decision-making or judgment as the investment might have posed a tiny bit more risk than others, then I would say: Yes absolutely.”*

The investor mentions "clouding" the decision-making process, which is an interesting finding and further supported by three (3) more investors in the same child-theme sharing similar feelings of pressure or stress caused by the limited partners. This could make limited partners not only a stress-related situational factor in terms of illusionary control, but it could also be an additional criteria towards decision-making. A potential correlation to these insights might be the findings of Robins and Beer (2001), who suggest that self-enhancement can lead to a self-esteem boost by rejecting insights that may question an individual’s self-worth, as it could be perceived that an investor potentially feels threatened, provoked, or pushed by limited partners, perceiving them to undermine decision-making quality.

### **5.3 How does unrealistic optimism and illusionary superiority impact investment decision-making?**

#### **5.3.1 Unrealistic optimism**

Whilst the situation in which unrealistic optimism appears might vary, it seems that emotion-driven context can accelerate unrealistic optimism, as the data suggests that the self-enhancing nature of unrealistic optimism can be a form of self-gratification too. The positive aspect of this is that, depending on the context and what provides pleasure to an individual, it might not be strictly self-serving, and others impacted by the consequences of the actions might benefit too. A disadvantage for the environment could be if pleasure is provided via malicious activities, as this might affect others negatively. An investor in the child-theme "hands-on approach" portrayed this unique perspective below:

*“...and if I can help making their journey a bit easier, I am happy.”*

This statement, in the context of realistic optimism, could indicate that the founder's future is brighter with the involvement of the investor. However, the crucial part is the happiness derived, in this case, from supporting another individual or, in the context of this study, "investing in a founder's start-up". Interestingly, the investor who made that statement seems to get pleasure in helping others. Pleasure, or as it is worded, "happiness" from an emotional context, is triggered by a neurotransmitter linked to happiness and optimism called serotonin, triggering emotions accordingly (Nishimura, Oliveira and Zatz, 2009). The following statement remains within the spectrum of emotions and the potential correlation to unrealistic optimism and investment-decision making. In this example, the investor spoke about the hands-on involvement when investing in a company:

*“To be as much involved as possible is something we live by, starting with recruiting to strategy, to fund raising discussions to sometimes financing on their behalf like everything and we love that.”*

Besides the acknowledgement of the investor's support beyond money, the investor uses an interesting choice of words: "Love", to quantify the passion or the degree to

which involvement is enjoyed. The neurotransmitter responsible for love is called dopamine, and it is associated with a sense of pleasure and is linked to the reward system (Marsden, 2006). Interestingly, the above data indicates that the investor is getting a sense of pleasure or reward from supporting a start-up after investing.

Linking this data to prior findings of positive illusion, this form of self-enhancement within an ongoing context and the way the associated emotions are perceived add new variables to the decision-making process and its likelihood to be influenced or overstimulated by positive illusion. The question is whether these investors actively look for the feelings that these hormones cause before investing and while evaluating a potential investment, and if so, how this relates directly to the quality of their investments or if they can remain objective, as many people in this study have said they should.

Like illusion of control was eliminated above, unrealistic optimism finds its adversary in self-consciousness and analytical / rational decision-making approaches. Investors shared the importance of approaching an investment with an analytical point of view instead of an emotional one, yet they also mentioned the human side of things and how everyday life or interactions with passionate founders trigger emotional responses. Interestingly, these investors state that it is not always easy to separate emotions from a purely rational mindset, as showcased below by one (1) investor:

*“I wouldn’t be human if certain situations wouldn’t affect me, but I think that I can close the door very well between the situations and when it is about investing I am very systematic actively making sure I am not affected by whatever is going on in my business.”*

However, investors seem to showcase a high degree of self-awareness as they can systematically shut down these external stimuli or fall back on established mechanisms to eliminate these triggers. These mechanisms evolve mainly around two areas: Either a due diligence-like process or a rational investor mindset. The data showcased that the due diligence mechanism is a tool that eliminates wrong information from valuable insights, avoiding emotions to interfere, whereas a structured investor mindset approach is used to emerge into the role and essence of the venture capital business

with the goal of building a portfolio and thinking about the next investment when one is completed, as stated by one (1) venture capitalist below:

*“But that first cheque is not going to make any difference. So you have to look at it mathematically not emotionally.”*

The self-consciousness of engaging these rational mechanisms when required is systematically used to manage and eliminate emotional triggers, whether they be linked to unrealistic optimism, positive illusion or daily circumstantial factors, as they don't allow emotions to emerge and interfere with decision-making.

### **5.3.2 Illusory Superiority**

In the context of this study, illusory superiority is mostly related to the hierarchical view expressed by investors and their position within the entrepreneurial ecosystem, as they are compared to founders more experienced, cash enablers, and can act as a guide towards growth. Interestingly, some of the emerging data evolved around the sharp views towards less experienced investors or the superiority towards founders. Surprisingly, on the other hand, the data also highlighted a rather compassionate understanding for first-time founders in this nascent ecosystem, which could eliminate tendencies of illusory superiority. This emphasizes the significance of context and the complexities of human decision-making once more.

To illustrate an example behind the reason why some investors voice concerns about others, below is one (1) investor from the child-theme "inexperienced VCs as a result of a nascent ecosystem" who highlights the issue perceived in relation to unexperienced venture capital investors operating in this ecosystem:

*“...because many funds are so inexperienced that they take whatever founders say without understanding the scalability nor the scope of the opportunity. My issue with that is that a lot of new funds in the market, lack the depth and the experience... don't have the experience and my problem with lots of these funds is none of them has led a deal.”*

The issue of lacking experience in the ecosystem has been identified throughout the study and is largely attributed to the nascent ecosystem. However, building up on the

above data and where illusionary superiority plays a role is in the following statement of one (1) investor from the child-theme "round leading in relation to time":

*“Look at seed funding in MENA, average company takes 3-6 months to raise a seed round here and that’s insane and why? Because nobody wants to lead, they don’t know how. So, when I come and lead everyone wants to tag along.”*

The dynamics of the ecosystem paired with individual experience seem to play a role in this case where the investor expresses a self-reflection seemingly superior compared to peers in the same space as defined by "everyone" wanting to tag along when this investor decides to lead a deal. The data revealed that this investor has fifteen (15) years of experience in the space, which is amongst the most experienced in this study. It seems in this case and context that illusionary superiority, unlike other forms of positive illusion used to compensate for experience or lack of skills, is triggered when linked to a dominant or hierarchical context where the investor tries to be a key person in the space.

An interesting finding by one investor in the child theme "investment process timeframe," in relation to the hierarchical idea of illusionary superiority, touches on the investor's sense of being more important than the founder:

*“So, we can get our information within 2 weeks or we can take 5 months.,. the chances that start-ups will find another VC down the street that actually invests in them within a faster period then we do is .000000001%.”*

Whereas the probability of finding another investor with the same interest level is certainly not easy, the investor in this case seems to express a form of personal superiority because venture capitalists throughout the study mention that in this region they often happen to look at the same deals since the number of high-quality startups is not very high. Therefore, if a startup qualifies for one fund to be interested and with the dynamics of this nascent ecosystem, it is questionable if a founder cannot find another fund to match the interest.

Illusory superiority is, like the other forms of positive illusion, an individual type of self-enhancement and in this study linked to the concept of a hierarchical structure. It is interesting how the findings also portray a contrary element that seems to eliminate

the hierarchical relationship between the founder and the investor and therefore also potentially illusory superiority. In the context of this study and its unique position as a young ecosystem, it seems that the adversary of illusory superiority is compassion. The context is, in this case, a very important variable because it is the steppingstone for compassion to emerge and to be valid.

As established in this study and throughout the literature, founders are the major investment decision-making criteria. Interestingly, investors seem to understand that a founder's qualities are in tandem with the quality of the ecosystem around them, as explained by two (2) investors found in the child theme "nascency of founders in relation to behavior":

*“Not because the entrepreneurs are not good, but more so because the start-up ecosystem is so nascent in the middle east that many don't even know how to build a pitch deck and what to focus on. You know, basic things like that are a difficulty at times.”*

*“We spend a lot of time with the founders before we invest. A lot of time in helping them to work on their plans, because a lot of them never had proper training in handling a business independently.”*

From an illusory superiority point of view, the investors require some sort of compassion to be able to extend basic help and support to the founder, even if they seem to understand the under-developed stage at which founders are due to the ecosystem. This particular understanding and compassion seem to remove the hierarchical pyramid relationship experienced above and pushes the investor into a supporter / mentor like position.

Moreover, the following the child-themes of “nascency of founders in relation to behavior”, “being a founder is tougher than an investor” and “not pressuring founders” showcase a certain correlation when looking at the experience of the investors linked to some compassion, as the role of the investor in each of these child-themes revolves around understanding the founder. When comparing the individual variable analyses of the following child-themes, it is fascinating how in each of these themes the less



experienced investors, when compared to Table three (3) research participants, are in fact the ones showing some sort of compassion or understanding towards the founders.

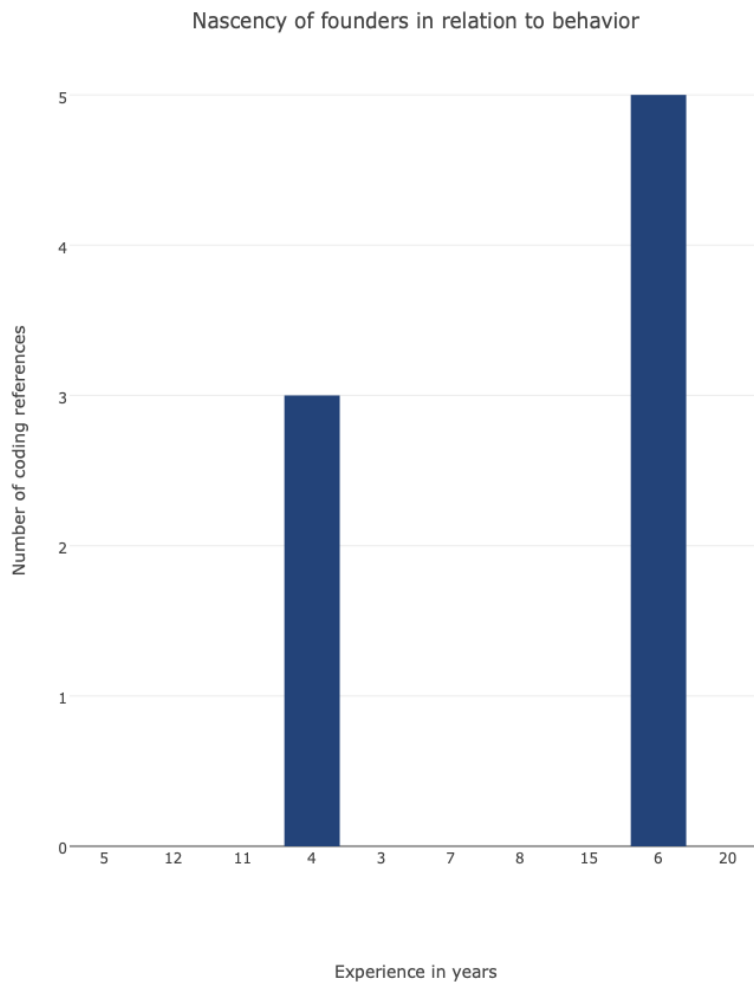


FIGURE 33: NASCENCY OF FOUNDERS IN RELATION TO BEHAVIOR – EXPERIENCE IN YEARS

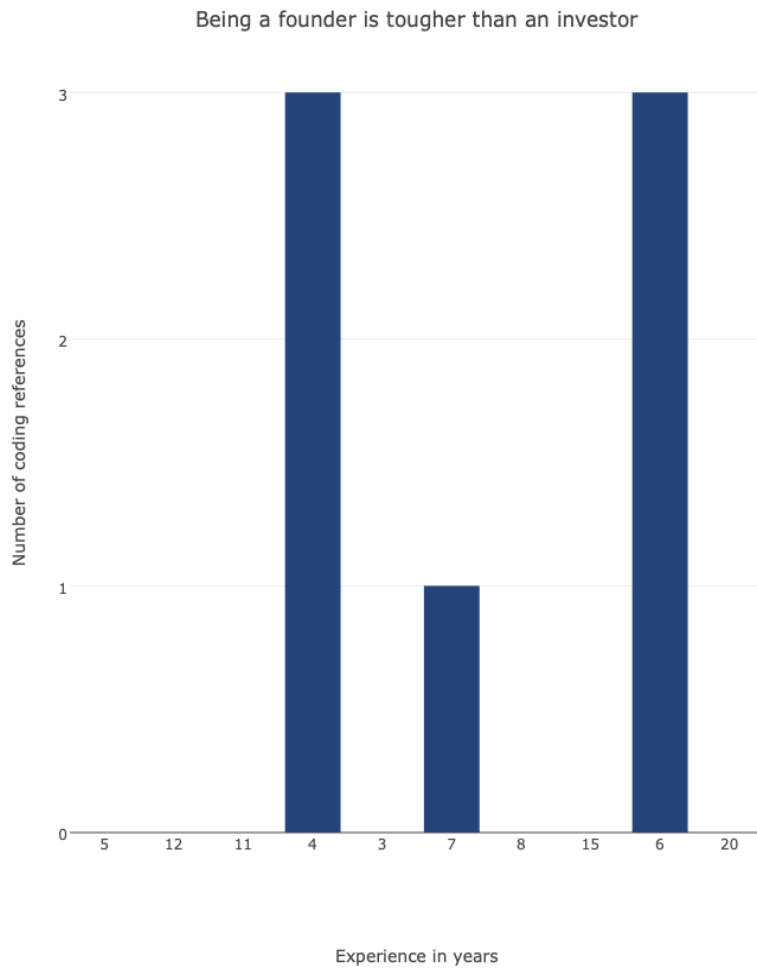


FIGURE 38: BEING A FOUNDER IS TOUGHER THAN AN INVESTOR – EXPERIENCE IN YEARS

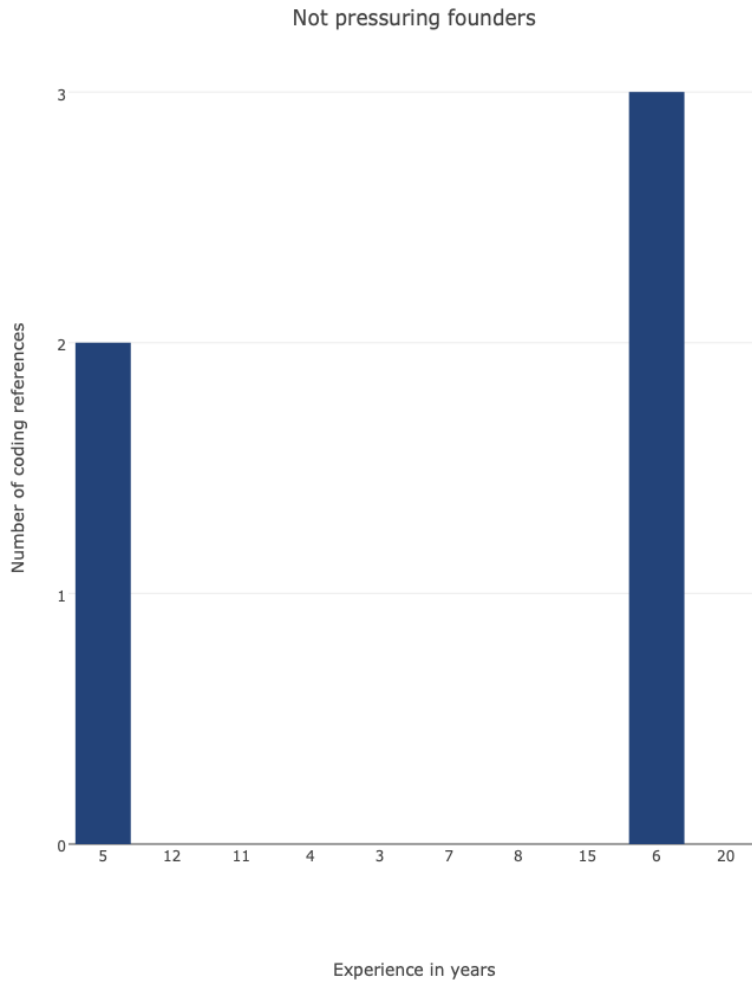


FIGURE 39: NOT PRESSURING FOUNDERS – EXPERIENCE IN YEARS

It would be too speculative to assume why these investors find a commonality when comparing experience with compassion and it cannot be generalized that more experienced investors do not have compassion compared to less experienced investors. Nevertheless, further investigation is required, yet the findings do remain interesting and relevant for this study.

Moreover, the shift from a superior to a supporter in the context of the relationship between founder and investor could indicate that the appearance of illusory superiority is highly dependent on the stage of an interaction, situation, and environment in which the investor is in. Furthermore, a connection can be made between the importance of the founder's personality discussed in this study and the founder's skill set, as it is questionable how a founder can remain the deciding variable in investment decision-making when there are apparent weaknesses due to the nascent ecosystem.

This would highlight that the founder's coachability and willingness to learn could play massive roles. In this context, further insights emerged around the founder's commitment level, which can be linked further to illusionary superiority. Like unrealistic optimism, investors seem to fall back on established mechanics to determine whether a founder is committed enough or not. The two mechanisms seem to evolve either around an emotional-driven approach or an analytical method. Two (2) investors in the child-code "Commitment level of founders" portray these mechanisms below:

*"...is he a real entrepreneur or a "wanna be entrepreneur", we focus a lot on this space and the mentioned things."*

*"I mean they want to raise money right and the level of commitment is so visible with our questionnaires that at the end of the day we can filter the quality founders based on their replies, time they need to revert how elaborate they are etc."*

It seems that the investor with the analytical approach achieves a complete elimination of emotions as the work ethic regarding the task determines the commitment of the founder and, subsequently, it eliminates the potential impact of positive illusion in this specific phase. Whereas the first investor seems to almost use a top-down approach, belittling a founder who comes according to the sentiments and feelings of a "wanna be entrepreneur". In the emotional-driven approach, the investor leaves room for illusionary superiority, looking at themselves through a better lens than the entrepreneur, subsequently opening the decision-making process to not only rational but emotional impact.

## **5.4 Model**

The new model emerging from the data and the analysis takes the context of the ecosystem into account, as the study illustrated how crucial the context is in terms of positive illusion and decision-making. The insights further suggest that positive illusion is not limited to certain individuals only and its appearance is universal, with its impact potentially being self-enhancing, supporting the greater good, or it can even be self-deceiving, as Makridakis and Moleskis (2015) and Fenton-O'Creevy et al. (2003) have already found. This emphasizes the importance of informing professionals and the general population about the pros and cons of positive illusions.

It is therefore important to consider that this new model is applicable as per this study to a nascent entrepreneurial ecosystem, as it can be found, for example, in the UAE. Moreover, the model is separated into three (3) parts, illustrating the factors in relation to each sub-type of positive illusion, potentially accelerating or minimizing / eliminating the impact of self-enhancement linked to decision-making. Finally, the full model is presented at the end.

### **5.4.1 Illusional control**

The emerging data suggests further that the effect of the nascent ecosystem and its impact on control illusion and seemingly self-enhancement overall, in relation to the dynamics of the region, engulfs the previously established situational factors in the theoretical framework. As a result, the professional's context becomes the master factor behind the type, degree, and intensity of control illusion. Supplementing this conclusion, the performance of stockbrokers used in the theoretical framework for this study was according to the literature researched in a profession-relevant controlled and established environment in London, UK. In comparison, the data of this study highlights the massive impact of the nascent entrepreneurial ecosystem of the UAE and therefore does not warrant the same dynamics as found in a controlled and regulated profession-relevant ecosystem. The young age of the ecosystem is also reflected in the quality of the stakeholders from different points of view, which creates interactions that seem to be under-developed from a more matured ecosystem perspective.

The situational factors of illusional control by Fenton-O'Creevy et al. (2003), used in the theoretical framework established for this study, seem to hold up in a regulated professional environment as per their research, yet the emerging data highlighted different factors impacting illusional control in the venture capital industry in a nascent entrepreneurial ecosystem like the UAE.

According to the data, the reoccurring and impactful factors evolving within the nascent ecosystem were: Low degree of experience, data availability, external stakeholders (LP's) and age, whilst the nature of the nascent ecosystem engulfs all the players and factors and is the source of the relationships between them. Therefore, the factors impacting illusional control on venture capital investors in a nascent entrepreneurial ecosystem like the UAE seem not to be situational factors per se but rather a blend of distinct personal and external variables.

On the contrary, a high degree of experience and systematic data driven approaches seem to be able to weaken or even eliminate illusional control. It is important to mention that age was found in correlation with experience in this this research, however it does not warrant that age is a substantial factor in avoiding the impact of control illusion.

#### CONTEXT: NASCENT ENTREPRENEURIAL ECOSYSTEM

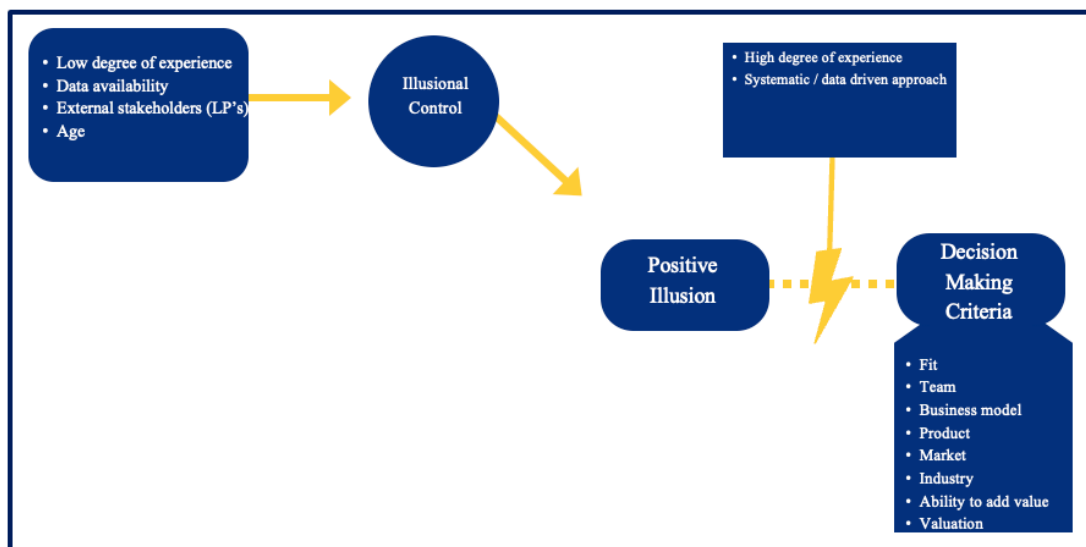


FIGURE 44: MODEL PART 1 – ILLUSIONAL CONTROL IN A NASCENT ECOSYSTEM

### 5.4.2 Unrealistic optimism

The data suggests the key factors to be: The context, emotional state, and susceptibility to happiness, optimism, and reward feelings. These could impact the degree to which unrealistic optimism is experienced and, in line, the degree to which it stimulates the decision-making process or even self-gratification.

The emotional state an individual gets out of a decision might impact the degree to which one allows self-enhancement to occur, as seen in the analysis when looking at the insights related to the potential neurotransmitter's dopamine and serotonin. Therefore, the emotional reaction achieved out of unrealistic optimism can play a drastic role in determining whether an individual allows self-enhancement to occur. This finding is also connected to the goal of the task or action at hand, which affects how unrealistic optimism appears.

As previously highlighted in illusional control, where less experienced investors seem to take advantage of illusional control to make up for a lack of experience, a similar conclusion could be drawn from unrealistic optimism. However, the data has highlighted that whereas some forms of positive illusion do not match the context, other forms might fit and might be in effect. Furthermore, individuals susceptible to unrealistic optimism might also justify their self-enhancing attributes not only for personal gain but for a greater good.

An individual can also categorically eliminate unrealistic optimism from coming up by being either highly rational with the task at hand or self-conscious enough to understand one's emotions to control feelings, potentially even benefiting from positive illusion.

## CONTEXT: NASCENT ENTREPRENEURIAL ECOSYSTEM

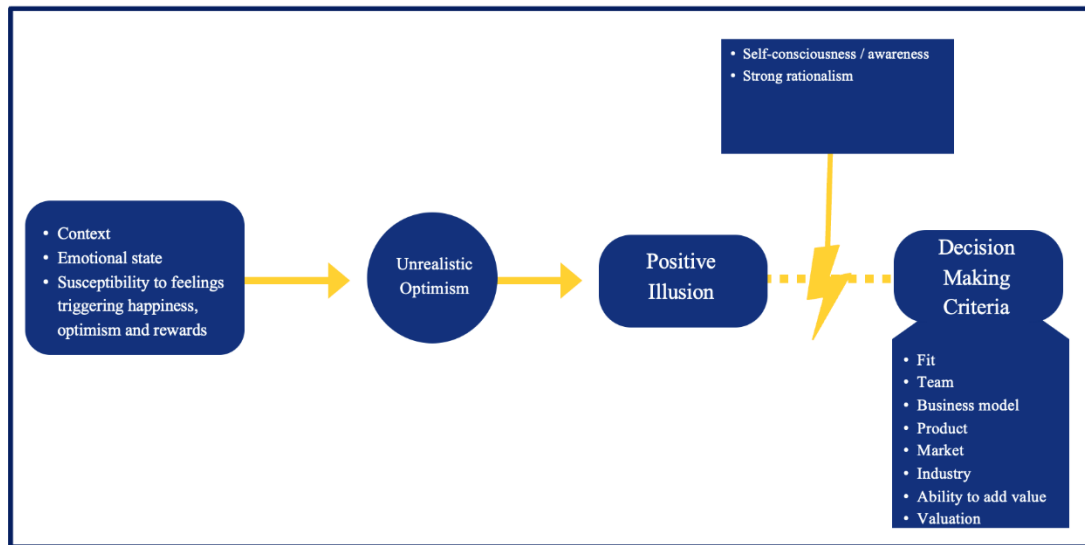


FIGURE 45: MODEL PART 2 – UNREALISTIC OPTIMISM IN A NASCENT ECOSYSTEM



### **5.4.3 Illusional superiority**

The data of this study linked this form of positive illusion to hierarchy and the respective position of the investor in the entrepreneurial ecosystem, with key variables being: Emotional approach, hierarchy, and view of oneself. Interestingly, this form of positive illusion compared to, for example, illusional control, which seems to be a mechanism used to make up for experience, seems to be most prominent with individuals who are already established and accomplished.

Established investors portrayed said tendencies of illusional superiority, which could be a signal that illusional superiority may cloud reality if an individual allows this kind of self-enhancement. Aside from clouding reality, the data showed that investors are particularly clouded in their areas of expertise, which is the primary reason that the investor is in a superior position in the first place. Therefore, it seems that illusional superiority can have very negative tendencies for experienced professionals.

On the contrary, illusional superiority seems to be preventable in situations where an investor has compassion and understands another individual's situation, as it was portrayed with the under-developed founders being active in the nascent ecosystem. This could highlight that the hierarchical variable is removed out of the equation by compassion. In addition, insights showcased that a data-driven mechanism such as a due diligence process that removes interactions at the primary stage also helps in avoiding illusional superiority from clouding the decision-making process.

## CONTEXT: NASCENT ENTREPRENEURIAL ECOSYSTEM

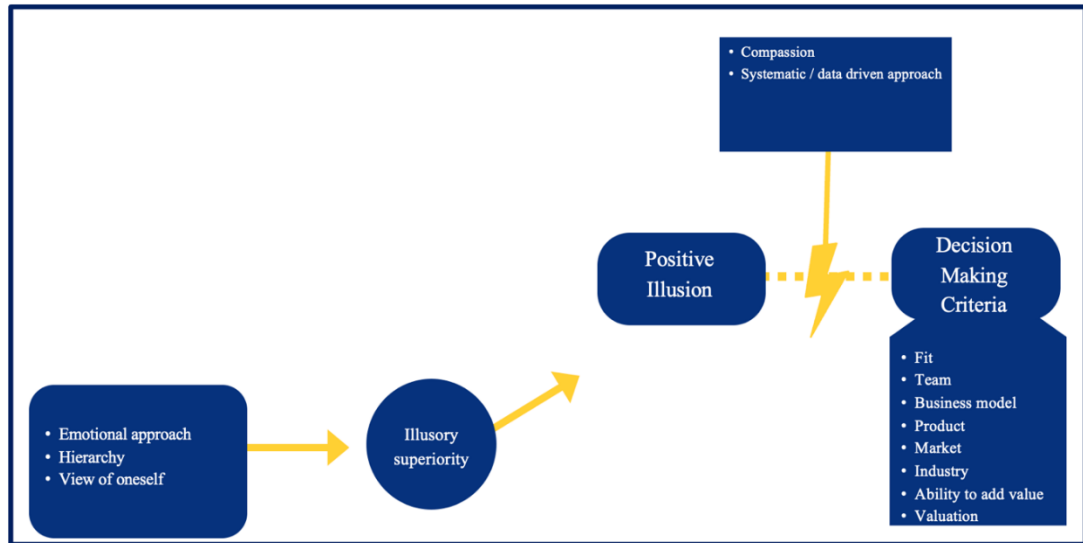


FIGURE 46: MODEL PART 3 – ILLUSIONAL SUPERIORITY IN A NASCENT ECOSYSTEM

### 5.4.4 The complete model

Finally, below is the complete model demonstrating the interplay between positive illusion and venture capital investment decision-making in a nascent entrepreneurial ecosystem, summarizing the above discussed context, variables, and factors in connection to each type of positive illusion.

#### CONTEXT: NASCENT ENTREPRENEURIAL ECOSYSTEM

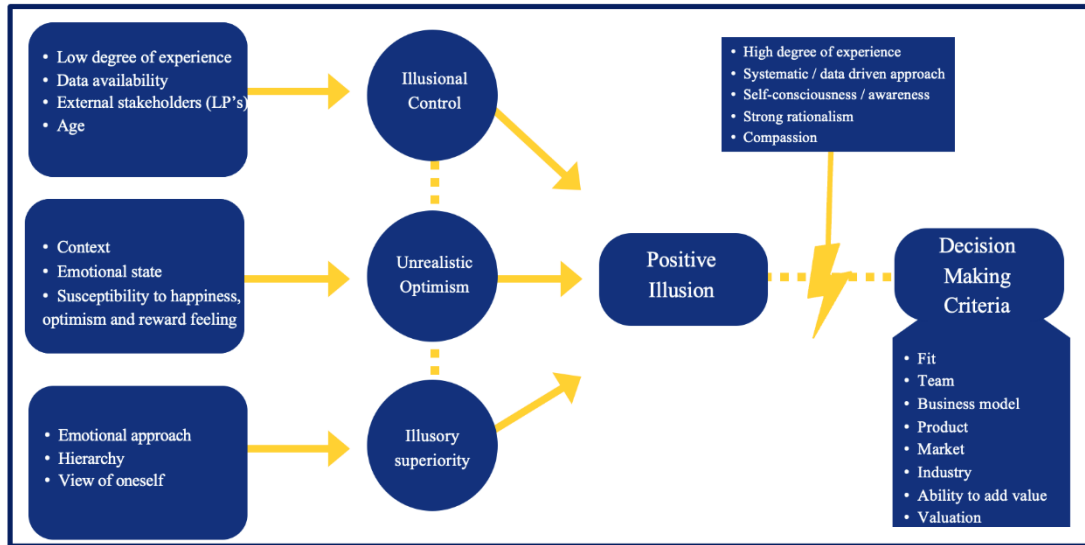


FIGURE 47: COMPLETE MODEL - POSITIVE ILLUSION AND VENTURE CAPITAL INVESTMENT DECISION-MAKING IN A NASCENT ECOSYSTEM

## **Part 6: Discussion**

This thesis is concluded with a quick overview of the significance of the study. Previous chapters provide a summary of the results, a model, and a discussion of the research questions, yet this section is limited to a brief review of the study's main body and the research's limitations from studying the venture capital investment decision-making process in the context of the potential impact of positive illusion in a nascent entrepreneurial ecosystem.

A preliminary reiteration is that the sole purpose of this research was to investigate the potential influence of positive illusion and self-enhancement on venture capital investment decisions in the United Arab Emirates. The goal of this study was to evaluate and describe a topic that has been relatively understudied in the context and combination portrayed by this research. In this circumstance, it is generally unknown how positive illusions influence decision-making. Taking this problem into account, it seemed interesting to investigate how professional investors make decisions.

In identifying the impact of self-enhancement linked to decision-making, in view and consideration of the limits, new perspectives of positive illusion on professional venture capital investors and their decision-making process in the respective context emerged.

To achieve this, first the complexity of sheer decision-making had to be considered in line with how venture capitalists decide on making an investment according to their individual position. In place of introspective data collection based on the decision-making criteria as per prior research in this field (Gompers et al., 2020), a qualitative methodology introducing the concept of self-enhancement via positive illusion was introduced. When looking into this phenomenon and how it might affect venture capitalists, the three sub-types of positive illusion: Illusional control, illusional superiority, and unrealistic optimism had to be considered. Each of these sub-types of positive illusion has its own unique parts.

Out of these, control illusion was given its own avenue due to the existing knowledge density and the introduction of the situational factors as per prior research on stock market traders by Fenton-O'Creevy et al. (2003), contributing to the theoretical

framework of this study. Whereas unrealistic optimism and illusory superiority were researched via a shuttling process as per the introduction of the concept by Taylor and Brown (1988), also contributing to the theoretical framework of this research. The joint investigation of the above-mentioned aspects in line with the nascent venture capital ecosystem in the United Arab Emirates led to the initial description of the situation in which the problem emerged.

After analyzing the relevant data as a response to the problem, the results of this research and the model that has emerged highlight the importance of an individual's context and the highly complex and unique process of human decision-making. The personal context out of which a person takes a decision goes far beyond a set of criteria and is influenced by both rational and irrational relationships and responses of emotions, mechanics, and processes.

Professional investors can engage in investment decisions via a set of pre-defined conditions, criteria, or situational factors, which lay the foundation and drive decisions. Yet, the real differentiator is the self-awareness and understanding of the context an investor is in, paired with a refined skill set and experience, as this creates a clear picture of whether the context warrants an investment from both an emotional and rational perspective. Moreover, the degree of self-enhancement a person decides to engage in poses a significant consideration too. Whether that be any of the sub-forms of positive illusion depends highly on the susceptibility, tendency of an individual towards self-enhancement practices and status within the entrepreneurial ecosystem. However, the overall context remains the absolute key driver behind the influence of positive illusions on the decision-making process.

## **6.1 Limitations**

Addressing the limitations is an important component of academic research. As the nature of this study is qualitative, this research hosted a limited number of general venture capital partners of this very nascent and upcoming entrepreneurial ecosystem. Therefore, the data gained from a small sample and the fact that the purpose of this qualitative research is not generalization can be a limiting factor.

The second limitation is related to the limited eligibility of professional investors that could participate in this study, as the number of investors within the region is growing fast but not many match the required variables in terms of experience for this study. On the other hand, this highly selective approach helped to pick only trained and specialized professionals. As the entrepreneurial ecosystem consists of several important stakeholders, including, for example, limited partners or the entrepreneurs, the third limitation is to bar any other player besides the general partners from participating in this study. Despite this, there is no resentment or negative feelings towards excluding other stakeholders. Venture capital investors are in the unique position of experiencing complex decision-making processes and mechanics of which other stakeholders, in the critical phase of reaching a decision, are not privy to.

Overall, another limitation might be related to the subjectivity of the researcher and ideological biases. Furthermore, it is crucial to mention that this research's ultimate objective was not to produce generalizable information, but to collect and discover specialised knowledge in relation to the phenomenon under investigation. In addition, the findings and the new model can serve as a steppingstone for other academics to formulate a theory that can be more systematically validated in different entrepreneurial ecosystems, regardless of their age, size, or type of population.

## **Part 7: Conclusion**

Decision-making, regardless of the context and the individual's walk of life, is a highly complex process with multiple factors involved, such as emotional triggers, gut feelings, peer pressure, or the environment, playing a major role in the outcome. Looking through a retrospective lens and interacting with decision-makers about past commitments or decisions, it can sometimes appear difficult to justify or even explain a previous thought process, as reproducing the state of mind or the frame of the context is simply not understandable anymore.

This is especially interesting when looking at events where individuals thought they could control the outcome, yet failed, and now try to justify their actions as: "Afterwards, you are always smarter." But realistically, control was never in their hands in the first place.

On the other hand, when asked to name strengths or weaknesses, individuals tend to start on a positive note, calling out their strengths and looking at themselves through a very positive lens first. It is questionable whether this merely acts as a confidence booster, whether it has to do with a superior tendency, or whether it is simply part of the thinking process to come up with weaknesses derived from attributes that do not qualify as strengths.

Finally, "tomorrow is always better than today." A statement that can be found in a variety of households, businesses, relationships, cultures, and interactions all around the world. Yet doubtful, because the source of such optimism, when failure or success has been experienced because of a person's actions today, is not measurable, justifiable, or even present, and could be nothing but an illusion.

The context of these three different, but often reoccurring, situations can be classified under the phenomenon of positive illusion, a self-enhancement mechanism affecting individuals in all different shapes, forms, and contexts. The goal of this study was to identify how positive illusion or self-enhancement affect professional venture capital and their investment decision-making.

The study's results, in the context of each individual investor and not generalizable, showcased that self-enhancement or positive illusion is a phenomenon appearing in

different form, situations, and especially contexts, each specific to the individual person's susceptibility towards allowing self-enhancing mechanisms. This in fact goes hand in hand with the above-mentioned complexity of decision-making, yet high self-awareness, contextual experience, data-driven approaches and compassion or strong rationalism enable the suppression or even total elimination of positive illusions, which emphasizes further the conclusion of the existing literature stressing the need to educate people about the potential pitfalls and traps their own minds can play and how to circumvent such situations.

### **7.1 Recommendations for professionals**

The different forms, appearances, and even influences of positive illusion are not a new phenomenon or concept to the human brain, and every individual has experienced situations where self-enhancing mechanisms might have taken over or at least appeared to a certain degree. The primary issue is that, from a neurological point of view, people are not aware that this self-enhancing phenomenon with its sub-forms can be classified, suppressed, or even eliminated all together in some cases, whereas its appearance in the first place depends strongly on the overall context.

Therefore, the recommendation to professionals is evolving around the individual identification of the areas or contextual instances in their professional lives where a lack of experience, status, commitments, thoughts, skillsets, uncertainty, or even peer pressure could cause positive illusions or self-enhancing mechanisms to appear. Knowing about the concept of positive illusion and how it can potentially impact one's mind helps to deploy counter processes and mechanisms to suppress it or even use it as a purely motivational enhancement. These start with developing self-awareness and understanding individual professional limits as per the context, followed by efforts to start thinking through a more rational lens rather than an emotional one.

On the contrary, it is very crucial to understand the context because self-enhancing or having a very positive state of mind is not necessarily bad and can help professionals to achieve certain goals, tasks or to stay motivated. However, self-awareness is required to be able to determine the degree of indulgence in positive illusion linked to the context and situation at hand. Understanding the potential severity of a failed outcome is required to safely deploy self-enhancing mechanisms.



## 7.2 Avenues for future research

A model of the factors comprising the influence of positive illusion on venture capital investment decision-making in a nascent entrepreneurial ecosystem has been created. It would be intriguing to compare the findings to quantitative research and a representative sample. In addition, this research only scratches the surface of how positive illusions affect professional investors in relation to the complexity of decision-making. Therefore, further qualitative approaches towards decision-making research would help to gather more information on this complex phenomenon across different ecosystems, as it seems that the age of the ecosystem can play a role in how investors behave. However, research on self-enhancement not only includes professional venture capital investors but also other ecosystem stakeholders such as entrepreneurs or limited partners.

Furthermore, a question that surfaced during the analysis linked to the nascent ecosystem was that investors seemed very supportive and understanding towards under-developed founders as they have little to no exposure operating in the young ecosystem. Therefore, how can the founder variable be of such high importance, as determined throughout the venture capital literature and this study, considering requirements such as pivoting skills or leadership capabilities, if the investors, in some cases, mentioned that they must help unexperienced founders to become investible first?

In addition, the identified correlation between less experienced investors, compassion and positive illusion would be interesting to further research, especially since experience has proven to be of high value when linked to this study and might be too for other studies linked to the cognitive / decision-making space.

Two (2) more interesting avenues to pursue are the data availability in relation to decision-making, which again leads to a problem faced in a young ecosystem and how investors further mitigate this via mechanisms, rationalism, or complex thought processes. Secondly, the influence or impact of the limited partners on the investors from a stress-related decision-making perspective.

Finally, a key takeaway from this study seems to be that a young entrepreneurial ecosystem influences established processes found in more mature ecosystems. As a result, general research on individual stakeholders navigating these ecosystems or comparing their behavior to more mature ecosystem players would be extremely valuable to the general literature.

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## Appendices

### Appendix 1. The solicitation email / letter to participate in the research



Nicholas Böhnlein, Doctoral Candidate EBU Doctor of Business Administration Program  
UAE Mobile / WhatsApp +971 52 312 26 80 / nicholas.bohnlein@ebu.lu

21/06/2023

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**Address**  
**Address**  
**Dubai**  
**United Arab Emirates**

Dear XYZ

My name is Nicholas Böhnlein, Swiss National, and I am a doctoral candidate conducting research, under the supervision of Professor Anne Walder Phd, DBA, at the European Business University of Luxembourg. The reason for contacting you is that I am conducting a study about the

- Venture Capital Investment Process in the UAE

and I am currently seeking experienced and knowledgeable Venture Capitalists, such as yourself, to participate in this study.

Your participation would take approximately 30 minutes for an interview, detailed in the **Informed Consent Statement** endorsed by the **European University of Luxembourg Research Permission**, both documents enclosed herewith. Furthermore, I would like to assure you that the study has been reviewed and received ethics clearance by the Administration Office of the Doctor of Business Administration program at EBU (contact details as per attached documents).

For supporting my doctoral thesis and your valuable time commitment, I would like to offer you a remuneration in the form of 5000 Oye's, the reward token used in my start-up ([www.heyoye.com](http://www.heyoye.com)).

**Time slots proposed:**



Your participation is highly appreciated. Please contact me for your availability by mobile phone or via email.

Thank you in advance for your time and I am looking forward to e-meeting you soon!

Sincerely,

Nicholas Böhnlein, MBA, MSc, Doctoral Candidate

22.06.2020

Enclosures:

Informed Consent Statement, EBU Research Permission

## Appendix 2. Informed Consent Statement



### EUROPEAN BUSINESS UNIVERSITY, LUXEMBOURG INFORMED CONSENT STATEMENT

**Study title:** An exploration of the venture capital investment process in the UAE

**Researcher:** Nicholas Böhnlein, MBA, MSc / Swiss National  
Doctor of Business Administration Candidate  
European Business University, Luxembourg

#### PURPOSE

You are invited to anonymously participate in a research study. The purpose of the study is to shed light on the dynamics surrounding the investment process conducted by Venture Capital firms. This research will focus on exploring the variables and data involved of experienced Venture Capitalists with regards to selecting investments.

#### YOUR PARTICIPATION

Your participation in the study will consist of one individual audio-recorded interview. The interview aims at discovering the different variables and data involved in the investment selection process and to understand how venture capitalists reach the point of the final decision.

#### COMPENSATION

In appreciation of your valuable time and commitment to this research, you will receive a remuneration in form of 5000 Oye's, the reward token of my start-up (for more information please visit [www.heyoye.com](http://www.heyoye.com)).

#### CONFIDENTIALITY

The information you provide will remain absolutely confidential. In order to preserve confidentiality a coding system will be used. Each participating venture capitalist will be assigned a pseudonym. A key will be constructed that will hide the identity of each participant. This way there will be no link back to your real identity. All audio recordings along with the key list will be destroyed immediately after the transcription process.

#### BENEFITS

Knowing more on the venture capital investment process is important as venture capital firms are a key stakeholder in the entrepreneurial ecosystem. Your participation provides valuable insights to investment analysts, founders, limited partners and venture capitalists. In addition, this type of knowledge can be used by entrepreneurs to structure their approach to raise venture capital funds. You may find the cooperation

research experience enjoyable and the information helpful to your future business practice.

#### INFORMATION

In light of Covid-19 and its uncertain development the interview will be conducted via a telecommunication application like Zoom that provides video and voice call functionality. The participation will require that you allow the researcher to record the interview.

#### RISKS

To our knowledge, there is no particular risk associated with your participation in this project. However, it is possible that certain questions can provoke reflections or revive memories linked to an unpleasant experience. You can refuse to answer a question at any time or even end the interview.

#### CONTACT

If you have questions at any time about the study or the procedures, you may contact the researcher:

**Nicholas Böhnlein.**

**UAE Mobile / Whatsapp: +971 52 312 26 80 /**

**Mail: nicholas.bohnlein@ebu.lu**

If you feel you have not been treated according to the descriptions in this form or your rights as a participant in research have been violated during the course of this project, you may contact the Administration Office of the European Business University, Château de Wiltz, L-9516 Wiltz, G.D. of Luxembourg, +352 621 571 003, admin@ebu.lu

#### VOLUNTARY PARTICIPATION

Your participation in this study is entirely voluntary. You may refuse to participate without any penalty. If you decide to participate, you may withdraw from the study at anytime without penalty and without loss of benefits to which you are otherwise entitled. If you withdraw from the study before data collection is completed your data will be returned to you or destroyed.

#### CONSENT

I have read this form and received a copy of it. I had all my questions answered to my satisfaction. I declare that I understand the purpose, nature, benefits, risks and disadvantages of the study.

After careful consideration, I agree to take part in this study. I understand that I may withdraw at any time by simple verbal notice, with no prejudice.

Researcher's Signature :

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Date : \_\_\_\_\_

Participant's Name & Signature:

\_\_\_\_\_

Place & Date :  
\_\_\_\_\_

## Appendix 3. Research permission

Date 30<sup>th</sup> of April 2020

Subject: Interview request for Doctoral Dissertation Research

We hereby confirm that Mr. Nicholas A. Böhnlein is currently a student enrolled in the European Business University Doctor of Business Administration (DBA) 2019-2021 program. To comply with academic standards, Mr. Nicholas A. Böhnlein will be conducting research including personal interviews. On behalf of European Business University, we thank you for your contribution to this valuable research project.

Yours faithfully

*Alexis Daleiden-Hague*

Director (University Administration)

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#### **Appendix 4. Interview question guide**

a) How many years as VC investor?

b) How large is the fund?

c) How many investments per year?

d) Age?

1. How would you describe your daily work environment?
2. How does your daily work environment impact your investment decision-making?
3. How does the amount of information you receive from a start-up influence your decision-making?
4. What are the steps involved in the evaluation of a potential investment?
5. How has your project selection evolved over the course of the journey as an investor?
6. What factors influence your decision-making?
7. How do you see your influence resulting in the success of a startup?
8. If a previous investment in a company resulted in a loss and a new venture with a similar vision, but positive market traction comes along, how does your experience affect your investment decision?
9. In general, how certain do you feel about your investment decisions?
10. How do you deal with dilution when your portfolio companies raise a follow up round?