

Early-Stage Venture Investment Model: Evidence from Saudi Arabia

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Abstract : Relatively few studies have explored how venture capitalist investors (VCs) make investment decisions and the information they rely on when taking an equity stake in an investee company. In addition, little is known about how much investors monitor start-ups after the decision to invest has been made. The VC scene in the US or European context is understood better than that of developing countries such as those in the Middle East. Although some differences among VC investors have been identified, the reasons behind such differences have not been fully explored – especially in a country such as Saudi Arabia. Therefore, this research seeks to understand the impact of external factors on the VC investor' behaviour. The unique cultural and legal environments in the Kingdom of Saudi Arabia, the growing VC sector in the country, and the increasing importance attached to start-ups under the Saudi Government's Vision 2030 program make such an investigation timely. Ascertaining the perceptions of VC investors in such a context will provide a deeper understanding of the determinants of VC investment in a novel setting. Using semi-structured interviews with over 20 participants, the research explores the structure of VC funds, the cycle of the VC investment in a start-up from the sourcing of deals, the screening and evaluation of such deals, the closing of such deals, and finally, the monitoring of such investments before the decision to exit such deals at the appropriate time. The results show some similarities to the VC model, which characterizes such investment in the US and Europe, but several differences emerge given the unique cultural and legal settings within the Kingdom. The results provide an in-depth understanding of the VC investors' mindset relative to the existing studies in the literature.

Keywords : exit, monitoring, start-ups, venture capital

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