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FACTORS AFFECTING EFFECTIVE IMPLEMENTATION OF TECHNOLOGICAL VENTURE CAPITAL (VC) STRATEGIES AT AYANDEH BANK, IRAN

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ABSTRACT

As VC is an emerging industry in Iran, there is little research on it. This study explores the important factors for effective implementation of technological VC strategies. The statistical population of this applied-descriptive study covers all the experts of Ayandeh Bank. Grounded theory (GT) was employed in NVIVO11 to extract components and factors. The research data is collected using semi-structured interviews. This study extracts a total of 10 core categories and 45 subcategories as the factors, by comparing and synthesizing the results from the content analysis of expert interviews. The result includes a wide range of factors including those directly related to investors in the active VC businesses, factors pertaining to the selected VC plans, and non-VC factors such as political and individual indices affect venture capital. All these factors can be identified as indices affecting the effective implementation of VC strategies.

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1. INTRODUCTION

Investment as an important and effective determinant of economic growth plays a key role in increasing the employment rate and reducing unemployment by increasing national productivity (Wright, Robbie & Ennew, 2017). Different factors affect investment, among which income, interest rate, security, proper business environment, the participation of governments and non-governmental public institutions in economy and governance play a more important role in this regard (Chitsazan, 2015).

To find appropriate investment opportunities in a region, alternatives should be properly identified first. Existing opportunities can be then evaluated (Gompers & Lerner, 2016). Relevant

factors and components should be properly identified first to search for appropriate investment opportunities in a region. Existing opportunities can be then taken into account (Zutshi, Tan, Allampalli & Gibbons, 2017).

The income level of individuals, companies, and countries as an effective determinant of investment is positively related to the investment rate. In other words, the investment rate increases with an increase in the income level of individuals, companies, and countries (in proportion to the marginal prosperity to invest) (Guo & Jiang, 2013).

Venture capital (VC), as a type of investment, has recently received much attention by economists, investors, and researchers (Gladstone, 2014). The VC process refers to a series of actions taken by funds or venture capitalists to implement an investment plan thoroughly. Developed countries have experienced detailed VC processes because of relatively numerous advantages and market-oriented economics (Ortt & Scholten, 2013). The VC industry is considered a major capital provider for entrepreneurs. It usually focuses on newly-growing and high-risk businesses before public supply (Cumming, 2015).

Entrepreneurs search for venture capitalists to develop their businesses, and venture capitalists search for risky and highly profitable opportunities (Derakhshan & Mohammadi, 2014). Venture capitalists play a key role in the process of entrepreneurship by providing managerial support and capitals for newly-emerging companies which are growing rapidly, entailing high risks and employing advanced technologies with the potential to turn into global businesses. Accordingly, venture capitalists are also known as experts in the identification of new high-potential businesses (Ranjbar, Rostami & Padam, 2015).

VC has gained more importance in developing economic organizations and making future advances because of the key role of VC funds in developing the most famous companies employing advanced technologies (Rakhman & Evans, 2015).

Venture capitalists usually employ no complicated financial prediction techniques, but try to protect their capitals from uncertainty through contractual rights such as control and economic rights. They also try to decrease the failure rate by supporting certain businesses in which they have invested through certain activities such as financial supply, employment, and communication with potential customers (Ang & McKibbin, 2017).

Modernization of VC has turned this investment method into an independent business. This, in turn, has resulted in the emergence of specialized companies which operate similar to venture capitalists to compensate for the lack of traditional financing channels. They also provide sufficient financial resources for long-term VC in modern technologies (Burgess, 2016, Abbasi, 2019).

The banking system is considered an organization facilitating investments, especially VC. In fact, the banking system of any country acts as the heart of its economic system. As the heart guarantees the life of other organs and cells by pumping blood throughout the body, the banking system should also guarantee the life of economic sectors and activists in a country through proper operations. However, this is not the case because the banking system is driven solely by self-interest. The economic sectors and activists will gradually perish if they are not supplied and supported properly by a healthy banking system. However, a healthy banking system is able to guarantee proper

operation of economic sectors and activists (Sohrabi, Fayazi & Shah Hosseini, 2015). In parallel with VC companies, banks as VC financing organizations should take the right and timely decisions to be implemented properly (Hellmann, Lindsey & Puri, 2015).

Decision-making is an important managerial task, and decision-making for the future determines the operational strategies and plans of organizations for future actions. Moreover, no certainty can be imagined for the future. Therefore, managers need to process information and benefit from knowledge to be proud of their decisions. Managerial decisions are of great importance especially when limited financial and nonfinancial resources are used to obtain the best results (Shepherd, Ettenson & Crouch, 2016). If parent organizations and companies make the right decisions on their subsidiary businesses, they need to implement their strategies efficiently and properly to achieve preplanned goals (Hartman, 2017).

Numerous studies have been conducted on different types of investments such as foreign investment and the factors affecting such investments as well as identification of factors and components affecting the attraction of foreign capitals and investors. However, there are few studies on VC and identification of components, indices, and factors affecting the successful implementation of VC strategies. Given the fact that VC is a newly-emerging industry in Iran, few domestic studies are available in this regard. Identification of VC components can be considered the first step of future studies for the development of this industry in Iran. Thus, this study aims to analyze and identify the factors affecting effective VC strategy implementation.

2. METHODOLOGY

This descriptive applied study was conducted by the mixed method. The statistical population (for the identification of components and variables) included managers and experts at Ayandeh Bank. Given the size of the statistical population (30 individuals), the Cochran formula was employed to select 27 participants. The purposive and snowball sampling methods continued until theoretical saturation. Theoretical saturation is used in qualitative studies to determine sampling quality. Data saturation point in this study was obtained when the researcher realized that new data led to no new insight and information through frequent questions. Finally, data saturation was reached after conducting 24 interviews, each of which lasted 75 minutes on average. Components, indices, and factors affecting effective VC strategy implementation were extracted by Grounded theory (GT) with the help of NVIVO 11. GT and NVIVO 11 are powerful tools for analyzing qualitative data capable of accelerating and facilitating coding, multiple classifications, concept categorization and analysis of relations and patterns in textual data, especially when information is collected through fully structured and semi-structured interviews (and not only standard and quantitative interviews). The results of software, content and thematic analyses were then used to extract and identify factors affecting effective VC strategy implementation.

2.1 DATA COLLECTION TOOLS

This study aimed at analyzing the factors affecting effective VC strategy implementation by Grounded theory. Therefore, the required data including 11 primary items and 25 secondary items were collected through semi-structured interviews to identify, analyze and extract components,

indices, and factors affecting effective VC strategy implementation at Ayandeh Bank.

Eleven primary items extracted from interviews were as follows:

- What are the economic factors and indices affecting effective VC strategy implementation at Ayandeh Bank?
- What are the prerequisites for selection and assurance of successful VC at Ayandeh Bank?
- What are the factors pertaining to VC resources for the effective VC strategy implementation at Ayandeh Bank?
- What are the factors and indices for evaluation of investment plans affecting effective VC strategy implementation at Ayandeh Bank?
- What are the market factors and indices affecting effective VC strategy implementation at Ayandeh Bank?
- Which legal factors and indices affect effective VC strategy implementation at Ayandeh Bank?
- Which political factors and indices affect effective VC strategy implementation at Ayandeh Bank?
- Which individual factors and indices of investors influence effective VC strategy implementation at Ayandeh Bank?
- What are the financial factors and indices influencing effective VC strategy implementation at Ayandeh Bank?
- Apart from the abovementioned factors, which factors influence effective VC strategy implementation at Ayandeh Bank?
- How one should prioritize the influential factors for effective VC strategy implementation at Ayandeh Bank?

The validity and the reliability of interviews were confirmed respectively by expert opinion and general agreement. Data collected from the semi-structured interviews were then statistically analyzed.

3. RESEARCH FINDINGS

STEP 1: OPEN CODING

(A) Initial Coding of Interviews (GT Initiation)

The data extracted from the interviews were analyzed by content and thematic analyses (principal components and indices and organizing indices (primary and operational) and comprehensive components and indices (result)). To this end, the interview texts were opened as Word files and were reviewed several times in NVIVO 11. Then the keywords were saved as codes. In other words, the interview texts were first reviewed to start coding and identify similar codes with respect to the research objective. A recursive identification process was used in this study. In other words, the literature was first reviewed to analyze primary and general concepts pertaining to components, indices, and factors affecting effective VC strategy implementation. The interviews were then analyzed to identify newer and more detailed concepts.

Similar or repetitive concepts observed in the next interviews were coded in the existing codes. Thus, some of the allocated codes with multiple frequency rates were considered to be principal components and indices. In the next step, the extracted codes were thoroughly analyzed and categorized as more abstract classes for the development of organizing components and indices. Coding and analysis were carried out after transcribing each interview in a separate Word file.

Finally, 275 resultant codes were combined to obtain around 93 indices, sub-indices,

components, and factors, which were then divided into 10 basic indices and 93 organizing (primary and operational) indices including components, indices and factors affecting effective VC strategy implementation at Ayandeh Bank based on the importance, frequency, conceptual similarity and researcher expectation of final indices.

In addition, some useful actions were taken to analyze the credibility of data analyzed by the researcher (extraction of components, indices, and factors affecting effective VC strategy implementation at Ayandeh Bank). For instance, the extracted and identified findings, components and indices were given to 5 experts in the sample (including managers, experts and researchers in the Investment Deputy at Ayandeh Bank) to analyze the researcher interpretation and analysis and state their own opinions on the analysis of data and results to prevent any bias.

Content and thematic analyses of interviews by experts resulted in 10 core categories and 45 subcategories known as the factors affecting effective VC strategy implementation at Ayandeh Bank.

(B) Secondary Coding and Concept Categorization (GT Continuation)

In the next step, the primary codes were converted into secondary codes (because of a large number of primary codes). Some secondary codes were then converted into a conceptual code. The following tables summarize the results of open coding based on categories, conceptual codes, and secondary codes.

Table 1: Classification of the responses of interviewees to the items on economic factors and indices

No.	Conceptual Codes	Frequency	Percentage
1	Economic security	13	0.54
2	The attractiveness of investment environment and supply of mutual interests	18	0.75
3	Up-to-date economic policies	6	0.25
4	Appropriate investment infrastructures	15	0.63
5	Competition facilitation and exclusion prevention	21	0.89
6	Business environment evaluation	8	0.34
7	Inflation rate volatility	11	0.46
8	Fluctuations in the banking interest rate	14	0.58
9	The volatility of parallel markets	16	0.67
10	Global economic developments	9	0.38

Table 2: Categorization of the responses of interviewees to the items on prerequisites to the selection and success assurance of investment

No.	Conceptual Codes	Frequency	Percentage
1	Investment team	12	0.50
2	Investment business model	22	0.92
3	Value addition capability	16	0.67
4	Consistency with fund's size and goals	17	0.71
5	VC participation and protection right	9	0.38
6	Redemption right	13	0.54
7	Cumulative interests	14	0.58
8	Protection from value reduction	15	0.62
9	A specialty of the selected syndicate company for investment	6	0.25
10	The success of selected syndicate company for investment in previous participations	8	0.33
11	Reputation of the selected syndicate company for investment	21	0.88
12	Records of investment in the selected syndicate company for investment	17	0.71
13	Capital of the selected syndicate company for investment	8	0.33

Table 3: Categorization of the responses of interviewees to the items on VC resources

No.	Conceptual Codes	Frequency	Percentage
1	Identification of professional networks	9	0.38
2	Resources generated by VC actively	16	0.67
3	Resources recommended by other investors	6	0.25
4	Resources recommended by VC management	12	0.50
5	Resources recommended by the invested companies	13	0.54
6	Paying attention to the values of VC resources	15	0.62
7	Paying attention to the scarcity of VC resources	15	0.62
8	Paying attention to the imitability of VC resources	12	0.50
9	Paying attention to the replaceability of VC resources	19	0.75

Table 4: Categorization of the responses of interviewees to the items on the factors and indices for evaluation of VC plans

No.	Conceptual Codes	Frequency	Percentage
1	VC innovation	20	0.83
2	Paying attention to planning to progress investor commitments	6	0.25
3	Identifying potential options of VC plans	13	0.54
4	Planning for predicting cash flows	9	0.38
5	Evaluating VC risks	18	0.75
6	Evaluating investment profitability	22	0.92
7	Partners (VC experience, competitive strategy type, size of partners)	15	0.62
8	VC ownership (ownership distribution and establishment method)	14	0.58
9	Relationships of partners (relationship management, control mechanism, concentration, commitment, and trust)	19	0.75

Table 5: Categorization of the responses of interviewees to the items on market factors and indices

No.	Conceptual Codes	Frequency	Percentage
1	Access to market	10	0.42
2	Identifying current markets of a business	19	0.80
3	Paying attention to business risks in current markets	16	0.67
4	Identifying the risks of potentially attractive markets	14	0.58
5	Evaluating the business risks of potential markets	18	0.75
6	Discovery of strategically potential businesses	19	0.75
7	Market size	6	0.25
8	Market complexity	9	0.38
9	Market unpredictability	11	0.46

Table 6: Categorization of the responses of interviewees to the items on lawful and legal factors and indices

No.	Conceptual Codes	Frequency	Percentage
1	Stability of VC rules and regulation	21	0.88
2	The complexity of the financial system	13	0.54
3	Bureaucracy and office work	8	0.34
4	Governmental concern for the elimination of complicated administrative rules	11	0.46
5	Legal contexts required for venture capital	13	0.54
6	Paying attention to the existing legal VC infrastructures	18	0.75
7	Economic openness degree	6	0.25
8	VC freedom and flexibility	17	0.71
9	VC supportive rules	20	0.83

Table 7: Categorization of the responses of interviewees to the items on political factors and indices

No.	Conceptual Codes	Frequency	Percentage
1	Political and social security and stability	14	0.58
2	Evaluation of imposed sanctions	5	0.21
3	Domestic and international political changes	7	0.29
4	Governance risk evaluation	7	0.29
5	Legislation policy	12	0.50
6	Paying attention to exclusion reduction	15	0.62
7	Support and maintenance of private-sector ownership	17	0.70
8	Governmental actions to fight economic rent opportunities in VC	15	0.62
9	Supply of required VC infrastructures and equipment	19	0.79
10	Governmental attention to the proper development of the financial market	13	0.54
11	Governmental interventions in venture capital	7	0.29

Table 8: Categorization of the responses of interviewees to the items on individual factors and indices

No.	Conceptual Codes	Frequency	Percentage
1	Individuals needs of investors	15	0.62
2	Expectations of investors	19	0.79
3	Investment intentions	13	0.54
4	Motivation for venture capital	14	0.58
5	Investor satisfaction with VC	9	0.38

Table 9: Categorization of the responses of interviewees to the items on financial factors and indices

No.	Conceptual Codes	Frequency	Percentage
1	Expected rate of return	16	0.67
2	Availability of information on the previous performance of VC companies	19	0.79
3	Items recorded on financial statements (budget, cost, and income)	7	0.29
4	Seasonal reports	5	0.21
5	Coverage of VC interests in financial reports	14	0.58
6	Availability of proper tools for financial supply	17	0.71
7	Reliability of capital return rate	8	0.33

Table 10: Categorization of the responses of interviewees to the items on other factors and indices

No.	Conceptual Codes	Frequency	Percentage
1	Physical VC infrastructures	13	0.54
2	Recommendations of friends and brokers	5	0.21
3	Evaluating the interests of external stakeholders	7	0.29
4	Rate of business strategies in VC	15	0.62
5	Access to technical and technological experts	18	0.75
6	Access to VC infrastructures	14	0.58
7	Specialties of experts	14	0.58
8	Accurate VC resourcing	20	0.83
9	VC prioritization	17	0.71
10	Strategic resource allocation	10	0.42
11	Financial security and insurance status of investors	15	0.62
12	Investment encouragement and enhancement	16	0.67
13	Availability of expert human resources and labor force	16	0.67
14	Paying attention to the efficiency of research and development in VC	8	0.33

According to Tables 1-10, different qualitative indices were identified by the sample members. The identified indices were considered to be the factors and components affecting effective VC strategy implementation at Ayandeh Bank.

(C) Development of Primary Classes

As discussed earlier, qualitative data were statistically analyzed with the help of NVIVO 11. However, the content and thematic analyses indicated that 10 core categories and 93 secondary factors and components could affect effective VC strategy implementation at Ayandeh Bank. Finally, the identified indices and components were placed in 10 primary classes, extracted and finally named through data analysis. Given the frequency of items, 45 factors (out of 93 secondary factors and indices) were finally selected as the primary factors affecting effective VC strategy implementation at Ayandeh Bank.

Primary classes shown in Table 11 were then developed.

Table 11: The results on the development of primary classes

Core Classes	Categories
Economic factors	<ul style="list-style-type: none"> - Providing economic security for VC businesses - Efficient enforcement of economic policies - Paying attention to economic developments - Increasing governmental attention to the development of financial markets
Prerequisites to Selection and Assurance of Investment Success	<ul style="list-style-type: none"> - Evaluating necessary VC factors - Maintaining the structures of contracts - Evaluating the important factors in selecting syndicate partners
VC Resources	<ul style="list-style-type: none"> - Evaluating resources generated by VC actively and resources recommended by other investors - Paying attention to the value of VC resources - Paying attention to the scarcity of VC resources - Paying attention to the imitability of VC resources - Paying attention to the replaceability of VC resources
VC Plan Evaluation	<ul style="list-style-type: none"> - Creating innovation in VC - Identifying potential options for investment plans - Evaluating the risk and profitability of VC - Evaluating partners available for VC businesses - Evaluating active businesses in VC
Market Factors	<ul style="list-style-type: none"> - Identifying and evaluating VC markets - Identifying current markets of active businesses in VC - Paying attention to the business risk of current markets - Identifying and evaluating VC risk in strategically potential markets - Market dynamism evaluation
Legal Factors	<ul style="list-style-type: none"> - Stability of VC rules and regulations - Setting VC facilitating rules in financial agencies - Creating legal contexts required for supporting VC - Increasing VC freedom and flexibility
Political Factors	<ul style="list-style-type: none"> - Providing VC infrastructures and equipment - Protecting and maintaining the ownership of active businesses in VC - Analyzing political changes in the economy - Fighting economic rents in VC
Individual Factors	<ul style="list-style-type: none"> - Evaluation of the individual needs of investors - Determination of expectations and intentions of investors in VC - Improvement of investment motivations for VC
Financial Factors and Indices	<ul style="list-style-type: none"> - The expected return rate of VC - Availability of proper tools for liquidity supply - VC interest coverage in financial reports of businesses - Availability of information on previous performances of VC companies
Other Factors	<ul style="list-style-type: none"> - Access to expert and elite human resources in VC - Improvement of financial security and investor insurance - Determination of VC priorities - Rate of business strategies in VC

Step 2: Axial Coding

Axial coding is the second analysis step in the grounded theory aiming at establishing relationships between the classes generated by open coding. Axial coding based on the paradigm model helps theorists to facilitate the theory process. The correlation process in axial coding is carried out by the development of each class. Therefore, data obtained from upstream document review and in-depth interviews were taken into account in the second step to obtain 10 core categories and 45 subcategories regarded as the factors affecting effective VC strategy implementation at Ayandeh Bank.

4. DISCUSSION

In order to succeed in achieving financial goals in the field of venture capital, organizations must choose a specific strategy and model for themselves. One way to achieve success in different organizations is to identify, apply and implement an effective strategy. Funding for innovative technology development activities is possible through a variety of mechanisms, among which, venture capital funds are extremely important. Because of the inherent risk in innovative projects and the nature of long-term investment in such activities, the common financial and credit mechanisms used to finance them are not appropriate.

5. CONCLUSION

The results of the sub-indices of risky investment in developing a native model for effective implementation of risky investment strategies in Ayandeh Bank included the motivation for profitability, risk-taking, ownership structure and participation in management. The sub-criteria for assessing VC projects include financial management ability, financial market acceptance, financial development potential, service diversity and differentiation, and the creation of new financial markets. Commercial and operational features of investment projects also included modeling of competitors, operational performance assessment, executive capability, service supply chain evaluation, and customers' analysis. Finally, entrepreneurship indices included entrepreneurial personality characteristics, entrepreneurial abilities, and financial considerations.

The results showed that in order to develop a native model for effective implementation of VC strategies in Ayandeh Bank, the sub-indices of VC, evaluation of relevant projects, commercial and operational characteristics, and entrepreneurial indices play a key role.

6. AVAILABILITY OF DATA AND MATERIAL

Data used or generated from this study can be requested to the corresponding author.

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