

# **VENTURE CAPITAL FINANCING IN LEBANON: VALUATION, STRUCTURING AND MONITORING OF VC DEALS**

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## **ABSTRACT:**

Lebanon Central Bank has been pushing money into the ‘knowledge economy’, but the money is having problems trickling down to the startup ecosystem. The Central Bank financial engineering made \$650 million available to high-tech startups. The absorption capacity of the knowledge startups is \$100 million. Most funds are targeting intermediate and middle-stage startups, with the seed and pre-startup phases rather uncovered. The mismatch between the supply of funds and the demand of the later stage startups market, causes a problem in the valuation process. The competition among funds leads to overbidding for qualified startups. This research will use intervention-research structural and economic analysis techniques to examine the deal making in venture capital investment.

**Keywords:** Venture Capital (VC), Knowledge-Based Economy (KBE), Socio-economic approach to management (SEAM), accelerators, and incubators.

## **INTRODUCTION:**

Lebanon venture capital industry is steadily evolving to be one of the fastest growing in the Middle East. Lebanon is trying to be branded as knowledge hub, and its government, which was set up last December 2016, has included in its national strategy a plan to develop a startup scene with a real macroeconomic impact.

The venture capital industry is widely acknowledged as a powerful enabler of entrepreneurship and innovation in the Lebanese economy. The plan to create a tech cluster in Lebanon is already on the table. During the last 3 years, there have been a series of steps, taken by the Central Bank, IDAL, and private institutions, to create a favorable environment for startups.

Economic experts, academics and politicians, rationalize that the knowledge economy, the banking sector, and the oil and gas sector will be the 3 pillars that will drive and move Lebanon economy forward in the coming years.

This subject (venture capital and digital economy) has received increasing attention from policymakers in Lebanon, viewing Lebanon as being a hub to

support startup companies. The idea is to tap educated local talents in order to make the best of their innovative capabilities, fulfill their ambitions, limiting therefore their migration. Also, the idea is to encourage the global Lebanese diaspora – estimated at four times the population of Lebanon itself – to bring home their hard-earned capital from abroad.

As Lebanon aspires to be the Middle East and North Africa's technology and start-up hub, Beirut is touting as the "next Silicon Valley", and the city is building technology parks and accelerators such as Beirut's Digital District, inviting prominent international speakers to tech conferences and sending Lebanese entrepreneurs on road trips to Silicon Valley and New York City. Lebanon's policy makers are also attempting to ease regulatory hurdles by offering incentives to form tech venture investment funds.

The Central Bank has made substantial initiatives to support the knowledge economy. Very recently, The Investment Development Authority of Lebanon (IDAL), has announced the launching of an ICT export program, which includes the sponsorship of knowledge based and tech startups to enable them to attend international fairs.

The knowledge economy currently accounts for one percent of the Gross Domestic Product (GDP) (Blominvest Bank Dec, 2016).

According to Mr. Riad Salameh, Governor of the Central Bank, the digital knowledge sector has contributed nearly \$1 billion to national wealth and created nearly 6,000 job opportunities.

Around 800 companies are operating in the ICT sector. There are 211 companies (out of the 800) in the software industry that includes software development, web solutions, and mobile services and applications and (these 211 companies) employs a workforce of around 5,000 people. (Lebanon Opportunities, December 2016).

The knowledge economy in Lebanon is witnessing annual growth between 7 and 9 percent, and Lebanon has jumped to third place in the region (Middle East) in the number and value of venture capital investments. (The Daily Star 22 February 2017).

An ArabNet Business Intelligence Report said that over \$700 million were invested in tech startups in MENA between 2013 and October 2015, with Jordan and Lebanon hovering around 50-60 investment deals each. Lebanon has climbed the MENA ranks with respect to its number of investments, from fifth to third place behind the UAE and Jordan.

### **Banque du liban's initiative (circular 331)**

The growth in the interest of venture capital funds (and other equity funding schemes such as incubators, accelerators, angel investors, and crowdfunding) is largely attributed to Banque du Liban's initiative (Circular 331), an initiative taken by the Central Bank in August 2013.

This initiative (Circular 331) was a first of its kind that deals with equity investment rather than credit. It provided incentives for the generally conservative and risk-adverse Lebanese banking industry to make equity investment in the high-tech startup sector.

The purpose of Circular 331 was to establish a solid knowledge industry as long as the economic future of Lebanon will depend to a great extent on the knowledge-based economy.

Three years into its implementation, the impact of Circular 331 has begun to take shape on the startup landscape. The positive impact is reflected by the increase in the number of new VC funds, accelerators, and incubators.

With Circular 331, banks have the options to:

- directly invest capital in startups;
- or indirectly invest in startups, through venture capital funds, accelerators, and incubators.

Circular 331 allows banks to invest up to four percent of their capital in the equity of companies operating in the knowledge sector. This could theoretically put up to \$650 million worth of funds from commercial banks at the disposal of VC firms. (4 percent of Lebanese banks' tier 1 equity as at 30/June/2016).

Roughly half of those \$650 million (around \$330 million), are currently committed by banks to VC funds (Lebanon Opportunities December 2016).

The amount of capital invested directly by banks in startups without recourse to VC funds is still a small amount (around \$20 million) (The daily Star, August 19, 2016).

The Lebanese startup ecosystem has greatly advanced in the past four years. Looking to the future, it is expected to see more startups utilizing BDL's Circular 331. There will be further development of new ideas and some big stories coming out of the country

## **PROBLEM STATEMENT**

In this research, I will address a twofold problem.

### **First aspect of the problem statement in this research:**

Circular 331's financial engineering made \$650 million available to startups working under the knowledge economy.

The capital invested so far in knowledge startups is estimated at nearly \$100 million (Lebanon Opportunities, December 2016).

The number and the investment size of the VC firms is growing, but the absorptive capacity of the startups market is still considered small. So far, the startups projects (the VC deals) that have been accepted have also been quite small, and during the last three years (2014, 2015, and 2016), VC institutions have invested \$100 million in technology startups (as mentioned before).

The big cash injection, in the absence of enough investment-worthy startups in the ecosystem, raises concerns of inflationary pressure on valuations as several VC funds outbid each other in an attempt to chase the best available deals.

There are no enough deals currently being finalized, and stakeholders in Lebanon are complaining about the ecosystem's weak deal flow.

The lack of investment-worthy opportunities which could create inflationary pressures, as too much money chases too few deals, eventually leading to riskier investments.

The challenge is not in finding the money for growth stage startups, but in finding the opportunity. And the artificial injection of cash, raised concerns that

there is too much money and not enough investment-worthy startups in the Lebanese ecosystem.

The amount of potential injection of cash (close to \$750 million = \$650 million from banks + \$100 million from private investors), has not been followed by a concomitant increase in VC deals. In reality, VC firms are increasingly looking for deals and there is too much money chasing too few good deals. In other words, VC funds are competing for transactions and of course this is unhealthy.

It is true that on the short run, competition among VC funds will play in favor of Lebanese entrepreneurs; however, in the long run, competition could also create a bubble.

The danger is that we have in Lebanon several VC funds totaling \$715 million (\$650 million + \$100 million) and they want to invest \$120 million per year. While VC funds have the capacity to deploy \$750 million, the deal flow over the 4 coming years is estimated at \$30 million. Consequently, VC funds in Lebanon might end up competing seriously with other funds and other investors to grab the best deals available, and there are too few of these best deals in the Lebanese tiny market. This leads us to conclude that too much equity money available for startups will likely create an inflationary pressure on valuations, as VCs outbid each other to get the few good deals.

Lebanese VC funds plan on investing in around 180 companies over the coming five years. Today the number is a little below 50 companies, financed with \$100 million. With the six running VC funds having so far deployed 50 percent of their funds on average, the remaining committed but unused funds in the system are estimated at around \$210 million. These can finance at least another 200 new startups (40 startups per year), at an average ticket of \$1 million.

This will be a major risk in the VC industry, and valuations will be going up because there will be a lot of equity money, and a lot of investors chasing very few deals. Consequently VC firms will be competing for transactions, and may overpay for fresh startups. For the time being, the number of transactions per each fund is between 10 and 12 and this is relatively small. In other words, there might not be enough several ticket deals, and that all of the VCs will be fighting for deals on the same level and at the same time.

Therefore, and based on the above arguments, inflationary pressure on valuation could lead to a crash if the startup companies are not investment-worthy.

This fear from a crash in the local VC sector, stems from what happened in North America by the end of the 1990s, when a large amount of venture capital invested in the telecommunications and internet industries. However, during the first years of the new millennium, venture capital investment in these industries (in North America) collapsed. At that time, a collapse happened in the valuations for startup technologies companies, a NASDAQ crash and technology slump started in March 2000 and shook virtually the entire venture capital industry.

The reality and the scene of the VC market in Lebanon can be compared to that of the North America between 1998 and 2003. And there is a risk that Lebanon might be a carbon copy of what happened in another places of the world between 1998 and 2003.

Overvaluations compound the risk of investing in startups that aren't worth very much. Consequently, there could be a bubble if all of the money is invested in the same time and at the same growth and later stage of potential investee startup companies.

### Second aspect of the problem statement in this research:

Circular 331's financial engineering made \$615 million available to startups, and most of these funds tend to look at investing in growth stage startups. Most of these funds tend to invest a minimum of \$1 million and they do not target beginners, but only intermediate startups.

The Lebanese ecosystem is currently witnessing a clustering of funds around the middle-stage financing of startups, with the seed and pre-startup phases rather uncovered, and the upper ends where the final exits of startups can materialize still under-developed.

The majority of venture capital funds that have recently set up shop in Lebanon are focused on later-stage financing, leaving early stage startups struggling to secure equity investments. They are investing in companies already have a major international presence, or are gearing up to hit the international markets.

Seed money is not available for beginners, and not all startups are finding it easy to secure funding.

Generally speaking, the VC deal making process is still difficult and chaotic. There are several VC partners working together. However, on the ground it is still unclear, and the operational system needs a few years to play out before benefits are truly realized.

This raises the questions:

How are VC deals made in practice? How Lebanese venture capitals make financing and investment decisions?

What things seem to work particularly well at the Lebanese venture capital industry?

What things don't work particularly well?

Where the VC sector is going? In particular, how it will be 5 years from now?

What has to be done to "make it" in the future?

This research is about the Venture Capital investment process. It will examine and investigate four areas in the field of Venture Capital, namely:

1. **The pre-investment appraisal criteria,**
2. **The valuation,**
3. **The structuring and**
4. **The monitoring of VC deals.**

### **AIMS**

The first reason for my choice of Venture Capital as a topic for my DBA dissertation is that Venture Capital is a new financing concept in Lebanon.

This topic is still under-researched area, and so far, (to my knowledge) no comprehensive and academic study has been carried out on the VC industry.

The second reason for my choice of venture capital is that this topic is related and relevant to my industry and professional experience. I used to be a banker and I am coming from a finance and banking background. So, in addition to my interest in this new and important subject, I already have a reasonable and practical knowledge of venture capital practices in Lebanon.

Another reason for my choice of venture capital as a topic for my DBA dissertation is that this topic is something I am able and capable of undertaking. I am reasonably able and certain to gain access to data, I am likely to require for my research.

And finally, my choice of venture capital is related to my future and career aspirations. Currently I work in the academia and I teach business courses. The topic matches my career goals. It gives me the opportunity after finishing my DBA to do some teaching in business schools, as long as I want to go to a new approach to decision making, and a new approach to problem solving.

## **HYPOTHESES**

This research will focus on the challenge of improving the quality of investing decisions by venture capitalists. The guiding premise is that **the introduction of socio-economic management principals will allow venture capitalists to improve the quality of their investing decision makings, creating value-added in the process.**

Based on this premise, we detail our **core hypothesis** as follows:

**Most VC investments are made only at the growth stage of startup, which is not sufficient, calling for a more comprehensive accompaniment process.**

Starting from the central hypothesis, we can consider the following **descriptive hypotheses**:

- **Seed investments are something the market is currently lacking.**
- **Decision making, by Lebanon venture capitalists, are not being synthesized enough to create value-added and reduce hidden costs.**
- **Initiatives undertaken by the government, the central bank, and private institutions to grow Lebanon's tech startup sector, might not be well synchronized.**
- **The improvement of decision making supposes the existence of HISOFIS.**

The deal making process is still difficult and chaotic, and for this reason, some of the VC funds still trying to find the optimal format to support startups. From this perspective, we have constructed our **explicative hypothesis** as follow:

- **The consultancy and networking services provided by existing accelerators and incubators to some start-ups, are not always satisfactory.**
- **There is a lack of adequate infrastructure facilities at the premises of some incubators whose fees were expensive.**

Dysfunctions will hardly lead to long term economic growth or increase the national living standards. What is truly needed is to formulate a Strategic Design to realize a specific purpose. A strategic design to guide policy makers in determining where and how to intervene, what incentives to offer and what impact to seek. To facilitate the uncovering of opportunities, we come out with the **Prescriptive Hypothesis**:

- **An effort must be deployed to evenly spread the distribution of the 331 equity financing over the different stages of the startup life cycle. And there should be more liquidity available for the early and seed stage as well.**
- **By formulating a new strategic design to create positive change in the VC sector, SEAM might constitute the perfect fit to recognize the dysfunctions and to drive Lebanon’s innovation and growth agenda.**

**TABLE 1: BODY OF HYPOTHESES**

Descriptive Hypotheses	Explicative Hypotheses	Prescriptive Hypotheses
<p><b><u>DH01:</u></b> Lebanese entrepreneurs are launching their companies in not easy market conditions.</p>	<p><b><u>EH01:</u></b> Some of the startup companies seeking funding do not meet 331 criteria, either because they are actually not based in Lebanon, or because they do not contribute to the knowledge economy.</p>	<p><b><u>PH01:</u></b> The BDL (Banque du Liban) and banks should evenly spread the distribution of the 331 equity financing over the different stages of the startup life cycle. And there should be more liquidity available for the early and seed stage as well.</p>
<p><b><u>DH02:</u></b> Seed investments are something the market is currently lacking.</p>	<p><b><u>EH02:</u></b> The education system is not bad, but it does not equip the business students for the real world.</p>	<p><b><u>PH02:</u></b> Working on adapting/optimizing more programs to dramatically boost both the quality and quantity of early-stage startups in the Lebanese ecosystem.</p>
<p><b><u>DH03:</u></b> There is no electronic trading platform for SMEs. This presents more capital hurdles.</p>	<p><b><u>EH03:</u></b> Some legal and infrastructure notions are not defined in the legal structure of Lebanon.</p>	<p><b><u>PH03:</u></b> Lebanon should have electronic trading platform (ETP) for startups, and must launch an (ETP): ETP will allow the listing of start-ups and funds. ETP will allow entrepreneurs to meet directly with potential investors. ETP will allow the listing of</p>

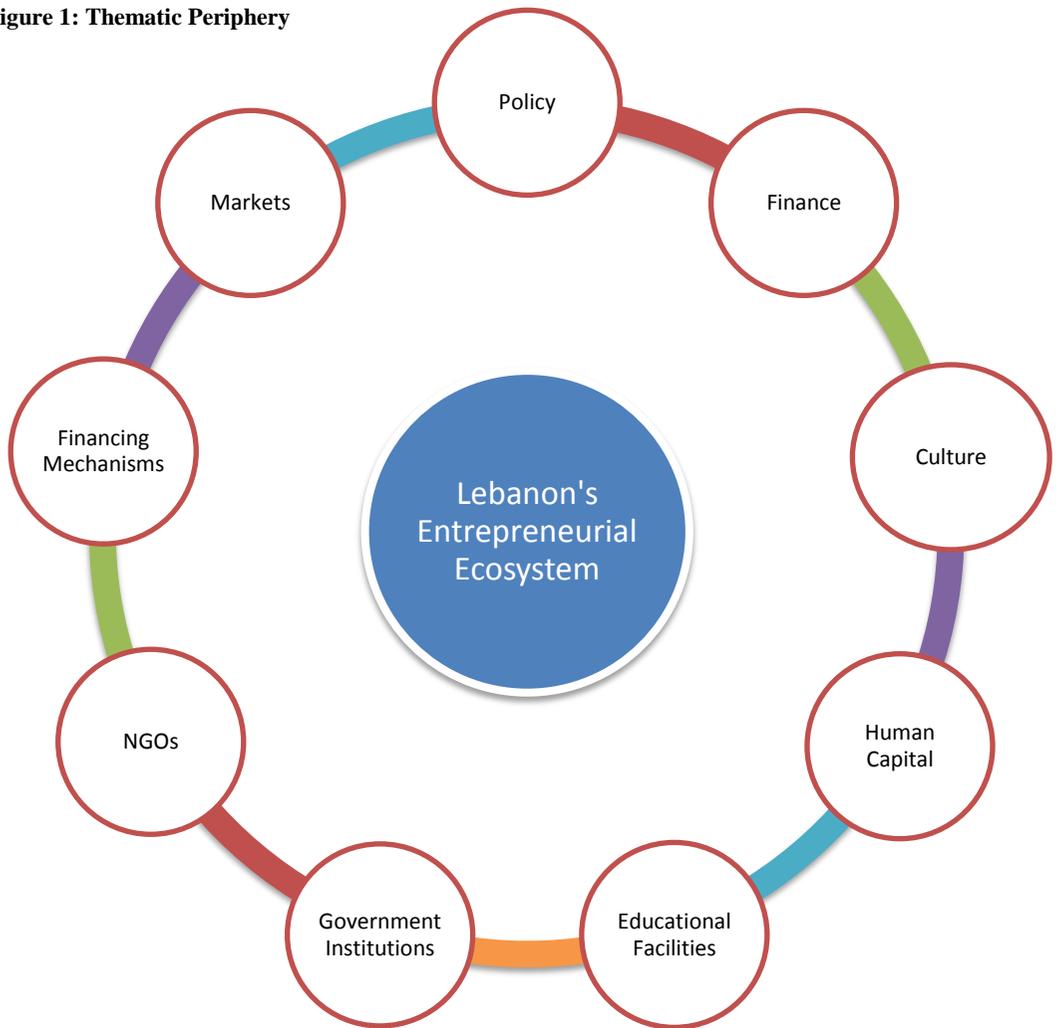
		startups and funds, and will be an exist for those who have a successful company. It will create more liquidity that will serve the startups.
<b><u>DH04:</u></b> Stock exchange and stock trading is weak, compared to others in the region.	<b><u>H04:</u></b> The risk of inflated valuations will increase as more first-time funds come to market with pressure to build portfolios quickly. Any VC firm which doesn't have a portfolio will start acquiring it at a very expensive price, just to show that it has a portfolio. This means that the returns on these first-time funds will be screwed.	<b><u>PH04:</u></b> The establishment of an e-stock market will provide a liquid market for shares, commodities, and currency trading, and will be an exit for startups that want to go public.
<b><u>DH05:</u></b> The capital markets structure is underdeveloped.	<b><u>EH05:</u></b> Lack of incentives for companies, listing their shares.	<b><u>PH05:</u></b> The stock market needs to be privatized so startups companies can exit and go public.
<b><u>DH06:</u></b> Legal and infrastructure dysfunctions: there are so many legal formalities that cannot easily be done, when writing a contract for a startup in Lebanese law.	<b><u>EH06:</u></b> Lack of synchronization between different ministries and public administrations.	<b><u>PH06:</u></b> Facilitate and enhance the implementation of the recent capital markets law, which will contribute to the expansion of the Lebanese financial market enabling Lebanon to be a regional financial hub.
<b><u>DH07:</u></b> VC firms' investments into entrepreneurial companies during various stage of growth does not appear quite as powerful.	<b><u>EH07:</u></b> VC managers' decisions are centralized, and risk averse.	<b><u>PH07:</u></b> Update and modernize the financial laws and regulations that keep Lebanon integrated in the globalization of the financial world.

<p><b><u>DH08:</u></b> There is more competition among VC firms on the valuation of VC deals. Many entrepreneurs are now becoming too focused on what valuation and terms they can get upfront as opposed to worrying about building a healthy business.</p>	<p><b><u>EH08:</u></b> Inadequacy of training in terms of quantity and quality plus the lack of commitment from end users.</p>	<p><b><u>PH08:</u></b> Lebanon's business schools should start focusing more on knowledge economy while integrating the digital baccalaureate in their programs.</p>
<p><b><u>DH09:</u></b> There is a problem with VC deals valuations. Valuations are becoming inflated.</p>	<p><b><u>EH09:</u></b> Lack of stimulation by VC managers and head of departments to would be entrepreneurs.</p>	<p><b><u>PH09:</u></b> Among other efforts to support the Lebanese entrepreneurial ecosystem, is the creation of academic programs from bachelor to doctorate, dedicated to innovation, creativity creation and growth of business.</p>
<p><b><u>DH10:</u></b> The brain drain of Lebanese talents is definitely a big issue concerning the problems facing the Lebanese entrepreneurial ecosystem.</p>	<p><b><u>EH10:</u></b> Lack of job opportunities, are the main cause.</p>	<p><b><u>PH10:</u></b> Working on creating partnerships between Lebanese and foreign or international innovators and startups. The purpose is to learn from both local and global experts.</p>
<p><b><u>DH11:</u></b> There is a lack of talent within certain higher tiers, and importing individual from outside the country is difficult.</p>	<p><b><u>EH11:</u></b> Low competency level is observed.</p>	<p><b><u>PH11:</u></b> There should more initiatives and more programs designed for non-Lebanese entrepreneurs from all over the world who want to set up their startup in Beirut. These programs should offer end-to-end support on the journey from the early stages of a start-up to a successful business – from financial support and training to first customer acquisition.</p>

		(A good example here is French Tech Ticket program, which was undertaken by the French government).
<b><u>DH12:</u></b> The consultancy and networking services provided by existing accelerators and incubators to some start-ups, are not always satisfactory.	<b><u>EH12:</u></b> Lack of synchronization and clean-up of procedures are affecting the quality and the organization of work.	<b><u>PH12:</u></b> Develop and improve the procedures and the 3Cs between all actors. Organize the workflow between departments.

From the body of hypotheses, we came out with different peripheral themes that are illustrated in the figure below. These peripheral themes were derived from the words of Daniel Isenberg, director of the Babson Entrepreneurship Ecosystem Project. Isenberg details an ecosystem as comprising six overarching domains: culture, finance, human capital, markets, policy, and supports. Subdomains include government institutions, policies, laws, businesses, NGOs, entrepreneurs, financing mechanisms, and educational facilities. Understanding the different interactions shows how entrepreneurs benefit from the whole ecosystem.

**Figure 1: Thematic Periphery**



## **RESEARCH FIELD**

The scope of study is limited to Lebanese venture capital firms that are approved by Banque du Liban under Circular 331. This study excludes private equity firms (PE), private individual or business angels who may intermittently invest funds in entrepreneurial ventures, as well as in-house venture capital departments or divisions within corporations. There is no information publicly available for these entities and conducting primary research in this area is beyond the scope of this study.

At present, the local Capital Venture industry includes six institutions:

1. Berytech,
2. Wamda,
3. Middle East Ventures Partners (MEVP),

4. Leap Ventures,
5. SANED Partners,
6. EuroMena Fund Some.

Some of these institutions are operating locally and even regionally.

Additionally, there are several regional investment funds that supported Lebanese ICT firms including:

1. Arbah Nanotechnology Fund (Saudi Arabia),
2. Gulf Venture Capital Fund I (UAE),
3. ICT Ventures Limited (Saudi Arabia),
4. EMEA Technology Investment Fund (Egypt),
5. Timar Technology Fund (Turkey)

(Reference: BankMed Report, Analysis of Lebanon's ICT Sector – 2016).

The local six funds range in size between \$50 million and \$70 million, and are targeting startups in their middle/growth stages. They are growing Lebanese startup companies working in innovation-based and knowledge-driven industries. These industries mainly include information and communications technology (ICT), electronics, manufacturing solutions, green technologies and extends to the use of technology and knowledge in other core industries such as health, education, energy, transport and financial services.

#### The problems and strategic constraints faced by venture capitalists

The deal making process is still difficult and chaotic, and for this reason, some of the VC funds still trying to find the optimal format to support startups.

So far, the Lebanese equity funding schemes has not yet technically had a large exist or IPO. And up to now, the local VC sector has not been subject to dramatic swings of boom-and-bust behavior. This is because the Lebanese VC model is still in its testing phase, and the Venture Capitalists are making changes year on year to better suit the needs of the local entrepreneurs. They prefer short term investments – for a period not exceeding five years – before pulling back with a profit.

Another feature of the current status of the ecosystem is that Lebanon's tech sector is still far from having a drastic macroeconomic impact on the country, unlike the US.

## **RESEARCH METHOD**

This paragraph will detail an intervention research strategy, that will be conducted with the managers of six VC funds based and operate in Lebanon. The purpose of the intervention is to explore the possibility of getting venture capitalists and wannabe entrepreneurs to work together to improve capital investments in early stage start-ups, (within the context of Lebanon.)

Improvement of capital investment in early stage start-ups, in this sense, refers to the effectiveness and efficiency of the Pre-Investment Appraisal Criteria, the Valuation Procedures, the Structuring and the Process of Monitoring VC Deals.

My intervention research will be guided by SEAM policies and procedures, and by the implementation of the six key SEAM tools.

### The Intervention Structure and Architecture

I will work with six VC firms based in Beirut. The first action involves introducing the socio-economic management method throughout the six VC firms. These six VC firms are listed below:

1. Berytech,
2. Wamda,
3. Middle East Ventures Partners (MEVP),
4. Leap Ventures,
5. SANED Partners,
6. EuroMena Fund.

The socio-economic management will be introduced using a scaled-down implementation method adapted to suit the practices of venture capital firms. (Multi-SB Horivert). But as to avoid suspicion of external intervention, I will not discuss the collaborative training beforehand with the targeted venture capitalists.

### Chronology of my SEAM Intervention

1. Negotiation of the intervention with the managers of the six VC funds listed above.
2. Presentation of the intervention to the six relevant managers (without discussing collaborative training).
3. Diagnostic. (Multi-SB Horivert).
4. Allaying of the diagnostic and reporting.
5. Assistance provided to the six venture capitalists.
6. Focus group.
7. Assessment report to the six venture capitalists.

Since the dynamism of venture capital industry is moving very fast, my intervention process that will start in October 2017, will last not more than 8 months.

The setting-up process will begin by applying the Multi-SB Horivert process, simultaneously conducting horizontal actions throughout the six VC funds, involving six managers:

1. Mr. Maroun Chammas: Berytech fund chair.
2. Mr. Jad al-Boustani: Middle East Venture Partners.
3. Mr. Fadi Ghandour: Wamda.
4. Mr. Henri Asseily: Leap Ventures.
5. Mr. Talal Idriss: SANED Partners.
6. EuroMena Fund.

The intervention will be conducted in October 2017. It will be carried out in three phases:

1. A Horivert process.
2. An extension phase, consisting of management training for the managers of the six VC funds mentioned above.
3. An in-depth evaluation of results.

The schedule for these three phases is shown in the next paragraph, and this process will take 8 month schedule.

The Horivert diagnostic will be carried out with the six managers, in an effort to list the dysfunctions as expressed by these six managers. The horizontal diagnostic will be continued through focused vertical diagnostic with 12 entrepreneurs.

The Horizontal action will include collaborative training sessions combined with personal assistance to coach each managers of the six VC funds in the use of socio-economic management tools and in their application to their investing decision making and practices.

At the same time, I will conduct at least 12 vertical actions that will involve 12 entrepreneurs. (2 entrepreneurs from each VC fund). The main objective of the vertical action is to involve the young entrepreneurs and the would-be business tycoons. The first phase of the vertical diagnostic will include an in-depth semi structured interviews focusing on dysfunctions, and it will be carried out with 12 young entrepreneurs (as just mentioned before).

After that, hidden costs will be evaluated, drawing on complementary interviews with the managers of the six VC funds that are providing capital and other supports to the 12 young entrepreneurs. The complementary interviews will be conducted to determine the precise frequency and modes of the regulation of dysfunctions that will be identify during the semi structured interviews with the 12 young entrepreneurs.

The vertical diagnostic mirror-effect will be first presented to the managers of the six VC funds, then to the 12 young entrepreneurs who will be interviewed, in the presence of the VC managers.

A comparative evaluation will be carried out 10 months after launching the intervention, and this final evaluation will allow us to:

- 1) Identify significant accomplishment,
- 2) Estimate the subsequent gains in value-added, and
- 3) Recognize the efforts that will be still required.

In order to construct this evaluation, interviews will be carried out again with the six VC managers and with the 12 young entrepreneurs. A comparative evaluation of hidden costs will also be carried out, based on the list of dysfunctions that will be identified during the initial diagnostic.

The gain in value-added actually will be identified and will be compared to the cost of the action, which will be establishing the actual, economic balance as well as calculating the profitability of change actions. This evaluation will have important impact, because it will allow venture capitalists become aware of the

improvement accomplished, and it will encourage the Central Bank to continue its efforts in developing the entrepreneurial ecosystem in Lebanon.

## **RESEARCH QUESTIONS**

Based in part on the above premises, in this Dissertation I pose the following research questions:

1. How do venture capitalists make deals in Lebanon? And what are the investment criteria used in appraising investments? What are the criteria for investing in startups?
2. What are the valuation techniques used by funds managers in arriving at an entry price?
3. How do venture capitalists protect their ownership rights in Lebanon?
4. How can VC funds help entrepreneurs succeed better than banks?
5. What is the expected impact on the Lebanese economy?
6. Given the context of Lebanon, is Circular 331 an effective way to improve access to finance for Lebanon's entrepreneurial ecosystem and therefore to help foster a knowledge-based economy (KBE)?
7. Does Circular 331 actually increase access to finance and help foster a KBE?
8. Did Start-Ups Really Lack Finance?

## **RESEARCH OBJECTIVES**

My research will apply the interfirm Horivert model with a group of six VC firms. (Multi-SB Hrivert model).

The first phase of this research will be the Multi-SB Horivert process.

This will entail bringing together six VC managers.

### Multi-SB Horivert Objectives:

1. To involve all manager of VC funds in the process of improving the quality of investing decision making.
2. To transfer socio-economic management principles, methods and tools to all managers of VC funds in order to improve professionalism and the quality of service delivered to entrepreneurs.
3. To assist venture capitalists to improve the relationship they have with entrepreneurs by highlighting directions for improvement and potential internal and external resources.
4. To support venture capitalists with work-time management.

### Architecture of the Multi-SB Horivert Method

The multi-SB Horivert approach will comprise three dimensions:

1. Bringing about change through intracompany action plans,
2. Collaborative training in socio-economic management tools through intercompany action plans,
3. The development of an overall synchronization policy.

### Intracompany Action Plans

The intracompany action plans will be similar with all the six venture capitalists. They will consist of carrying out a mini diagnostic focusing on the problems facing venture capital practices.

Each manager of the selected six VC funds will be interviewed separately about the problems. A collective evaluation meeting will be held to evaluate the hidden costs of these problems.

### Intercompany Action Plans

Each manager will be involved in an intercompany action plan built around one group of six managers. The purpose will be to organize a training and consultation sessions focusing on the six basic tools of socio-economic management.

In investigating the Lebanese VC market, my research will seek to ascertain:

1. The present status of Venture Capital industry in Lebanon.
2. How venture capitalists operate, from raising the funds for investment purposes through to the final exit from the deal.
3. The investment criteria used in appraising investments.
4. The investment practices of venture capitalists (VC funds managers);
5. The sources of information and valuation methods used by funds in arriving at an entry price;
6. The most favored financial instruments used in making investments;
7. Develop a conceptual framework for the assessment of VC practices.
8. The problems and obstacles associated with Venture Capital Financing in Lebanon;
9. To explore views and measures required for the growth of Venture Capital Financing in Lebanon.

## **BIBLIOGRAPHY AND POSITIONING**

Traditional entrepreneurship literature often looks at the entrepreneur as the key to a startup's success while it rarely acknowledges the importance of context in contributing to this success.

Context in our case translates into the *institutional environment*, which is also commonly referred to as the *ecosystem*. The contribution of a growing and a developing *ecosystem* to entrepreneurship success has been rarely addressed, in a theoretically rigorous and empirically meaningful manner, in the Middle East and North Africa (MENA) region.

My research addresses this gap in the literature. It focuses on the Lebanese startup *institutional environment* development and evolution vis-à-vis the role of Banque du Liban's Circular-331.

It will be based on a field case study including interviews with key players, study of documents and data from various sources to identify and trace the ecosystem transformation.

The development and evolution of the ecosystem is dependent on its three components: *network of participants*, *governance structure* and *shared*

*logic*. The *network of participants* involves the key players within the institutional environment like the entrepreneurs, accelerators, banks, incubators, venture capital firms, universities. The *governance structure* implies the definition and shaping of the rules of the game. It transformed from an ad hoc governance structure to the BDL being the focal actor credited with setting the rules and practices in the entrepreneurship ecosystem. The *shared logic* is the mutual awareness that formalizes the rules of the game. It changed from a low mutually aware institutional environment to a highly mutually aware environment where key players implicitly evolve into their roles by virtue of a common shared logic that is becoming more present and noticeable.

When there is more synergy among these three elements, the *ecosystem* can thrive as a fertile environment for entrepreneurship.

This research will identify the key role of BDL C-331 as well as the critical enabling role of accelerators and incubators. More to the point from the research perspective, it will show the fundamental and enabling role of *institutional entrepreneurship* in developing the *institutional environment* and how it is as important as the entrepreneur and the business opportunity.

**TIMELINE OF THE INTERVENTION**

The method to be used to allocated action plans under the multi-SB Horivert method will be designed to optimize the effectiveness and efficiency of these initiatives with each manager of the selected six VC funds.

For each manager of the six VC funds, the involvement should be spread over a period of 8 months to allow for the integration of management and design tools and the implementation and evaluation of the selected improvement initiatives.

The six managers will be arranged in one group, and four intracompany collaborative training sessions on socio-economic management tools will be held every 2 months, alternating with five intracompany diagnostic sessions, followed by focus group and tool implementation sessions.

**Multi-SB Horivert Schedule**

Action Plans	Month							
	1	2	3	4	5	6	7	8
<b><i>Intercompany Intervention</i></b>								
• Collaborative training (4 sessions totaling 2½ days) (½ day)	1 (1 day)		2		3 (½ day)		4 (½ day)	
<b><i>Intracompany Intervention</i></b>								
• Minidiagnostic (2 sessions totaling 1 day)	1 (½ day)	2 (½ day)						
<b><i>Personal assistance (Focus group) and focus group</i></b>								
3 (3 sessions totaling 1½ days) day)				1 (½ day)		2 (½ day)		(½ day)

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