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Analysis of the non-financial value creation mechanisms of venture capitalists for start-up companies

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ABSTRACT

In their interactions with start-up companies, venture investors are responsible for more than just provid ing financial resources; they also create value for these companies. Using the case study method, the current study investigated six venture investments made between 2014 & 2021 and through 23 semi-structured interviews with individuals involved in venture capital and start-up companies. Furthermore, it has used axial coding and qualitative content analysis of interviews to look into the mechanisms that lead to the development of non-financial values. The findings of this study demonstrate that the creation of non-financial values by venture capitalists has two general orientations, external and internal. As a result, the ability and focus of the venture capitalist as well as the need acknowledged by start-up companies for the creation of non-financial value impact the overall strategy and efficacy of value-creation mechanisms. According to the findings, not all venture capitalists are capable of generating non-financial value in every field. As a result, these capitalists must consider the balanced, simultaneous development of non-financial value creation capabilities in their long-term approaches and select start-up companies that are consistent with their overall strategy. To avoid potential conflicts in interactions with this type of capitalist, start-up companies should take special care when selecting a venture capitalist and determining their expectations from their investment.

Keywords: internal orientation, external orientation, non-financial value creation mechanisms, venture capital, start-up companies

1. Introduction

Most entrepreneurs and founders of start-up businesses are bright, young graduates who lack the necessary management experience, financial resources, market, and customer base. As a result, many attempts to launch a new business fail because of a lack of these three essential components. The high business risks, on the other hand, prevent many startup companies from obtaining loans and other financial support from banks and other financial institutions. Due to their inability to access the established market and their pressing need for outside help, particularly financial help, to achieve growth, these businesses typically turn to venture capitalists (Bagheri, 2012; Derakhshan and Mohammadi; 2014; Akan). In addition to providing financial resources, they provide other support such as managerial experiences, expertise and knowledge, and access to the market for the success of their business (Jarillo, 1989). To fill the capital gap and lack of liquidity of these companies, venture capitalists pay close attention to the majority of start-up companies in the early stages of their economic growth and development (Ohsanizadeh et al., 2015; Karimi Sadr and Fanadi Naini, 2015). They are placed in the group of shareholders to create value for them through active management and planning in developing the goals and strategies of these companies.

Venture capitalists play an active and important role in resolving the issue of financing and supporting these companies. Particularly in high-risk activities and in circumstances where access to other financial sources is challenging, this type of investment is crucial to the stabilization and growth of start-up companies and the commercialization of their innovations (Sapienza et al., 1996; McMillian et al., 1989; De Klerk and Manigaert, 2007; Cumming and Xuan, 2010). Before obtaining long-term financial resources, this kind of investment is viewed as an essential starting point for entrepreneurs and startup founders (Okpala, 2012).

Venture capital's role extends beyond simply allocating financial resources to new companies. Gampers and Lerner (1999) challenged the false notion that venture capital entails providing startup companies with some marginally added value besides financial resources. (Soureshjani and Mohammadi, 2017, Dehghani-Eshratabad et al., 2019) They believe that this false perception of venture capital will not only prevent capitalists from selecting attractive investment opportunities but will also cause value destruction for start-up companies. They view venture capital as a cycle that begins with the allocation of financial resources to start-up companies and then continues with the monitoring and addition of non-financial values to these businesses. This cycle repeats itself until the venture capitalist can successfully exit the business, return the capital to the capitalists, and plan for future investments (Helman and Puri, 2000, Sapienza 1992, Hellman, 2000).

In Iran, according to the report of the Venture Investment Association[1], According to the Venture Investment Association's report, approximately 750 billion Tomans in venture investment was made in Iran in 2019 in the form of 290 investment contracts by the association's members. Furthermore, 1,700 billion Tomans in financing services have been registered through 4,700 financing contracts. In addition, 2 thousand 300 billion Tomans in guarantees were issued in the form of 3 thousand 700 transaction guarantee contracts. As can be seen, venture capitalists' main performance has been to focus on financial support for start-up companies.

The category of non-financial value creation by venture capitalists has thus received little attention in the literature on venture capital. Additionally, no comprehensive view of all the non-financial value-creation techniques used by these kinds of capitalists exists. After providing funding for start-up companies in the country, the proper definition of the nature and supporting function of venture capitalists have not been given. This study compares venture capitalists' approaches to using non-financial value-creation mechanisms for start-up companies and investigates the differences between them. In this regard, two venture capitalists and 3 start-up companies in each have been investigated. In addition, the mechanisms of creating non-financial values have been identified and analyzed in each of them. After reviewing the background, the method of conducting the research, as well as the data collection and analysis, and the findings, were discussed. Finally, conclusions and suggestions were presented.

[1] According to the report of the Venture Investment Association of the country in October 2021

An overview of theoretical foundations and research background

Venture capital

Venture capital is a type of high-return investment in innovative and risky companies (Lam, 1991). Venture capitalists invest directly in startup companies using capital resources provided by pension funds, banks, companies and organizations, the government, or wealthy individuals (Lundström, 2007). According to many researchers, the financial support of venture capitalists is not the only achievement and function of this type of investment (McMillan et al., 1989, Cummings and McIntosh, 2003, De Klerk and Manigaert, 2007, Metrick, 2007, Large and Moeg, 2008).

Many empirical studies regarding venture capital demonstrate that start-up companies that have benefited from this type of funding have experienced greater growth and development compared to those that have not (Dagogo & Ollor, 2009; Bessler & Seim; 2012; Barry & Mihov; 2013; DiGuo & Jiang; 2013; Rosenbusch et al., 2013). In turn, venture capitalists have exited these start-up companies with a high return on capital. As a result, these start-up companies with the support of venture capitalists have been able to have more successful initial public offerings (IPOs), more market development, and higher profitability. Additionally, compared to other start-up companies, start-up companies with a history of venture capital in the post-IPO period engage in more innovations and extensive research and development activities (Feng et al., 2018). On the other hand, one of the most significant benefits of venture capital for startup companies is the development of their network of communication with governmental organizations, businesses, and large companies and the acquisition of financial and moral support from these connections (Miona, 2018; Yang et al., 2019). As a result, these connections have more weight in the development of business relationships for new companies. Therefore, they will experience greater growth and greater profitability (Lee, 2017; Zhang et al., 2019). Since venture capitalists invest in startup companies, they also develop a set of values for them, according to the review and analysis of empirical studies done in the field of venture capital literature (Gorman and Shalman, 1989; Sapienza, 1992; Sapienza et al., 1996; Denis, 2004; Kaplan and Stromberg, 2004).

As a result, the following definition of venture capital will be used as the basis for the current research based on the concepts and definitions mentioned above.

"A type of investment known as venture capital involves the distribution of financial resources in the form of shares to young companies with substantial potential for expansion in order to achieve growth and financial success. This type of capital is accompanied by assistance that serves as the foundation for the success of start-up companies. As a result, venture capital goes beyond simply providing funding."

Non-financial value creation mechanisms of venture capitalists

The primary goal of venture capitalists in providing capital for start-up companies is to achieve a significant return on investment when exiting this type of investment (Comming and Mackintosh, 2003; Metrick, 2007). Venture capitalists know that generating a high return on investment requires more than just providing financial resources. Successful interaction with startup companies through non-financial value-creation mechanisms is necessary during the investment period. Post-investment activities or pre-exit activities are the terms used to describe this involvement and communication with start-up companies' operations, which forms the foundation of value creation (Zacharakis & Sheperd, 2007). Therefore, in addition to providing startup companies with financial resources, venture capitalists also lay the groundwork for success by continuously monitoring and adding value to these companies (Hellmann & Puri 2000; Sapienza 1992).

Based on the literature in this field and the contents, the most significant non-financial value-creation mechanisms of venture capitalists are discussed in the section that follows. Thereby, the objective is to pinpoint and examine these kinds of mechanisms in more detail. Plus, the approach of ongoing control and observation of the results and indicators chosen at the outset of the relationship between venture capitalists and startup companies is mentioned.

1.1.1. Legitimacy: Legitimacy is a term used to describe a set of qualities that are acquired for startup companies through interactions with venture capitalists and are referred to in the literature under terms like credibility, reputation, approval, and recognition. Venture capitalists will give startup companies more credibility and make it easier for them to interact with government bodies and get the licenses they need to launch and expand their operations (Maula and Mori, 2000). Venture capitalists are frequently shareholders in start-up businesses.

1.1.2. Effective networking: Effective networking is a set of activities that venture capitalists use to add value to start-up companies by introducing, promoting, and negotiating on their behalf while forging personal bonds with important external stakeholders like potential customers, marketing partners, and other financial partners and capitalists. As a result, they lend these stakeholders' commitment and support to start-up companies. Additionally, it attracts new partners and potential capitalists who can contribute resources, making it easier for start-up companies to get the specialized services they require. By doing this, they help start-up companies build their social capital and lay the groundwork for attracting new capitalists, qualified workers, and clients. (Hsu, 2006, Colombo et al., 2016, Lindsey, 2002, Stuart et al., 1999).

1.1.3. Recruiting and Training: By identifying, recommending, hiring, and negotiating with key employees and holding courses, venture capitalists add value for start-up companies. According to Christopher 2000, Gompers and Lerner 1998, Maula and Murray 2000, Hill and Birkinshaw 2015, this mechanism becomes especially crucial in attracting and developing senior managers and key, talented employees.

1.1.4. Control and governance: By establishing mutual agreements, performance goals, controls, and incentives, venture capitalists manage their relationships with start-up companies, especially with their senior and key managers. By forcing management teams of start-up companies to concentrate on key performance indicators and holding managers accountable for their commitments, venture capitalists add value for startup companies. Additionally, these kinds of capitalists give them the chance to succeed through ongoing, regular oversight, consulting in key start-up company operational areas, and networking (Colombo et al., 2016).

1.1.5. Strengthening the Board of Directors: Through the introduction and recruitment of prominent and experienced individuals to the boards of directors of startup companies, venture capitalists assist in the development of these companies' long-term and strategic directions as well as the relationships that are necessary for their long-term success. This enables CEOs and executive directors of startup companies to decide more accurately and transparently what general and decisive directions their senior managers and middle managers should take when making strategic decisions (McMillian et al., 1989; Metrick, 2007).

1.1.6. Counseling, Mentoring, and Coaching: Rather than engaging in more formal strategy-making operations, venture capitalists motivate, coach, and mentor startup companies to succeed. Venture capitalists can develop close, informal relationships with senior and middle managers at these companies as they have more experience and a higher level of management and leadership expertise than young CEOs of start-up companies. Furthermore, assist them when they face challenging circumstances and require support and direction. According to Bottazzi et al. (2008) and Bernstein et al. (2017), venture capitalists also help start-up companies strengthen their managerial capabilities and ethical standards. Along with coaching, this kind of value creation frequently occurs in response to start-up companies' demands for guidance and help (Stuart et al., 1991; Lindsey, 2002; Colombo et al., 2006; Hsu, 2006).

1.1.7. Expert and operational counseling: Venture capitalists can add value to start-up companies by actively planning, overseeing, monitoring, and directly taking part in operational challenges like marketing, production, technology, finance, and other crucial executive issues before attracting qualified and experienced senior managers (Hellmann & Puri 2000; Sapienza 1992). In particular, for innovative and startup companies operating in high-tech industries, this support and value creation play a more significant and essential role (Zacharakis & Sheperd, 2007).

Based on the internal and external orientation of the non-financial value creation mechanisms, it is possible to present all the concepts used in the literature and background according to Table 1. This division demonstrates how successful venture capitalists can be in generating value for startup companies with an external focus through their interactions with external stakeholders. The general public, government bodies, subsequent capitalists, clients, and suppliers are examples of external stakeholders. They can also be effective with internal orientation for key employees, executives, and co-founders of startup companies, among other internal stakeholders. According to a summary of the background research materials, there are two mechanisms of legitimacy and effective networking in the section related to value creation mechanisms with external orientation and five mechanisms in the section related to value creation mechanisms with internal orientation. As shown in Table 1, these mechanisms include strengthening the board of directors, governance and control, consulting, coaching, and guidance, human resource recruitment and training, and specialized and operational consulting.

Table 1- Summary of the background and general framework of the research

Orientation type	Non-financial value creation mechanism	Axial coding	References
External	Legitimacy	L	Maula, et al, 2005, Wiencke, 2017
	Effective networking	N	Stuart, et al., 1999, Hsu, 2006, Lindsey, 2008, Colombo, et al.,2016
Internal	Strengthening the Board of Directors	B	MacMillan, et al., 1988, Metrick, 2007
	Control and governance	G	Lockett, 2008, Colombo, et al.,2016
	Counseling, Mentoring, and Coaching	C	Stuart, et al., 1999, Bottazzi, et al., 2002, Lindsey, 2008, Colombo, et al.,2016, Berstein, et al., 2017
	Recruiting and Training human resources	H	Macmillan et al, 1988 Ehrlich et al, 1994, Maula, et al, 2005, Proksch et al., 2016
	Expert and operational counseling	O	Hellmann & Puri, 2000, Bottazzi, et al., 2002, Sheperd, 2007, Zacharakis & Lee, 2017, Zhang, et al., 2019

Research Methodology

The current research is a qualitative study and due to the lack of control of behavioral events, focusing on contemporary events (recent decade) and concerning how the most suitable strategy for the current research, it is a case study, and it is also a descriptive case study in terms of its purpose. This study investigates the mechanisms by which venture capitalists create non-financial value for start-up companies and the variables influencing these mechanisms (Yen, 2011; Creswell, 2014). On the other hand, according to Creswell (2014), a case study is a qualitative method in which the researcher looks at one or more limited systems over a predetermined period. In addition to providing case descriptions and case-based themes, this is accomplished by compiling comprehensive and in-depth data from various information sources. Additionally, the case study approach is generally beneficial when the researcher has a small number of specific cases and wants to gain a deep understanding of them or compare them to other cases. With these interpretations and taking into account the focus of the case study (providing an in-depth description and analysis of one or several cases) and its central goal (providing a deep understanding of one or several cases), the case study strategy has the best fit with the goals of the current research (Cresol, 2014).

Over eight years, from 2014 to 2021, this mechanism has been studied by two venture capitalists and six affiliated start-up companies. The main factor in selecting these two venture capitalists and start-up affiliated companies is the serious and effective focus on non-financial values creation mechanisms, activity history, number of investments, volume and variety of investments, and the researcher's access to information by the parties (both venture capitalists and start-up companies). The venture investments made by venture capitalists are the study's analytical unit.

Five interviews were first conducted with consultants and executives in the venture capital field to determine the investments. Two of these individuals had executive venture capital experience, and three of them were faculty members at Allameh Tabatabai University and Shahid Beheshti University. Based on the outcome of the interview, in addition to determining the interview framework, relevant people were selected in the field of case studies and coordination was made with the desired people to conduct the interview. Following this phase, 18 semi-structured interviews lasting 70 to 90 minutes were conducted to determine the venture capitalists' value creation mechanisms in the chosen samples, as shown in Table 3. The primary venture capitalist representatives, including their vice presidents and senior consultants, as well as the founders and CEOs of startup companies, took part in this study. Table 2 lists general information about start-up companies, including the field of activity, the year the company was founded, and the number of employees. In addition, Table 3 and Appendix 1 both provide summaries of the information about the interviews. During the interviews, people were asked to provide as much relevant documentation as possible regarding the interaction between the venture capitalist and the start-up company, and their opinions regarding each non-financial value-creation mechanism were obtained separately. Following documentation and receiving their approval, all interviews conducted per Table 1 were sent to the interviewees for review and correction.

Coding and categorization are the most widely used techniques in qualitative data analysis to interpret and analyze the results. On the other hand, due to the lack of data generalization and the use of an inferential approach in coding, the researcher has used qualitative content analysis and core coding of the implemented content from interviews and related documents to analyze the findings.

Construct validity, external validity, and reliability tests were carried out to determine the case study's quality. Data were gathered from a variety of sources to guarantee construct validity. The findings of each interview were also shared with the other interviewees, and the documents were further examined. To reduce the potential bias of the interviewees, the actors chosen for the interviews included founders, CEOs, consultants, and executives. The logic of repetition has been applied to qualitative studies and the examination of various venture capital areas concerning the external validity and generalizability of the findings (Yen, 2014). To guarantee external validity, several investments were chosen, and their comparisons were made. In this research, the pluralism strategy has been used in the research method or tool (triangulation).

Every analysis has been completed based on the interviews to guarantee the reliability of the interviews (data collection), in addition to following the same protocol for each interview and putting full trust in the interviewees' statements in the quotation.

Table 2: Information related to interviews regarding data collection

Venture capitalist	Start-up company	Field of activity	Start-up date	Human resources No.
Venture capitalist X	E	Online store for installment sales of goods and services	2018	١٧
	F	Online travel agency and one stop travel platform	2015	١٥
	B	Online market of small, domestic and local producers	2016	١٨
Venture capitalist Y	S	Movie and TV content reference site	2013	١٢
	J	Home services online market	2017	١٦
	M	Homemade food ordering website	2017	٢٢

Table 3: Interview related information regarding data collection

Venture capitalist	Start-up company	Interview No.	Interviewee code	The interviewee's position	Interviewee code	The interviewee's position	Interviewee code	The interviewee's position
Venture capitalist X	E	٣	E1	CEO and founder	X1	Vice President of Investment	X2	Financial Deputy
	F	٣	F1	CEO and founder	X1	Vice President of Investment	X3	Consultant
	A	٣	A1	CEO and founder	X1	Vice President of Investment	X4	Consultant
Venture capitalist Y	S	٣	S1	CEO and founder	Y1	Vice President of Investment	Y2	Consultant
	J	٣	J1	CEO and founder	Y1	Vice President of Investment	Y3	Consultant
	M	٣	M1	Co-founder	Y1	Vice President of Investment	Y4	Consultant

Research findings

An overview of each case study's analysis of non-financial value-creation mechanisms will be provided in this section. This analysis was compiled from interviews with influential start-up company leaders and venture capitalists. Venture capitalists will be briefly introduced before each section describes the case studies. It should be noted that for the sake of conciseness, the interviewees did not repeatedly mention the mechanism in the quotations provided about the mechanisms.

Venture capitalist X

Since February 2014, venture capitalist X has been active in new technologies and the growth of the knowledge-based economy. Its objectives include the creation of jobs for young people as well as the expansion of the ecosystem and infrastructures for the development of knowledge and knowledge-based activities in the country based on Iranian Islamic models. This group has formed over 300 knowledge-based teams and contributed to over 60 co-investments besides investing 700 billion tomans in knowledge-based companies.

First case study (code E)

Start-up Company E has started its activity as an online store selling installments of goods and services with a wide variety since 2017, with the collective efforts of graduates of the country's top universities and intending to facilitate fair installment purchases for the general public. Venture capitalist X, due to having high legal status and facilitating communication with governing bodies (L1) and also helping to obtain the necessary permits (L2), led to the legitimacy of this company. Also, this capitalist contributed to the effective networking of this company by holding a news conference, informing through its official website and social networks (N1), introducing other capitalists (N2), and holding formal and informal events and gatherings (N3).

Immediately after the investment, venture capitalist X provided effective support to the company through the following activities: providing tax and legal advice (C1), introducing prominent and experienced people to join the company's board of directors (B1), transferring management experiences and teachings through the board of directors to the company's executive team (B2), benefiting the company from the valuable and extensive relationships of the board members (B3), providing important and strategic feedback regarding the company's performance through the board of directors (G3), and providing advice in the field of digital marketing and online advertising (O1). A part of the quotes mentioned in the interviews of the vice president of investment and advisor of venture capitalist X as well as the CEO and founder of Company E, along with the code of the interviewee and the non-financial value creation mechanisms mentioned in the interview, are presented in the form of Table 4.

Table 4: Non-financial value creation mechanisms of venture capitalist X in start-up company E

Interviewee quote	Interviewee code	Non-financial value creation mechanisms extracted from interviews
Before the presence of venture capitalist X as a shareholder, we were having serious problems in connection with sovereign financial institutions. Even face-to-face meetings were hardly possible for us. But with the entry of venture capitalist X, relations with governing institutions and the process of obtaining permits were greatly facilitated.	E1	L1, L2
Through the representative of venture capitalist X in the board of directors of company E and providing the necessary feedback regarding the desired performance goals of the company in the meetings of the board of directors, the performance of company E is evaluated and reviewed, and the necessary feedback is given to the senior managers and CEO of the company through the representatives of the company.	X1	G3
After investing in Company E, we followed some important issues in this company. At first, we provided tax and legal advice to this company. Also, with the cooperation of E company, we have included prominent and experienced people in the company's board of directors, and the transfer of very helpful management experiences and lessons was done through the board of directors to the company's executive team. Based on the field of activity and needs of company E, expert advice was provided to this company through the network of venture capitalist advisors X in the field of digital marketing and online advertising.	X3	B1, B2, B3, C1, O1

The second case study (code F)

Start-up Company F is an online travel agency and a one-stop platform for traveling to Iran. This company tries to facilitate the three stages of research, planning, and buying a trip for foreign tourists who intend to travel to Iran. Venture capitalist X helped in obtaining the necessary legal permits to operate in the field of tourism (L2) and also through holding formal and informal events and gatherings (N3) to network with this company. On the other hand, venture capitalist X effectively supported company F by introducing capable and experienced people to join the company's board of directors (B1) and laying the groundwork for the company to benefit from the extensive relationships of the board members (B3).

Venture capital capitalist X provided effective control and governance to the company in the following ways: providing feedback from his representative on the board of directors (G3), providing legal advice (C1), especially at the beginning of the path, and continuous, regular and specific monitoring (G1), and contributing to strategic orientations (G2). A part of the quotes mentioned in the interviews of the vice president of investment and vice president of finance of venture capitalist X, as well as the CEO and founder of Company F, along with the code of the interviewee and the non-financial value creation mechanisms mentioned in the interview, are presented in the form of Table 5.

Table 5: Non-financial value creation mechanisms of venture capitalist X in start-up company F

Interviewee quote	Interviewee code	Non-financial value creation mechanisms extracted from interviews
Venture capitalist X entrusted the selection of board members to the company's executive team, and we used this opportunity in the best way and introduced influential and strong people to the capitalist. As a result, we managed to attract these effective people as members of the board of directors and benefit from their wide network.	F1	B1, B3
At the beginning of the journey to start and develop its activity in the field of tourism, Company F was facing problems and challenges in obtaining legal licenses, and we helped this company seriously in X venture investment. On the other hand, holding formal and informal events and gatherings, which are part of our fixed and regular programs, was effective in creating a network for this company.	X1	L2, N3
Venture capitalist X used to monitor the performance of Company F and implement the obligations that the CEO of this company had set during the investment, through his representative on the company's board of directors and at times during performance evaluation meetings. Also, necessary advices and feedbacks were provided to the company's executive team in order to achieve their goals. This became important due to the acceptance of the CEO of Company F to receive very useful and effective performance feedback.	X3	C1, G1, G2, G3

The third case study (code A)

Start-up company A is an online platform in the field of home, local, and small manufacturing businesses and has been operating since 2015. It allows its users to have their business booth and offer their products to customers through the company's website or application. Venture capitalist X supported the company in forming and developing relationships with governing bodies (L1) and obtaining necessary legal permits (L2). It also helped this company effectively by providing legal and corporate advice (C1) and regular and specific controls (G1) and setting macro and strategic goals (G2).

Part of the quotes mentioned in the interviews of the vice president of investment of venture capitalist X and also the CEO and founder of company A, along with the code of the interviewee and the non-financial value creation mechanisms mentioned in the interview, are presented in the form of Table 6.

Table 6: Non-financial value creation mechanisms of venture capitalist X in start-up company A

Interviewee quote	Interviewee code	Non-financial value creation mechanisms extracted from interviews
We played an effective role in X Venture Capital in forming and developing relationships with governing bodies for Company A, as well as obtaining the necessary legal permits for this company.	X1	L1, L2
Among the good effects of the presence of venture capitalist X was formalizing the performance evaluation process and giving seriousness to this issue in the company's executive affairs. The representative of venture capitalist X in the company's board of directors helped a lot in the planned monitoring of our company's performance and provided the necessary training and guidance in more detailed planning and better evaluation of the company's performance. This cooperation was in such a way that these feedbacks about the performance helped a lot in the design and implementation of improvement measures in order to achieve the goals of company A.	A1	C1, G1, G2, G3

Venture capitalist Y

Venture capitalist Y began operating as a venture capitalist in the information technology sector in 2011 and has since made investments in more than 40 startup companies operating in this sector. Throughout its operations, this company has offered startup companies additional non-financial services besides investments and funding injections.

Fourth case study (S)

To create the most comprehensive reference for film and television content, start-up company S was founded in 2012. During its activity, this company has put the three principles of authority and completeness, exclusive content, copyright, and legal download as the basic principles of its work. The website of Company S is the first movie site to use artificial intelligence to recommend new movies to users based on their preferences. The website also provides users with access to reviews, movie introductions, movie and series downloads, movie introductions, and news from the film industry.

Venture capitalist Y became the basis for introducing company S to other capitalists (N2) and played an effective role in the company's success through the following: formal and informal gatherings (N3) to form and develop relationships. On the other hand, by providing general consultations in the field of corporate and legal affairs (C1), management and leadership consultations to company managers (C2), regular performance evaluations and providing necessary feedback (G1) and transfer of management experiences and lessons through the board of directors to the company's executive team. (B2). Among the other important actions of venture capitalist Y for the company S was to help recruit (H1) and train key human resources (H2) and advise and accompany in signing contracts with customers (O1).

Table 7 summarizes some of the quotes from the vice president of investments and advisor of venture capitalist Y, as well as the CEO and founder of company S, along with the interviewee's code and the non-financial value creation mechanisms mentioned in the interview.

Table 7: Non-financial value creation mechanisms of venture capitalist Y in start-up company S

Interviewee quote	Interviewee code	Non-financial value creation mechanisms extracted from interviews
We were instrumental in introducing S company to other capitalists and we also helped to form and develop relationships with this company through formal and informal gatherings. Also, at the beginning of the journey, this company needed to attract and train its key personnel, which we created value for this company through the Y venture investment training center.	Y1	N2, N3, H1, H2
Due to the youngness of the company's executive team and the emergence of some internal challenges and conflicts, venture capitalist Y helped the company's managers	S1	C1, C2, O1

Interviewee quote	Interviewee code	Non-financial value creation mechanisms extracted from interviews
a lot through general consultations in the field of corporate and legal affairs, as well as management and leadership consultations. The presence of the members of the board of directors on behalf of the venture capitalist Y and also providing advice at the beginning of communication with customers and signing contracts, we received very useful help from the capitalist and a significant part of the company's risks were reduced both in the internal areas and contracts with customers.		
We played an effective role in the success of S company through regular performance evaluations and providing necessary feedback, as well as transferring management experiences and lessons through the board of directors to the executive team.	Y2	B2, G1

The fifth case study (J)

Start-up Company J started its work in 2016 intending to form an online market for services and emphasize technical knowledge and optimizing the selection process of various service specialists. The main goal of this company is to create a communication bridge between customers and service professionals, as well as to make it possible to compare prices and benefit from the experiences of other customers.

Venture capitalist Y reduced the risks associated with these areas for company J through the following activities: holding formal and informal meetings (N3) and helping to network with this company, providing legal and corporate advice (C1), and providing management and entrepreneurship advice to company executives (C2). On the other hand, the venture capitalist was effective in promoting transparency and trust between these two groups through regular performance evaluations and providing necessary feedback (G1), and helping to determine key and macro goals (G2). It also helped the company in recruiting (H1) and necessary training for key human resources (H2) and providing advice in operational areas, especially in the product management department (O1).

Table 8 presents a portion of the quotes from the CEO and founder of company J as well as the vice president of investment of venture capitalist Y, along with the interviewee's code and the non-financial value creation mechanisms mentioned in the interview.

Table 8: Non-financial value creation mechanisms of venture capitalist Y in start-up company J

Interviewee quote	Interviewee code	Non-financial value creation mechanisms extracted from interviews
We played an important role in reducing the company's risks, especially at the beginning, by providing legal and corporate advice, as well as management and entrepreneurship advice to the executive directors of J Company. On the other hand, in the field of attracting and training key human resources of J Company and providing technical and operational consultations in the areas of product management and digital marketing, we effectively helped advance the company's goals."	Y1	C1, C2, H1, H2, O1
Capitalist Y helped us a lot by holding formal and informal gatherings at the beginning of our activity in introducing and starting relationships and became the basis for introducing us to effective collections. On the other hand, by holding regular performance evaluation meetings and providing path-breaking feedback in the form of specific monthly, quarterly, six-monthly and annual plans, it was effective in determining the exact direction of the company's movement.	J1	N3, G1, G2

Sixth case study (M)

A homemade food ordering website called Start-up Company (M) began operating in 2013 with the help of housewives. The employment of housewives and providing customers with the best food possible are M Company's top priorities. On the M company website, you can order homemade food in addition to finger food, party food, and corporate food.

Venture capitalist Y contributed significantly to this company through the following activities: providing the necessary guidelines for communication with other capitalists (N2) for company M, transfer of management experiences and teachings by the board of directors to the company's executive team (B2), providing general advice in legal and corporate areas (C1), helping with recruitment (H1), holding training courses for key personnel (H2), providing advice in operational areas such as supply, logistics and marketing (O1).

Table 9 presents a portion of the quotes from the CEO and founder of company M as well as the vice president of investment of venture capitalist Y, along with the interviewee's code and the non-financial value creation mechanisms mentioned in the interview.

The results of the analysis of the interviews based on the above are presented in Table 10 as follows. start-up companies

Table 9: Non-financial value creation mechanisms of venture capitalist Y in start-up company M

Interviewee quote	Interviewee code	Non-financial value creation mechanisms extracted from interviews
We provided the necessary guidance for M company to connect with other capitalists. We also minimized the risk of wrong decisions in this company through the transfer of management experiences and teachings by the board of directors to the executive team of the company.	Y1	N2, B2
At the beginning of the journey, it was very difficult for us to pay consulting fees in corporate areas and also to hold training courses for the company's employees, and Y capitalist supported us in both areas. Also, capitalist Y helped us a lot through its network of consultants in operational areas including supply, logistics and marketing.	M1	C1, H2, O1

Table 10: Non-financial value creation mechanisms of venture capitalists X and Y for start-up companies (research findings)

Main categories	Subcategories	Subcategory code	Start-up Company
Legitimacy	Communication with governing bodies	L1	E,A
	Facilitating and accelerating the obtaining of legal permits	L2	E,F,A
Effective networking	Holding an introduction meeting, public announcement of investment, holding a news conference	N1	E,F,A
	Forming and developing relationships with other capitalists	N2	E,F,S,,M
	Holding formal and informal internal meetings, intra-organizational communication	N3	E,F,A,S,J,M
Strengthening the board of directors	Appointment of professional and experienced members in the board of directors	B1	E,F,A,S
	Develop relationships through the board of directors	B2	E,F,A,S
	Transferring experiences to managers, two-way communication through the board of directors	B3	E,F,A,S
Control and governance	Performance evaluation meetings, continuous and regular monitoring of performance, providing feedback on performance	G1	S,J,M
	Strategic orientations, determining macro goals, determining key performance indicators	G2	S,J,M
	Providing necessary feedback through the board of directors, two-way communication through the board of directors	G3	E,A,F
Counseling, Mentoring, and Coaching	Legal consultations, tax consultations, administrative and corporate consultations	C1	E,F,A,S,J,M
	Entrepreneurial consulting, management and leadership consulting	C2	E,F,S,J,M
Recruitment and training of human resources	Recruitment of key personnel, communication with specialized recruitment networks	H1	S,J,M
	Holding specialized training courses	H2	S,J,M
Expert and operational consultations	Product management consulting, supply and logistics consulting, digital marketing consulting, contract consulting with customers	O1	E,S,J,M

Discussion about the findings

In this section, the behavior of both venture capitalists X and Y in interaction with start-up companies will be investigated, as well as the similarities and differences of value creation mechanisms in these two venture capitalists:

Venture capitalist value creation mechanisms X

According to the information gathered, particularly from the interviews with senior Venture Capital X managers and CEOs of startup companies, Venture Capital X has achieved significant success in legitimization, particularly for E and A companies (facilitating communication with governing bodies and getting the required permits to start and develop activities). Both companies have been able to receive efficient help from their capitalists in this industry besides receiving their financial resources. The venture capitalist X, on the other hand, consistently and successfully implements informal monthly ceremonies and gatherings as one of his main strategies. These measures help to network start-up companies and improve relationships and identify and exploit market opportunities for these companies. Also, it has created considerable value, especially for all three companies E, F, and A.

The crucial step in strengthening the board of directors for both E and F companies was the introduction of the board members to venture capitalist X by the startup company's executive team. With the cooperation and involvement of venture capitalist X, all the desired individuals of the two companies were recruited to the board of directors, and they have been extremely successful in enhancing the performance and fostering relationships of these companies. However, due to the strong board of directors' composition before the arrival of venture capitalist X, Company A did not need to announce in this regard and did not require help either. The presence of venture capitalist representatives on the boards of directors of F and A company, as well as their active and effective participation in determining the directions of large companies, evaluating key business indicators' performance, and providing constructive feedback, has been very important and useful.

Another important mechanism for increasing the value of venture capitalist X for all three companies E, F, and B has been to provide these companies with general corporate, legal, and tax advice, which has been effective in reducing risks and related challenges for all three companies, particularly at the start of the journey. In interacting with self-creating start-up companies, venture capitalist X should consider value creation with a focus on external mechanisms (based on the division of this article). On the other hand, all three companies' requirements have tended to external non-financial value creation in interaction with venture capitalists.

Value creation mechanisms of venture capitalist Y

According to data gathered from interviews with people associated with Venture Capitalist Y, this Venture Capitalist has been a major supporter of networking for its own start-up companies. This venture capitalist has provided the foundation for the growth of the relationships of all three companies S, J, and M, particularly in introducing and confirming for other capitalists and attracting capital during subsequent periods, as well as the formation and development of communication through formal and informal events and gatherings. Furthermore, the people introduced by venture capitalist Y in the two companies S and M helped in the development of these two companies' necessary relationships. Other non-financial value creation mechanisms include active participation in strategic planning and holding regular and useful performance evaluation meetings to provide constructive feedback to the company's executive team and determine a better path to achieve the two companies' goals. One of venture capitalist Y's distinguishing features is having a specialized set of training that has been useful for all three companies S, J, and M, and all three companies have benefited from this capitalist's training services for the development of their key people. Another effective mechanism of venture capitalist Y, due to having a network of capable and professional advisors, is providing effective specialized and operational advice, especially in product management and digital marketing for all three companies S, J, and M. The three companies S, J, and M have all stated that the general advice provided by venture capitalist Y, like that of venture capitalist X, has been extremely helpful to them.

The crucial aspect of venture capitalist Y in his interactions with his start-up companies is value creation by concentrating on internal mechanisms (based on the article's division), and it is evident that this capitalist did not effectively assist his start-up companies in legitimacy.

Similarities between two venture capitalists X and Y

A comparison of two venture capitalists, X and Y, and their non-financial value creation mechanisms for their start-up companies reveals that both capitalists share many of these mechanisms. This resemblance can be seen in the way that the two venture capitalists, because of their strong communication network, established the foundation for start-up companies to connect with other capitalists and attract capital in future periods. Both venture capitalists contributed significantly by managing informal gatherings and ceremonies and developing start-up companies' relationships and communication networks with influential people and similar and related groups. This has resulted in shared thinking about similar challenges, as well as the exchange of experiences, particularly in the areas of management and how to run a business for start-up companies affiliated with these two venture capitalists.

Both venture capitalists have been very effective in solving business and operational challenges for companies in the following order: strengthening the board of directors and introducing experts in business fields, establishing a company through a wide communication network, especially at the beginning of the start-up, and transferring experiences and teachings. Management as a representative of venture capitalists.

Both venture capitalists immediately after investing in start-up companies have greatly helped these companies by providing advice and introducing experienced consultants in legal, tax, administrative, and other general corporate issues; as a result, they have minimized errors and risks associated with these areas for companies. Both venture capitalists added value to these companies by actively participating in strategic planning in determining business outlines and macro goals of start-up companies, through their representatives on the board of directors, or through their network of advisors, resulting in the promotion of transparency and trust between companies and venture capitalists.

Differences between two venture capitalists X and Y

Based on interviews with start-up companies, venture capitalist X has been more effective in creating non-financial values with an external orientation and has announced investments in start-up companies through methods such as holding a news conference and an introduction meeting. As a result, this has been very effective in strengthening start-up companies' relationships with previous customers while also forming relationships with new customers and other stakeholders. On the other hand, it has performed better in sectors related to the promotion of legal authority, the facilitation of communication with start-up company governing bodies, and the acceleration of their obtaining legal permits.

Venture capitalist Y has had greater success in creating non-financial value with an internal focus. Because it has a specific and timed structure in evaluating the performance of its start-up companies, this performance has been in such a way that it has received the necessary reports from the companies regularly and at specific intervals of time (monthly, quarterly, six months, and yearly) and in written format. This has greatly aided in creating transparency and the provision of necessary advice in the resolution of important issues and problems facing companies. Furthermore, venture capitalist Y has been successful in providing expert advice to start-up companies in the fields of entrepreneurship and management, as well as specialized and operational fields such as product management, digital marketing, and even supply and logistics. On the other hand, venture capitalist Y, due to having an educational college and connection with recruitment networks, helped in attracting key forces and providing necessary training to start-up companies.

Table 11 summarizes the similarities and differences in the mechanisms of creating non-financial values for start-up companies affiliated with two venture capitalists, X and Y:

Table 11: The number of non-financial value creation mechanisms used in venture capitalists X and Y

Main categories	Subcategories	X	Y
Legitimacy	Communication with governing bodies	۲	-
	Facilitating and accelerating the obtaining of legal permits	۳	-
Effective networking	Holding an introduction meeting, public announcement of investment, holding a news conference	۳	-
	Forming and developing relationships with other capitalists	۲	۲
	Holding formal and informal internal meetings, intra-organizational communication	۳	۳
Strengthening the board of directors	Appointment of professional and experienced members in the board of directors	۳	۱
	Develop relationships through the board of directors	۳	۱
	Transferring experiences to managers, two-way communication through the board of directors	۳	۱
Control and governance	Performance evaluation meetings, continuous and regular monitoring of performance, providing feedback on performance	-	۳
	Strategic orientations, determining macro goals, determining key performance indicators	-	۳
	Providing necessary feedback through the board of directors, two-way communication through the board of directors	۳	-
Counseling, Mentoring, and Coaching	Legal consultations, tax consultations, administrative and corporate consultations	۳	۳
	Entrepreneurial consulting, management and leadership consulting	۲	۳
Recruitment and training of human resources	Recruitment of key personnel, communication with specialized recruitment networks	-	۳
	Holding specialized training courses	-	۳
Expert and operational consultations	Product management consulting, supply and logistics consulting, digital marketing consulting, contract consulting with customers	۱	۳

Conclusion

Using the case study method, this study investigated the mechanisms of creating non-financial values by two venture capitalists in six venture investments made between 1393 and 1400. The findings show that both venture capitalists have been effective in creating value for their start-up companies through non-financial value-creation mechanisms. It has also been effective in areas such as effective networking, strengthening the board of directors, control, and governance, providing general business advice (corporate, legal, and tax), and providing specialized and operational advice (digital marketing, product management, and logistics), and they have been able to reduce the risks associated with these areas in start-up companies.

Venture capitalist X has had greater success in non-financial value-creation mechanisms with an external focus. As a result, it has been very effective in providing legitimacy to start-up companies, developing their relationships with governing bodies, and speeding up and facilitating the process of obtaining legal authorizations for these companies. On the other hand, with the goal of effective networking, it has served as the foundation for the development of relationships between start-up companies and other capitalists for future investment. The ability of venture capitalist X to create value, particularly with an external orientation (based on the research conceptual model), has attracted start-up companies with this type of need to create non-financial value.

Therefore, the issue of non-financial value creation with this approach has been very useful and effective for these companies.

On the other hand, venture capitalist X pursues its goals through the representatives on the boards of directors of start-up companies, and has left the company's operational and executive affairs to the start-up companies and CEOs of these companies; as a result, it does not take part in internal affairs. This style of control and governance prevents conflicts between the venture capitalist and the start-up company, and the independence granted to the start-up company in operational areas greatly increases the motivation of these companies' CEOs and executive directors.

Entrepreneur capitalist Internally focused non-financial value creation mechanisms at Y have performed better, resulting in value creation for independent start-up companies in areas like control and governance, recruiting and training key human resources, and offering guidance in specialized fields like product management and digital marketing. The start-up businesses of this investor have benefited from effective value creation. Venture capitalist Y has been very successful in luring key personnel for its affiliated start-up companies thanks to the advantage of a specialized and professional training center. Additionally, Y has created value by offering specialized training to key individuals and senior managers of companies.

By holding regular and structured monthly meetings and reviewing the performance of these companies through the goals and key performance indicators agreed upon with the start-up companies, venture capitalist Y acts in the style of control and governance of start-up companies. Through these regular gatherings, startup companies can share problems and obstacles with venture capitalist Y without difficulty and benefit from the latter's expertise in problem-solving while also developing a shared understanding of executive affairs. The control structure of venture capitalist Y is comparable to how performance in holdings is controlled in this control and governance approach. Of course, venture capitalist Y has a very high flexibility in interacting with its start-up companies and does not have a strict approach to controlling and checking the level of achievement of goals and plays a more supportive role.

A successful venture capitalist should be able to contribute to both internal and external non-financial value creation with a balanced approach for affiliated start-up companies, and this should be strengthened based on the requirements of start-up companies in these categories. Therefore, it is suggested that venture capitalist X creates value in these sectors: strengthening and improving its ability to support start-up companies by focusing on internal value creation, especially in the areas of attracting and training key forces of start-up companies improving more effective participation mechanisms in determining strategic goals and continuous and regular monitoring of the performance of these companies. On the other hand, in addition to non-financial value creation with an internal approach, venture capitalist Y should also create the necessary value on other issues, including legitimization and more effective networking for start-up companies, which is one of their urgent needs, especially in starting their activities and improving their ability to interact with government stakeholders and customers and suppliers.

Additionally, startup companies connected to each of these capitalists should consider the venture capitalist's skills and experience when making their decision. To avoid potential conflicts in the relationships and interactions with the venture capitalist, both through the representatives of the board of directors and the performance evaluation meetings, they ought to apply caution when expressing and following up on their expectations.

The non-financial value creation category of venture capitalists has only been briefly and sporadically addressed in prior research, which should be noted when comparing the findings of this study with those of earlier studies. This is true even though the non-financial value creation category of venture capitalists has been addressed with a holistic and detailed view in the current research after reviewing the literature in this field. Then, using two internal and external approaches as a research framework, seven non-financial value-creation mechanisms were identified. According to the literature review, one innovation of the current research is that the value-creation activities of venture capitalists have not previously been conceptualized with a thorough and two-way view with start-up companies affiliated with them. On the other hand, in the studies and research carried out in venture capital in the country, it has been less to deal with roles beyond the provision of financial resources of venture capitalists for start-up companies.

Following are management recommendations for venture capitalists and startup company founders based on the research's findings, as well as a discussion of the current study's limitations and ideas for future research.

Management suggestions

The selection of a venture capitalist is a critical and fateful decision for business owners and founders of start-up companies, with significant short- and long-term effects and consequences for their enterprise. In addition, it should be noted that this type of investment has advantages and disadvantages for the parties even though it partially meets their financial needs. As a result of the close relationship between startup companies and venture capitalists, it can present both advantages and risks. To smooth the path of value creation and keep the business affairs of start-up companies toward their desired interests, venture capitalists actively participate in the affairs of start-up companies and typically hold a seat on the board of directors. Therefore, a startup company that maintains a close relationship with a venture capitalist has access to valuable and necessary resources, but there is also a chance that the parties' interests may conflict occasionally. As a result, in addition to providing financial resources, both venture capitalists and startup companies must pay close attention to other non-financial and strategic needs and goals associated with this type of investment. They can therefore avoid conflicts that follow investments by developing a clear and specific strategy and setting realistic expectations. As was mentioned in the cases of the two investors above, each venture capitalist performs better in a specific area of non-financial value creation mechanisms depending on its nature and capabilities. Therefore, this should be considered by the founders of start-up companies when selecting a venture capitalist, along with how a contract is entered into, how shares are organized, and the amount of investment that has long-term effects on these companies.

A successful venture capitalist should be able to contribute to both internal and external non-financial value creation with a balanced approach for affiliated startup companies, and this should be strengthened based on the requirements of start-up companies in these categories. Therefore, it is advised that venture capitalist X develop and enhance his capacity to aid start-up companies.

Additionally, by concentrating on internal value creation, particularly in the areas of attracting and training the key forces of startup companies and enhancing more efficient partnership mechanisms, as well as by adding value for them by establishing strategic objectives and continuously and routinely assessing these businesses' performance. The venture capitalist Y, on the other hand, should also create the necessary value on other issues, such as legitimacy and more effective networking for start-up companies, which is one of their urgent needs, particularly in starting their activities and improving their ability to interact with government stakeholders, customers, and suppliers. This is besides the non-financial value creation with an internal approach.

Additionally, startup companies affiliated with each of these capitalists should take care when communicating their expectations to the capitalist during interactions, besides considering the capitalist's track record and ability when selecting them as a shareholder. As a result, the representatives of the board of directors and performance evaluation meetings, avoid any potential conflicts in interactions and relationships with venture capitalists.

Limitations and suggestions for future research

The current research has had access issues and limitations due to start-up companies' strategic considerations, which prevent them from fully expressing their problems. In general, the interviewees were hesitant to offer more specific details. The results will also describe the state of non-financial value creation mechanisms within the context of the research and cannot be fully generalized to other venture capitalists because the current study concentrated on two venture capitalists and their affiliated start-up companies.

The functioning and efficacy of non-financial value creation mechanisms are significantly influenced by several background factors, including the capacities of venture capitalists and start-up companies, as well as factors such as the parties' goals for cooperation, the level of maturity and experience of the venture capitalist, and the position of the start-up company in the life curve. As a result, it is advised that researchers consider how these factors affect these mechanisms by either strengthening them or limiting their effectiveness in future studies. On the other hand, the nature of the venture capitalist, such as whether it is public or private, independent or corporate, and whether the investment portfolio is specialized or general, is effective in determining the non-financial value creation mechanisms. As a result, it is recommended that future studies separate the nature of this type of capitalist to examine the mechanisms of producing non-financial values.

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