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The research of the non-financial factors in the investment decision

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I hereby declare that this dissertation is my original work
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Abstract

Driven by globalization and technological innovation, the complexity of investment decisions is continuously increasing. While traditional financial factors still play a crucial role in these decisions, an increasing number of real-life cases indicate that investors are relying more on non-financial factors. This paper systematically analyzes the impact of these non-financial factors in the framework of investment decision-making.

This paper employs a mixed research method, incorporating both qualitative and quantitative analyses to ensure comprehensive coverage of the topic. First, it outlines the theoretical basis and development of non-financial factors in investment decisions through a review of prior literature. Next, it collects and analyzes a large amount of data on investor behavior and investment decision-making processes using interviews, questionnaire surveys, and empirical analyses. The main findings are as follows: 1) Protective clauses in investment contracts can reduce investment risks and enhance investor confidence, while the role of earn-out clauses is mixed; 2) Investors pay close attention to an excellent management team and a high-quality industry track, which improve investment returns and reduce investment risks; and 3) Social relationships and investment synergy effects are crucial for investment decisions, as they help reduce information asymmetry and transaction costs. These findings highlight the central role of non-financial factors in investment decisions and provide investors with a new dimension for decision-making.

This paper supplements theoretical research in the field of investment decision-making by proposing a new theoretical framework for incorporating non-financial factors into investment decisions. By integrating theories on contract, management team, industry track, social relationships, and investment synergy effects, it provides investors with a multi-dimensional analytical tool to assist them in making more informed decisions in a complex environment. By identifying and quantifying non-financial factors, investors can more effectively manage investment risks, optimize investment portfolios, and enhance investment returns. In summary, the findings of this paper on the importance of non-financial factors in investment decisions offer significant theoretical and practical contributions.

Keywords: Investment Decision-making, Non-financial Factors, Investment Contract Clauses, Management Team, Industry Track, Social Relationship, Synergy Effect

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Chapter 1 Introduction

1.1 Research Background

"I still trust intuition. One of the most successful investment returns in history was achieved through intuition by Sun Zhengyi. In early 2000, after just half an hour of conversation with Jack Ma, Sun Zhengyi decided to invest $20 million in Alibaba, a company Jack Ma had recently founded. Over the next two decades, this investment brought SoftBank Group returns of up to $72 billion. Reflecting on this years later, Sun Zhengyi remarked that he relied entirely on intuition and believed in Jack Ma's vision of e-commerce transforming the world." -- Sina Finance (2023)[1]

" NIO's early investors include Tencent Chairman and CEO Tony Ma, JD CEO Liu Qiangdong, Hillhouse Capital founder Zhang Lei, Autohome founder Li Xiang, and Xiaomi founder Lei Jun. Li Bin quickly convinced Liu Qiangdong to invest. According to Zhang Zetian, Liu Qiangdong's wife, during a meal, Li Bin took just 15 minutes to explain NIO's philosophy. Liu Qiangdong needed only 10 seconds to decide and said 'yes'. " -- International Financial News (2018)[2]

"Lei Jun once stated, 'I don't read business plans very much. I know that most venture capitalists don't either, which contradicts what business schools teach. When I ran Joyo.com, I wrote hundreds of pages of business plans in both Chinese and English, beautifully printed and diligently prepared over at least three months. I visited dozens of investors, but no one invested, leaving me nearly hopeless. Today, I want to tell everyone that this effort was truly futile'." -- Net Ease (2020)[3]

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[1] https://baijiahao.baidu.com/s?id=1782582970914875971&wfr=spider&for=pc

[2] https://36kr.com/newsflashes/3279205859329

[3] https://baijiahao.baidu.com/s?id=1665040950300298448&wfr=spider&for=pc

"Lei Jun's investment philosophy focuses on investing only in friends or friends of friends, avoiding unfamiliar individuals. Of the companies he invests in, 80% are owned by his friends. He seldom reviews projects or business plans, leading some to criticize him as arrogant. Lei Jun's response to such criticism is notably defiant: 'It's none of your business.'" -- Baidu (2020)[4]

Traditional investment theory emphasizes mutual acknowledgment of firm valuation as crucial in investment decisions. Firm valuation is typically determined based on financial factors found in balance sheets, income statements, cash flow statements, and financial notes, using methods like the income approach, market approach, and asset-based approach. The income approach estimates future earnings or cash flows and discounts them to determine the firm's present value. The market approach assesses asset value by comparing transaction prices of similar companies. The asset-based approach estimates a firm's net asset value by subtracting the fair value of liabilities from the fair value of total assets.

However, real-life investment decisions often rely more on non-financial factors than financial factors as traditional theories suggest. These factors include investment contract clauses, management teams, industry trends, social relationships, and investment synergy effects. Due to principal-agent problems, investors often mistrust professional investment institutions and use social relationships, such as classmates, friends, or colleagues, to find and make investments. Additionally, in the primary market, public information scarcity makes firm valuation challenging, often leaving valuation to negotiation between major investors and investees based on their bargaining power and practical considerations. Subsequent financing rounds also constrain

[4] https://baijiahao.baidu.com/s?id=1675682398219166029&wfr=spider&for=pc

negotiation space by setting conditions that prevent lower valuations than previous rounds. High-quality investees, although financially stable, may seek equity diversification through listing, imposing higher demands on investors. Small and medium-sized investors, lacking professional investment knowledge, information, and time, typically follow the lead investor’s agreed price.

Thus, investment decisions are frequently based on non-financial factors rather than precise firm valuations.

1.2 Research Objectives

The significance of non-financial factors in investment decisions has increasingly gained attention. These factors encompass well-defined investment contract clauses (such as protective and earn-out clauses), the management team, industry trends, social relationships, and investment synergy effects. They are crucial not only theoretically but also in practical investment decisions.

Firstly, the impact of restrictive clauses in investment contracts on investment decisions is of paramount importance. These clauses include protective clauses, like The First Option, Director Appointment Rights, Non-compete Clauses, Co-sale Rights, Anti-dilution Provisions, Liquidation Preferences, Information Rights, Due-diligence Rights, and other guarantees, as well as earn-out clauses such as Performance Commitments, IPO Commitments, and Repurchase Agreements. Both types of clauses help investors better assess risks and returns, securing their rights and interests in investment agreements.

Secondly, examining the influence of management teams on investment decisions is essential. Companies are run by people, and understanding whether exceptional management teams can attract investors, enhance trust between investment parties, and provide operational stability is critical. These factors are vital for investors when making investment decisions.

Thirdly, studying the impact of industry trends on investment decisions is crucial. Determining whether investments in high-quality industry sectors are likely to yield substantial profits, attract strategic investors, and improve project financing convenience is vital for investors.

Additionally, the influence of social relationships on investment decisions, particularly during the project acquisition phase, is significant. The social networks of investors (classmates, friends, relatives, colleagues) and investees (their classmates, friends, relatives, colleagues, executives, directors, independent directors, and key stakeholders such as suppliers, customers, and government departments) play crucial roles. The trust, cooperation, and resource-sharing capabilities within these social networks often significantly impact investment decisions. Understanding these networks helps investors evaluate the social connections of enterprises, broadening their perspective in investment decisions.

Lastly, investment synergy effects and other non-financial factors also play vital roles in investment decisions. Investors are more inclined to make investment decisions when significant synergy effects are anticipated. Studying the impact of non-financial factors on investment decisions can reveal the extent to which different factors contribute to investment success, such as cultural compatibility, complementary management teams, and market channel integration. Considering non-financial factors comprehensively enhances investment success rates, especially in merger and acquisition (M&A) decisions.

This study aims to explore the role of non-financial factors in investment decisions and systematically identify and analyze the focus and preferences of investment decision-makers on key non-financial factors through interviews, questionnaire surveys, and empirical analysis. Specifically, the study seeks to:

1. Systematically examine the importance of non-financial factors in investment

decisions. Through interviews, questionnaire surveys, and empirical analysis, this study aims to gain an in-depth understanding of the non-financial factors that investors consider during the investment process. These factors include investment contract clauses (protective and earn-out clauses), management teams, industry trends, social relationships, and investment synergy effects. The study evaluates the importance of these factors from both qualitative and quantitative perspectives, revealing their relative weight and influence in the investment decision-making process.

2. Analyze the mechanisms by which non-financial factors affect investment decisions and explore how these factors influence investor decision-making.

In summary, in addition to using financial data analysis methods, investors rely on non-financial factors when making investment decisions. These factors can be pivotal in certain situations and are far from insignificant.

1.3 Research Significance

Understanding the importance of non-financial factors in investment decisions is crucial for investment decision-makers. Practically, this study provides valuable references for small and medium-sized investment institutions, as well as listed companies with surplus funds and strong operating performance. These investors often lack sufficient financial data to make informed investment decisions and seek higher returns than bank deposits. Investors in unprofitable startups, in particular, can benefit from a more comprehensive and accurate assessment of the impact of non-financial factors on investment decisions, thus enhancing their decision quality and effectiveness. Additionally, this study serves as a reference for companies seeking external investment.

Theoretically, this study offers significant contributions to traditional finance theory. Traditional finance research often assumes efficient markets and fully rational investors, viewing investment decisions as rational and information-based processes while overlooking the impact of emotions, preferences, and cognitive biases. For instance, Chen (2008) uses the efficient market hypothesis to study investor behavior in the securities market. However, due to inherent psychological biases and information asymmetry, investors' cognitive abilities and judgment often fall short of the rationality required by classical modern finance theory. This deviation is evident in the actual decision-making process and outcomes, as highlighted by Gompers et al. (2020). This study reveals that investors are significantly influenced by non-financial factors such as protective and earn-out clauses in investment contracts, management teams, industry trends, social relationships, and synergy effects, diverging from the rational behavior emphasized by traditional finance theory, particularly valuation theory.

Furthermore, this study offers a new perspective on contract theory. Previous research on contract theory primarily focuses on the impact of transaction costs on resource allocation, with limited exploration of how contracts influence investment decisions. Yi (1997) posits that every institutional arrangement is a contractual relationship aimed at reducing uncertainty and transaction costs, thereby achieving efficient resource allocation. Contracts play a crucial role in social and economic development by defining the rights and obligations of trading parties. This study finds that non-financial factors in investment contracts, such as protective and earn-out clauses, significantly influence investment decisions, providing empirical support for contract theory and offering guidance for designing more effective contracts between investors and investees.

Additionally, the existing literature rarely examines the impact of management teams and industry trends on investment decisions despite their significant practical influence. This study addresses this gap by exploring how non-financial factors like management teams and industry trends affect investment decisions.

Moreover, this study delves into social relationship theory, which emphasizes the importance of social networks, trust, and cooperation in business activities. Previous research often focuses on inter-firm relationships and their impact on business cooperation, with limited attention to social relationships in the investment field. This study shows that non-financial factors in investment decisions are closely related to social relationships, such as social support and cooperation, thereby extending the application of social relationship theory to the investment field.

Finally, while previous research on synergy effects primarily focuses on mergers and acquisitions (M&As), this study finds that synergy effects are also crucial in routine investment decisions. Routine investments typically involve small ownership percentages, which do not bring investors and investees close. Studying this question expands our understanding of the importance of synergy in all investment decisions, further contributing to the literature.

In summary, this study not only fills the research gap on the impact of non-financial factors on investment decisions but also explores these factors from multiple theoretical perspectives, including behavioral finance, contract theory, management teams, industry trends, social relationships, and synergy effects. It holds significant theoretical and academic value.

1.4 Research Method

This study formulates hypotheses by synthesizing practical insights and theoretical perspectives from an in-depth understanding of real-life economic activities and relevant literature. These hypotheses are then validated through interviews with institutional investors, survey questionnaires targeting professional investors, and empirical evidence from actual investment contracts. The research methods adopted are as follows:

1. Interviews. Conduct interviews with investors to identify the impact of non-financial factors on investment decisions. The results are used to extract viewpoints and perform theoretical analysis to verify the related hypotheses.

2. Questionnaire Surveys. Design and distribute questionnaires to collect data, which is then used to test the proposed hypotheses.

3. Empirical Analysis. Collect a large number of investment contracts for empirical analysis to identify non-financial factors in investment decisions. Conduct regression analysis based on the data extracted from these contracts to test the proposed hypotheses.

By employing these methods, the study aims to examine the impact of non-financial factors on investment decisions. The theoretical framework is illustrated in Figure 1-1.

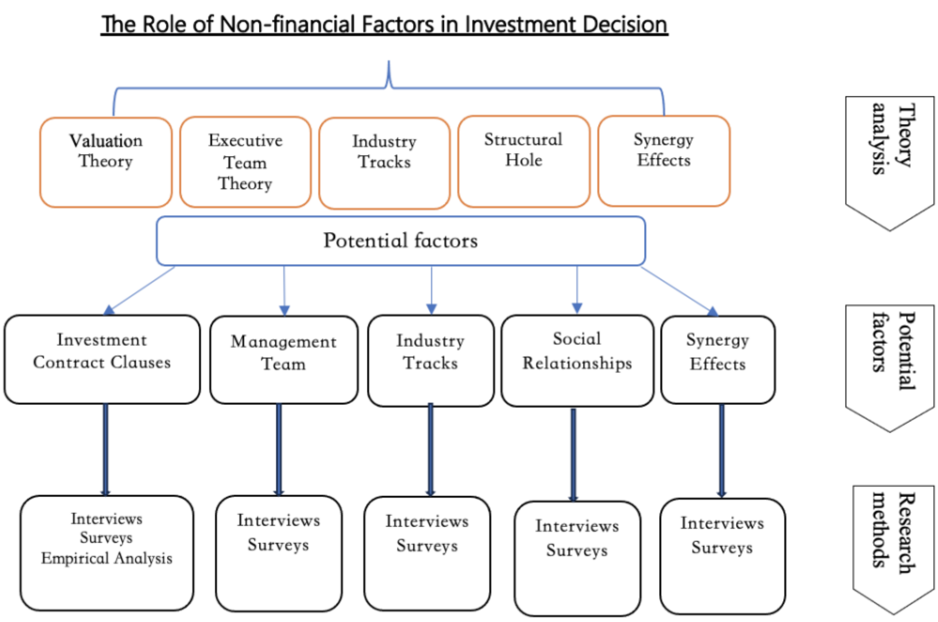


Figure 1-1 Theorectical Framework

Chapter 2 Literature Review

2.1 Firm Valuation Methods in Investment Decision

Reasonable valuation of the target company is the most crucial factor affecting investment decisions. However, both in practice and academic circle, firm valuation has always been a challenging issue. Currently, the most commonly used firm valuation methods include the income approach, the market approach, and the asset-based approach.

The income approach primarily predicts the profits or cash flows generated by a company over a future period and then discounts these profits or cash flows at a certain discount rate to derive the company's value. The choice of the discount rate reflects the time value of assets and investment risks. Yue et al. (2011) study the selection of firm valuation methods in M&As of Chinese listed companies. By summarizing the announcement data of over 250 major restructuring events, they reveal the trends in the selection of valuation methods during the M&As of listed companies from 2008 to 2010, and find that the proportion of various valuation methods increased yearly, especially the widespread application of the income approach. They project that with a more mature environment and improved valuation techniques, the selection of valuation methods could become more diverse and rational.

The income approach focuses on the future profitability of assets. However, in practice, this method also has drawbacks and is challenging to apply. Estimating future cash flows is often difficult, and even the actual controllers of the investee companies may not know what will happen in the future, leading to significant discrepancies between estimated and actual data. Despite its theoretical robustness, the income approach often faces skepticism in practical use due to difficulties in obtaining the necessary information and data for valuation (e.g., Yang 2019; Chen& Gu, 2013).

The market approach analyzes the value of assets by referencing the transaction prices of similar companies or transactions. Piao (2004) finds that compared to the asset-based approach and the income approach, the market approach has many advantages as it not only considers the overall quality of the company but also includes information on market supply and demand, providing a more comprehensive reflection of the company’s value at the valuation point. However, in actual investments, especially in primary market investments, finding similar companies is challenging, and even so, it’s another difficulty to adjust various parameter for similar companies. Liang et al. (2018) believe that the key steps in applying the market approach are quantifying and adjusting indicators, with the primary task being the identification of these factors.

The asset-based approach, from the perspective of the balance sheet, determines the company’s net asset value by estimating the fair value of total assets and deducting the fair value of liabilities. Extant research shows that firm valuation is not merely a simple summation of assets but requires a comprehensive consideration of profitability, development prospects, and other factors. Scholars have attempted to use non-financial information, such as equity structure, industry landscape, and business environment, to construct valuation models to improve valuation accuracy and meet the needs of valuing new economy companies. Li (2016) finds that there are many different methods for firm valuation, each with different focuses, which help companies obtain external investment and comprehensively understand their development status to make adjustments. He analyzes several valuation methods with the advantages and disadvantages, and introduces their practical applications.

Some scholars, based on the valuation challenges encountered in venture capital practice, propose what they considered more reasonable valuation methods. For example, Chen (2010) believes that valuation is a core link in venture capital. He compares five valuation methods: dividend discount model, equity free cash flow discount model, economic value-added discount model, price-earnings ratio method, and price-to-book ratio method, and explores their advantages, disadvantages, and applicability. Based on this, he constructs a two-dimensional valuation method selection model based on industry evolution and industry cycles. He also analyzes the role of core competitiveness factors in different company lifecycle stages and proposes ideas for adjusting valuation levels based on financial valuation to provide a way to solve valuation difficulties in investment practice.

Li (2012), based on theoretical analysis, combines comparison, chart, and case study to introduce equity investment theory and firm valuation theory. He analyzes the applicability and limitations of current firm valuation methods and discusses in detail how to select and apply firm valuation methods at different compamy lifecycle stages. He believes that in the equity investment process, firm valuation is crucial for fund operation, as the accurate evaluation of the investee company's value is related to the success or failure of fund investment. Li (2020) explores the relationship between the development process of China's equity investment market and firm valuation. He uses cases like the Luckin Coffee incident and Uxin's initial stock price drop in Hong Kong to illustrate valuation bubbles and firm value inversions. Combining the real situations, he explains the applicability of the three major valuation methods and analyzes the impact of special considerations on valuation, aiming to benefit the long-term development of China's equity investment market.

Some scholars, starting from new perspectives based on traditional financial valuation methods, propose new valuation ideas. Huang (2020) explores the reasons for the high valuation and high price-to-book ratio of new economy companies to unravel this phenomenon. He first uses the net surplus valuation model to explain the role of accounting information in securities valuation and analyzes its applicability in both new and old economic eras. Then, drawing on the FASB's research report, he analyzes five main reasons for the high price-to-book ratio of new economy companies, including accounting measurement adjustments, accounting factor adjustments, non-accounting factor adjustments, forward-looking factor adjustments, and irrational market noise. Finally, he concludes and explains that the reconciliation of accounting boundaries is not an irreconcilable contradiction. Lepore & Cambrea (2018) study the impact of equity structure on firm valuation. They analyze the relationship between investor protection provided by the judicial system and firm performance and ownership structure. Their results show that there is a correlation between shareholder protection levels from judicial efficiency and firm performance and ownership structure, confirming the importance of institutional background in explaining this relationship. La Porta et al. (2002) propose a model to explain the impact of minority shareholder legal protection and cash flow ownership of controlling shareholder on firm valuation. Their study, using a sample of 539 large companies from 27 wealthy economies, finds that in countries where minority shareholders are better protected and companies with higher cash flow ownership if controlling shareholder, the firm valuations are higher. Cheng et al. (2013) study the impact of non-controlling large shareholders related to controlling shareholder on firm valuation. They analyze how the relationship between non-controlling and controlling large shareholders affects firm valuation. Their study finds that when non-controlling large shareholders are related to controlling shareholders, the firm valuation is lower. In addition, the shareholding ratio and board representation of relationship-based non-controlling large shareholders are associated with lower firm valuation. This impact is more pronounced when the agency conflict between controlling and minority shareholders is more severe. The results emphasize the importance of considering the identity of non-controlling shareholders when studying the impact of multiple large shareholders on corporate governance or company value.

In summary, current investment valuation mainly uses traditional methods such as the income approach, the market approach, and the asset-based approach. However, in practice, investors consider many non-financial factors when deciding whether to invest, especially in the primary market, such as investment contract clauses, management team of the investee companies, industry tracks of the investee company, the investor’s social relationships, and investment synergy effects. Sometimes, these non-financial factors are more important than financial data. Therefore, systematically analyzing non-financial information that influences investor decisions can effectively fill the current literature gap.

2.2 The Impact of Investment Contract Clauses on Investment Decisions

Investment contract clauses typically include protective clauses and earn-out clauses. Protective clauses serve three primary purposes. Firstly, they mitigate and control risks by giving investors veto power over major corporate decisions, access to information, and other controls that prevent management from making decisions detrimental to investors' interests. For example, requiring investor approval for significant asset sales or mergers mitigates risks associated with potentially risky behavior or conflicts of interest by management. Secondly, they ensure long-term security by providing ongoing influence and oversight over the company’s key decisions throughout the investment period. Thirdly, they enhance transparency through information disclosure requirements, allowing investors to receive timely updates on the company’s financial and operational status, thereby reducing information asymmetry and enabling more informed decision-making.

Protective clauses often include the First Option, Director Appointment Rights, Non-compete Clauses, Co-sale Rights, Anti-dilution Provisions, Liquidation Preferences, Information Rights, and Due Diligence, among others. Earn-out clauses generally encompass Performance Commitments, IPO

Commitments, Repurchase agreements, and other exit guarantees. The inclusion of these clauses is crucial in investment decisions. Yao et al. (2011), based on data from interviews in three case studies, developed a scale to assess the motives behind setting venture capital contract clauses, their impact, and the relationship between the clauses and their impact. They found that information asymmetry, uncertainty, and new entry defects drive clause settings, with management participation being the most significant term. Parhankangas et al. (2005), studying 78 Nordic venture capitalists, found that investors with investment and business experience typically include protective clauses in investment contracts and utilize these clauses in conflicts with investees.

Protective clauses safeguard investors' interests. Investment contracts usually include clauses such as shareholding ratios, voting rights, the First Option, and exit guarantees to ensure investors have rights and influence in company decisions and equity changes. Control arrangements, including board appointments and decision-making power allocation, ensure investors play a substantial role in important matters. Investment return guarantees, such as preferential returns and dividend policies, ensure investors receive reasonable returns. Capital adjustment and financing restrictions protect investors' investments from unauthorized activities.

Clauses restricting key personnel departure, including non-compete clauses and departure compensation, prevent adverse impacts on the company and protect investors' trade secrets. Information disclosure and auditing clauses ensure investors receive accurate and timely information and can monitor the company's operations. Transfer and exit mechanisms, including transfer restrictions and preferential exit rights, allow investors to exit their investments appropriately. Default liability and dispute resolution provisions ensure investors can protect their rights and seek remedies effectively. Burchardt et al. (2016) found that including convertible bonds and other financial instruments in investment clauses can address agency problems. Bergemann and Hege (1998) suggested that investment clauses should stipulate phased fund allocations and extended investment periods to manage risks and achieve returns.

Earn-out clauses are essential in investment decisions for three main purposes. Firstly, they align incentives by setting performance targets that, if met, provide additional compensation to sellers or the management team, encouraging higher performance. Secondly, they mitigate risk by ensuring that if the company does not meet agreed-upon targets, investors are compensated through reduced purchase prices or additional equity. Thirdly, they provide short-term focus by linking earn-out clauses to specific events like additional funding rounds or IPOs, offering short-term guarantees and motivation.

Although current literature on earn-out clauses focuses more on their impact in M&A, particularly Performance Commitments, reasonable earn-out clause settings can improve M&A performance and valuation accuracy. Gao and Kong (2020), using a sample of A-share listed companies, found that performance compensation commitments positively impact M&A performance. They also noted that high-growth performance expectations negatively impact M&A performance, while stock compensation and non-cumulative compensation positively impact it. Studies have shown that performance commitments and earn-out clauses play crucial roles in M&As, but their design must ensure fairness and enforceability. Zhai et al. (2019) found that performance commitments mitigate information asymmetry and increase target asset valuations during M&As, although the realization of these commitments does not always align with high asset valuations. Yin and Wu (2019) found that performance compensation commitments improve M&A performance by reducing information asymmetry and revealing company value.

In November 2014, the China Securities Regulatory Commission required listed companies to include earn-out clauses in asset acquisition pricing. Li (2018) analyzed the application of earn-out clauses in M&As, emphasizing the importance of considering macroeconomic factors, industry trends, and the performance growth capabilities of the target company. Reasonable earn-out clause designs ensure fairness and enforceability, improving M&A efficiency and reducing risks. Some scholars have noted that unreasonable performance commitment clauses can negatively impact M&A performance and subsequent company development. Rao et al. (2018) found that two-way performance commitments have more significant incentive effects than one-way ones, and stock compensation is more effective than cash compensation when performance commitments are not met.

Regarding the relative importance of protective clauses versus earn-out clauses, it depends on the investment stage and investors' risk tolerance. For early-stage investments, earn-out clauses might be more important as they drive rapid growth and align management's efforts with achieving key milestones. For later-stage investments, protective clauses might be more crucial as they ensure sustained control and risk mitigation. Conservative investors may prioritize protective clauses for long-term stability, while aggressive investors may prefer earn-out clauses for quick growth and high returns. Both types of clauses work best in tandem, offering a comprehensive safeguard and motivation strategy for investors.

In conclusion, the inclusion of earn-out clauses and performance commitments in M&As has garnered significant attention. While many scholars focus on the impact of these clauses on M&A effectiveness and economic consequences, there is relatively little research on the impact of investment contract clauses on investment decisions. This gap may be due to data availability limitations, difficulties in quantitatively measuring impacts, and the numerous factors involved in investment decisions. Nonetheless, studying the impact of investment agreement clauses on investment decisions is crucial for better understanding and evaluating investment risks and returns, leading to more informed decisions.

2.3 The Impact of Management Team on Investment Decisions

Management teams play a crucial role in the operation of companies, and their capabilities are closely tied to the company's value. Monika and Sharma (2015) find that some venture capitalists (VCs) place significant emphasis on the characteristics of entrepreneurs. Gompers et al. (2020) suggest that VCs often regard the management team as more important than business-related factors such as product or technology, attributing the ultimate success or failure of an investment more to the team than to the business itself.

Zhang and Ma (2016) analyze data from 97 listed companies across different industries on the Shenzhen Stock Exchange from 2009 to 2014. Using multiple regression analysis and ordinary least squares, they examine the relationship between the demographic characteristics of management teams (such as age, education level, compensation, and shareholding) and company value. Their findings reveal a negative but insignificant correlation between the average age of management teams and company value, and a significant negative correlation between the average education level of management teams and company value.

Management capabilities also impact the IPO offering price of companies. Yu et al. (2010) assess top management teams' capabilities based on team resources, experience, and reputation. Their empirical study on the impact of these capabilities on IPO underpricing in China shows that management capabilities serve as a value signal for a company's IPO. Specifically, richer financial and legal experience among team members correlates with lower IPO underpricing, as does a higher proportion of independent directors. However, age and education level do not show a significant negative correlation with IPO underpricing.

The characteristics of management teams influence corporate strategic decisions and operational development, which in turn affect company value. Chen and Pan (2021) use panel data from 421 Sino-foreign joint ventures listed on the Shanghai and Shenzhen A-shares from 2010-2018 to study the impact of management teams' average and heterogeneous characteristics on firm value. They find that factors such as the proportion of female executives, average age, tenure, education level, and heterogeneity within the management team have a significant positive impact on firm value. Conversely, team size and tenure show no significant impact, while age has a significant negative impact. Optimizing the structure of management teams in terms of gender, average age, tenure, and education level can enhance firm value.

With the advent of the knowledge economy, more companies recognize that human capital and knowledge accumulation are primary production factors. Zhou (2014) focuses on top management teams, measuring management quality based on knowledge and experience, structure, economic incentives, and team heterogeneity. He finds that both management quality and economic incentives are positively correlated with firm performance in highly competitive markets. Companies with longer average tenures and greater tenure differences among top executives perform better in competitive markets, while hierarchical organizational structures and CEOs concurrently serving as board chairs are negatively correlated with performance.

In highly competitive markets, long tenure of management teams can lead to rigidity, resulting in negative evaluations due to concerns about future innovation and competitive advantage. In less competitive markets, more concentrated CEO power correlates with better performance. Zhang Wei and Ye (2009) use Company L as a case to examine its initial, transformational development and subsequent team conflict processes, investigating governance issues in high-tech startups. They argue that continuous assessment of team competence based on core business development, along with reasonable adjustments and restructuring of the core entrepreneurial team, is necessary. Adequate information exchange and proper mechanisms for team member introduction and exit are vital in this process.

The Upper Echelons Theory posits that corporate strategic decisions reflect the self-perceptions and values of the top management team, which are often mirrored in their demographic characteristics like age, education level, tenure, and shareholding ratio. These traits, and their interactions with internal members, influence corporate strategic decisions and, consequently, company value.

Outstanding management teams typically possess excellent managerial and technical skills, impressive past experiences and achievements, and broader perspectives, leading to superior team operation skills. They also demonstrate integrity, maturity, and better decision-making abilities. Top management team characteristics significantly correlate with the disclosure of corporate environmental information, which in turn influences corporate strategic decisions and company value. The demographic traits of top management teams, such as age, tenure, and education level, substantially impact the quality of environmental information disclosure and firm value. Block et al. (2019) investigate the investment criteria of 749 private equity investors, finding that revenue growth is the most important investment criterion, though the management team is also highly valued.

Quan (2024) selects a sample of 175 listed companies in heavily polluting industries on the Shenzhen Stock Exchange, collecting data from 2008-2015, to explore the relationship between the demographics of top management teams, corporate environmental information disclosure, and company value. Quan finds that higher levels of knowledge reserves among top management teams contribute to providing higher quality corporate environmental information disclosure, thereby improving corporate performance.

Bernstein et al. (2017) use a randomized field experiment to identify which start-up characteristics are most important to investors in early-stage firms. They find that investors respond strongly to information about the founding team, indicating that information about human assets is causally important for the funding of early-stage firms and entrepreneurial success. In summary, the management team is closely linked to the company's operational performance and value. Investors aim to invest in outstanding management teams to achieve higher investment returns.

2.4 The Impact of Industry Tracks on Investment Decisions

Investors aim to invest in leading companies within their industries to achieve higher returns. Company value is fundamentally tied to financial metrics, which are influenced by people and their values. Peng (2021) explores investment principles by analyzing investor values and developing a comprehensive investment philosophy. He argues that the concept of market leaders encompasses a philosophy and an investment method. Market leaders are not isolated; their value and market trends are increasingly important. Leaders often emerge in the most valuable and promising industries. A vibrant industry serves as fertile ground for the value of market leaders. Attention to detail is crucial, and investment success depends on specific industry segments. Investing in leading companies within these segments is more likely to yield higher returns.

Ya (2019) finds that, regardless of external turbulence, focusing on "sunrise industries" and diligently working within them leads to improved outcomes. After the past year's capital winter, high-quality industry segments usually have good market prospects and tend to harbor companies with competitive advantages and core competencies. Therefore, companies in these industries generally have higher investment value. The industry segment in which a company operates significantly enhances management's investment flexibility and efficiency. Chen et al. (2013) examine the impact of industry competition on company management's investment decisions and discover that industry competition significantly increases the value of company growth and liquidation options. As an essential part of the business operating environment, industry competition influences management's investment decisions, which ultimately reflect in company value.

Although the industry segment in which a company operates significantly impacts investment decisions, current literature on this issue remains limited. In-depth research on industry segments and the mechanisms through which they influence investment value is of substantial importance for investors.

2.5 The Impact of Social Relationships on Investment Decisions

In practice, identifying high-quality investment projects has always been a challenge, and investors' social relationships are a crucial channel for uncovering these valuable opportunities. Social relationships, as significant non-financial factors, play a vital role in investment decision-making. Through their social connections, investors can more easily discover premium investment projects, sometimes at lower costs. Additionally, familiar contacts facilitate communication and trust-building.

Gompers et al. (2016) investigate how personal characteristics affect people's desire to collaborate and whether this attraction enhances or detracts from performance in venture capital. They find that venture capitalists who share the same ethnic, educational, or career background are more likely to syndicate with each other. Pan et al. (2009) find that listed companies tend to engage in external investments and prefer forming joint ventures with other companies, demonstrating a stronger propensity for diversified investments. Furthermore, the roles of social and political relationships in corporate investment decisions are interchangeable. When political connections are unavailable, social relationships have a greater influence on investment decisions, and vice versa. Most investments, especially for small and medium-sized investors, are sought within their own social circles. For these investors, identifying high-quality investment projects is generally more challenging. Social relationships are, therefore, a critical channel for finding valuable investment opportunities.

During the acquisition phase of an investment project, an investor's social connections play an essential role. Since the parties involved are familiar with each other, a certain level of trust exists, making communication easier. This mutual trust and ease of communication also lead to obtaining good projects at a lower cost. Zhou et al. (2014) use social network analysis tools to study the co-investment networks of venture capital firms, covering 447 venture capital firms and 762 startups from 1987 to 2008. They find that only venture capital firms positioned at the center of the network could enhance investment performance. Liu Jian and Liu (2016) examine the impact of related shareholders' M&A experience on M&A performance under uncertainty. They find that in M&A event networks formed by related shareholders, the M&A experience of related shareholders improves M&A performance. The more structural holes in the event company, the stronger the effect. Conversely, the greater the centrality of the event company, the weaker the effect. This role remains significant even under high uncertainty, but the moderating effect of centrality weakens, while the moderating effect of structural holes further strengthens.

Social relationships, as a form of informal institutions, play a critical role in investment decisions. Studies have shown that informal institutions effectively assist companies in making investment decisions. High levels of social trust in a region reduce opportunism and free-rider behaviors, foster cooperation between transaction parties, and enhance value creation in M&As. Wang and Li (2017) examine the impact of social trust within the informal institutions of regions where Chinese listed companies are located on the value creation ability of M&A parties from a transaction cost perspective. They find that higher levels of social trust in the acquiring company's region facilitate trust and reciprocal cooperation between M&A parties, reducing opportunism and free-rider behaviors, promoting honest and cooperative interactions, minimizing uncertainties, and ultimately enhancing the value creation of M&A cooperation. This effect is more significant in private companies and regions with lower legal development.

Regarding M&A performance, there is a substitution relationship between legal systems and social trust. Higher social trust in a region reduces the need for acquiring companies to hire market intermediaries, thereby lowering transaction costs. This demonstrates how informal institutions, by reducing information asymmetry and transaction costs, help acquirers create M&A value, highlighting the feasibility and importance of informal institutions. In addition, differences in clan culture provide competitive advantages to companies, enabling them to tap into local social capital and increase M&A returns.

Chen et al. (2020) use surname concentration to represent the intensity of clan culture and study its impact on M&A returns in regions with different clan cultures. They find that the greater the clan culture differences, the higher the M&A returns. Clan culture does not significantly affect individual thinking or values within the region, but the exclusivity of clans allows companies in strong clan culture regions to control unique social networks and capital. Therefore, acquiring companies in regions with strong clan culture facilitate entry into local social networks, absorption of local social capital, and enhancement of market competitiveness. Based on this phenomenon, corresponding investment strategies can be developed, yielding returns far exceeding market performance. The results indicate that informal institutions and social relationships, as significant non-financial factors, warrant further analysis in corporate investment decisions in China. Informal institutions effectively support businesses in making investment decisions.

Within investors' social networks, directors and independent directors, due to their higher positions, typically have more extensive and higher-level social relationships. These relationships can have a more significant impact on investment decisions. The more central the network position of an independent director, the easier it is for the company to engage in M&As and achieve favorable performance. Directors hold crucial positions within a company. Executive directors not only exercise their authority on the board but also manage the company's operations, bearing responsibility for the company's development and performance.

Although independent directors are external members, they maintain numerous connections with the company. Consequently, the social networks of directors significantly influence the company's investment decisions. Wan and Hu (2014) use social network analysis to empirically study the impact of independent directors' network positions on the M&A activities of listed companies in China. They find that the higher the network centrality of independent directors, the more likely the company is to engage in M&A activities, which indicates that the network connections of independent directors help them provide better consultation and advisory services for M&A decisions. The positive correlation between independent directors' network centrality and M&A activities is especially pronounced in regions with weaker institutional environments. In addition, there is a significant positive correlation between independent directors' network centrality and M&A performance.

In Chinese companies, seeking scarce resources through social relationships has become mainstream. Based on structural holes theory, Wan Liangyong and Zheng (2014) empirically investigate the impact of structural holes characteristics of directors' networks of Chinese listed companies on M&A behaviors. They find that companies with structural hole positions in the directors' network help to obtain M&A information and opportunities faster, and there is a significant positive correlation between companies with more structural holes and M&A activities. Especially in regions where the development of market intermediary organizations is lagging, the role of companies' structural hole positions in promoting M&A behavior is more significant. They conclude that the structural holes' location of independent directors has a stronger role in promoting M&A than that of non-independent directors due to the advantages of weak ties enjoyed by independent directors.

The study of corporate financial behavior, based on the social network perspective, is the latest area in the development of corporate finance research. Chen and Zheng (2017) combine direct and indirect interlocking relationships of directors and use the dyadic model to pair all companies to study the impact of director interlocking relationships on the convergence of investment between companies, and find that if there is a director interlocking relationship between two companies, the level of investment and the change in investment between companies is more convergent, and that convergence effect is strengthened as the strength of director interlocking relationships increases. In addition, the worse the company's information environment, the higher the demand for director chain relationships as an informal information transfer channel, and the more pronounced the effect of director chain relationships on inter-company investment convergence. When two companies are in the same industry, the more obvious the effect of director chain relationship on inter-company investment convergence is, and the effect of non-independent director chain relationship on inter-company investment convergence is stronger than that of independent director chain relationship. They believe that inter-company director chain relationships become an informal access channel and an important information bridge for policy-making information.

The social network of employees evolves synergistically with the process of cultural integration in M&A companies. Zhao et al. (2018) use data on independent directors’ tenure in Chinese listed companies from 2003 to 2015 to construct a director network with listed companies as the network node and concurrent independent directors as the network linkage. They investigate the effects of listed companies’ centrality, structural holes, and aggregation in the director network on the level of overinvestment, and the moderating effect of the quality of external information resources on these effects. They find that the increase in centrality and structural holes has a positive effect on the level of overinvestment in listed companies.

Starting from the perspective of the "relational" social environment and information asymmetry, the social network analysis method is used to construct an expanded director network, and Jiang et al. (2019) investigate the impact of the director network on M&A performance. They conduct an empirical analysis based on a sample of 1932 effective M&As of 1163 listed companies that took place between 2007 and 2017, and find that M&A performance increases with the enhancement of director network centrality. Additionally, the impacts from director relationships show a pattern of diminishing marginal contribution. In the case of poor information environments, the information advantage of firms due to directors’ relationships is more evident for M&A performance. The director relationship helps to reduce the damage of information asymmetry in the M&A process by providing a priori information and mechanisms such as information exchange, thus positively affecting the performance improvement of M&A. Since the Securities and Futures Commission put forward the requirement for the number of independent directors for listed companies in

2001, the phenomenon of concurrent appointment of independent directors has gradually increased, forming a closer network structure among listed companies.

In summary, social relationships significantly influence investment decisions. These relationships, both internal and external to the organization, provide information, resources, and opportunities, which in turn, have positive or negative impacts on investment decisions. Social relationships offer access to information and knowledge resources. By connecting with individuals both inside and outside their organizations, investors can gather valuable insights about the market, industry, technology, and competitors. This information helps them better understand the market environment, identify new opportunities and risks, and make informed choices in their investment decisions. Social relationships facilitate the sharing and learning of knowledge, enabling investors to benefit from the experiences and expertise of others. Furthermore, investors' social relationships provide resources and support. Close ties with key partners, investors, suppliers, and advisors enable access to capital, technology, market channels, and specialized knowledge. These resources enhance a company's competitiveness and provide the necessary support and assurance for investment decisions. Moreover, interpersonal relationships within social networks offer decision-making support and feedback, helping investors to better evaluate and adjust their investment strategies. Overall, investors' social relationships profoundly impact their investment decisions. By providing information, resources, and support, social relationships improve the quality of decisions and the ability to identify opportunities. However, it is important to avoid over-reliance on specific social networks or relationships to ensure objectivity and diversity in decision-making.

2.6 The Impact of Synergy Effects on Investment Decisions

In the investment decision-making process, investors generally place significant importance on synergy effects. Current research on this issue mainly focuses on mergers and acquisitions (M&As). Synergy effects, as critical drivers for acquisitions, mergers, and restructurings, have garnered considerable attention from experts and scholars. The fundamental goal of corporate mergers is to pursue the value generated by synergy effects, which result from the orderly combination of homogeneous and heterogeneous resources of the transaction parties. Synergy effects represent the concretization of the difference between the investment value and market value of the target company. Hu and Liu (2016) find that synergy effects are a focal point for acquirers in M&A activities, and evaluating synergy value from an investment value perspective is more reasonable. Chen (2019) observes that in the context of rapid economic market development, an increasing number of companies are opting for mergers to achieve economies of scale, enhance core competitiveness, and expand economic benefits, all driven by the realization of synergy value.

Typically, investors invest in multiple projects, which helps the investee companies streamline upstream and downstream operations, creating synergy effects across the supply chain, business, and industries. In China, a relationship-oriented society, common investors facilitate connections among investees, enabling them to share new resources, technologies, market directions, and other information, thereby achieving resource sharing. This resource sharing leads to business growth, thereby increasing returns, achieving mutual benefits, and enhancing the value of both the investing and investee companies. Liu (2017), using the example of Shangfeng High-tech’s acquisition of Yuxing Technology, studies the valuation model of synergy effects from an investment value perspective. He suggests that high acquisition premiums and performance compensation commitments often stem from the acquirer’s optimistic expectations of future synergy effects. Synergy value is a crucial component of investment value. Generally speaking, after a strategic investor acquires shares, both parties integrate resources to realize the synergy effects.

Zhang (2023), using Yonghui Supermarket as a case, explores the effects of introducing strategic investors based on synergy effect theory. She analyzes the motives, strategies, and outcomes of bringing in strategic investors, concluding that such introductions can create operational and financial synergies.

As cross-border M&As become a primary method of international direct investment and corporate internationalization, and with China's economy increasingly integrating into the global economy, private enterprises are becoming a major force in China's cross-border M&As. Some private enterprises have made proactive and bold explorations in cross-border M&As. Wang (2008), based on the low success rate of Chinese private companies in cross-border M&As, examines the synergy effects of such activities and concludes that synergy effect theory, compared to existing cross-border M&A theories, better explains the cross-border M&A activities of Chinese private enterprises. Utilizing these theories, she conducts a detailed analysis of the sources and identification of synergies in private enterprises' cross-border M&As, concluding that theoretically, private enterprises can achieve synergy effects through cross-border M&As.

In conclusion, investment synergy effects play a crucial role in corporate M&As. However, extant literature on the synergy effects of investments remains relatively scarce.

Chapter 3 Hypothesis Development

Investment contracts play a crucial role in investment decision-making. Aghion and Bolton (1992) find that through these contracts, the behavior of both parties can be influenced. When the company is performing well, the entrepreneur retains control; when the company's performance is poor, the investors gain control. They argue that this allocation of control rights reduces conflicts of interest between entrepreneurs and investors, thereby protecting investors' interests. Yao (2011) discovers that key clauses in venture capital contracts include management participation, equity repurchase, and valuation adjustments. Additionally, equity incentives, the first option, anti-dilution provisions, and non-compete clauses are commonly used, with management participation being the most important. These clauses impact business operations, corporate strategy, governance, and promote the fulfillment of corporate social responsibility. Properly setting investment clauses can reduce information asymmetry and operational uncertainties.

Protective clauses in investment contracts are vital for attracting investment. Parhankangas et al. (2005) believe that experienced investors usually include protective clauses in contracts, and when conflicts arise with investees, investors will use exit protection clauses to avoid compromise. Therefore, investment contract clauses are essential for investors, especially in venture capital transactions. These clauses constrain and incentivize investee companies. Through the director appointment right, investors can participate in and supervise the management of the investee company. The information right and due diligence clauses help resolve information asymmetry between investors and the investee company. Exit guarantees and IPO commitments protect investors' investment safety to some extent. Other clauses help standardize the investee company's operations, thus reducing investment risk. The setting of investment contract clauses plays a crucial role in investment decisions and is significant in the investment process. Based on this, Hypothesis 1 is proposed:

Hypothesis 1: *Protective clauses in investment contracts help attract investment.*

Earn-out clauses in investment contracts are also important for attracting investment. These clauses involve agreements where investors and the investee company, along with its controlling shareholder, agree on certain rights if the investee company achieves specific future events (Shi, 2015). They can be used for incentive alignment and risk mitigation. In particular, they set specific performance targets or conditions that, if met, provide additional compensation to the sellers or management team. This aligns the management's incentives with the investors' goals, encouraging them to strive for higher performance. This is particularly valuable in the early stages of a company's growth, where rapid expansion and achieving milestones are crucial. In additino, they can act as a risk mitigation tool by ensuring that if the company does not meet the agreed-upon targets, the investors are compensated in other ways, such as through reduced purchase prices or additional equity. This is beneficial in uncertain or volatile market conditions. Accordingly, earn-out clauses have become more common in China, with the deepening of cross-border M&As and the growth of China's equity investment market. Investors include earn-out clauses in contracts to protect their interests. Therefore, Hypothesis 2 is proposed:

Hypothesis 2: *Earn-out clauses in investment contracts help attract investment.*

Investors place great importance on the role of the management team. A company is a process in which people use its means of production to create value, making the team crucial to performance. Intellectual resources, particularly the intellectual capital of top management teams, are essential for corporate development. The richer the management team's intellectual capital, the better the company’s performance, as the efficiency of the management team directly determines the company’s success. Establishing an effective management team is vital for companies. Outstanding management teams typically possess excellent management and technical skills, a track record of strong performance, a broad vision, and superior team-operating capabilities, along with integrity, honesty, and maturity. Liu (2021) asserts that intellectual resources are the most critical production factor in companies, with the intellectual capital of top management teams becoming a decisive force for corporate development. Chen (2023) finds that management team efficiency directly determines company performance, and that establishing an effective management team is crucial. Human resources, as a significant corporate asset, have been extensively studied in the accounting field. Du Xingqiang and Li (2000) argue that human resources should be viewed as an investment by capital owners and recognized as intangible assets. Based on this discussion, the management team of the investee company is a critical non-financial factor in investment decisions. Hence, Hypothesis 3 is proposed as follows:

Hypothesis 3: *Investment projects with outstanding management teams have stronger investment attractiveness.*

Investing in the right industry track is crucial. The industry track largely determines the probability of an investment's future success; it is better to pay a higher price for a good track than to invest in the wrong one. In opportunity-rich sectors, selecting a powerful company with a core competitive business model and a management team with a strong sense of direction and control is essential for investors. Regardless of external turbulence, focusing on promising sectors and diligent work will yield positive outcomes. Good industry tracks generally have strong market prospects, and companies within these tracks typically possess competitive advantages and core competencies, resulting in higher investment value. Wang (2002) finds that a company's value is closely linked to its industry, and industry research is fundamental to discovering and confirming a company's value. Therefore, Hypothesis 4 is proposed as follows:

Hypothesis 4: *Investment projects within high-quality industry tracks have stronger investment attractiveness.*

Social relationships, as an informal mechanism, play a crucial role in investment decision-making for private companies. Chen (2010) notes that social relationships, or "Guanxi," are vital in Chinese society, especially in business activities. These relationships facilitate resource acquisition and information transmission, enabling top management teams to use their networks to reduce information asymmetry and access more resources. In practice, most investments, especially for small and medium-sized investors, occur within their social circles. Finding high-quality investment projects is generally challenging for small and medium-sized investors, making their social relationships an important channel. Social relationships are crucial during the project acquisition stage, providing mutual trust and easier communication, thus enabling the acquisition of good projects at lower costs. "Guanxi" significantly influences various aspects of Chinese life, including investment. Li (2016) believes that Chinese society highly values "Guanxi," which plays an important role in business activities. Hence, Hypothesis 5 is proposed as follows:

Hypothesis 5: *Investment projects with good social relationships have stronger investment attractiveness.*

Investors also consider synergy effects when choosing projects. The intangible assets of the investee company, such as its marketing channels and management team, significantly influence the company's subsequent development. Investors must comprehensively evaluate the potential impact of these intangible assets on investment returns, as they are critical to value creation and competitiveness. Wu (2018), using the example of Hengan's acquisition of Huangcheng, studies the motivations and targets of cross-border M&As by Chinese private companies under the "One Belt and One Road" initiative. He believes that increasing market share is a primary motivation for such M&As. Hu et al. (2016) analyze Geely's acquisition of Volvo, concluding that long-term synergy effects in operations, management, and finance are essential for success. The acquisition improved Geely's international reputation, product quality, market share, R&D capabilities, and management skills. Su and Liu (2013) compare Western and Chinese theories on M&A motivations, noting that Western theories emphasize the effective utilization of intangible resources like management capabilities and brand assets, while Chinese enterprises focus on acquiring external intellectual property, management experience, technology, brands, and sales channels.

In practice, investments with synergy effects are more attractive to investors as they benefit from both the project and the additional synergy effects. Evaluating synergy value from an investment perspective is more reasonable, as synergy effects are a key focus in M&As. In the context of rapid economic market development, many companies choose M&As to achieve economies of scale, enhance core competitiveness, and expand economic benefits. Realizing investment value is based on synergy effects. Investors often invest in multiple projects, which helps connect upstream and downstream operations, generating supply chain, business, or industrial synergies. In China, a relationship-based society, common investors facilitate connections among investees, enabling resource sharing and business growth. This leads to improved returns, mutual benefits, and increased company value. Hence, Hypothesis 6 is proposed as follows:

Hypothesis 6: *Investment projects with good synergy effects have stronger investment attractiveness.*

Chapter 4 Evidence from Interviews

This section presents evidence obtained through interviews, which is a research approach used to collect, analyze, and interpret information such as people's opinions, experiences, attitudes, and behaviors. During interviews, researchers engage in face-to-face or telephone communication with interviewees, guiding them to freely express their views and experiences by asking both open-ended and closed-ended questions, thereby obtaining in-depth information. Interviews represent a two-way communication process, where researchers not only pose questions but also listen to the interviewees' responses, identifying valuable information within their answers. This method allows for a deeper exploration of interviewees' viewpoints, experiences, and attitudes, leading to a more profound understanding of their personal backgrounds, emotional experiences, and behavioral motivations.

Interviews are highly flexible, allowing for the adaptation of questions based on research needs and interviewee responses, thereby better achieving research objectives. This method can be applied to various research subjects, including individuals, organizations, and communities, and across multiple research fields such as psychology, education, organizational management, and market research. Interviews serve not only as a data collection method but also as a data analysis method; through meticulous analysis of interview records, they can provide in-depth explanations of interviewees' views and experiences, as well as offer profound insights and conclusions.

1. Design of Interview Questions

Before conducting interviews, thorough preparation is essential. It is necessary to clearly identify the research objectives and questions to develop an appropriate interview plan and list of questions. This study aims to explore the influence of non-financial factors on investment decisions, focusing on the following questions:

1) How does the setting of investment contract clauses (including protective clauses and earn-out clauses) affect investment decisions and outcomes?

2) How do investors' social relationships affect investment decisions and outcomes?

3) How do investment motivations for investment synergy effects affect investment decisions and outcomes?

4) What other non-financial factors affect investment decisions?

To address the influence of investment contract clauses on investment decisions and outcomes, the interview objectives include:

1) Understanding investors' attitudes toward the necessity of clauses in investment contracts (including protective and earn-out clauses) to confirm if these clauses are significant non-financial factors influencing investment decisions.

2) Identifying which types of clauses in investment contracts are most important to investors, their functions, and meanings.

3) Understanding the driving factors behind investors' pursuit of certain clauses, thereby understanding the mechanism of how investment contract clauses influence investment decisions.

Based on these objectives, 15 interview questions are designed to investigate the impact of the setting of investment contract clauses on investment decisions. Specifically, the questions focus on clauses related to The First Option, Director Appointment Right, exit guarantee clauses such as Repurchase, Non-compete Clause, Performance Commitment, IPO Commitment, Co-sale Right, Anti-dilution Right, Liquidation Preference, Information Right, Due-diligence, and Other Guarantees by controlling shareholders (such as Asset Security, Dividend Restrictions), and their impact compared to financial factors in advancing investment projects smoothly. Additionally, the questions aim to understand whether these clauses have unique advantages compared to financial factors. Furthermore, the interview seeks to explore which reasonable provisions of protective clauses in investment contracts have a significant impact on advancing investment projects smoothly compared to financial factors, and whether they have unique advantages. Building upon these questions, the interview also inquires about which protective clauses investors prioritize in investment contracts and seeks to understand the motivations behind the importance placed on the setting of clauses in investment contracts.

To explore how investors' social relationships influence investment decisions and outcomes, the interview objectives include:

1) Confirming investors' attitudes towards social relationships as important non-financial factors.
2) Understanding the mechanisms by which social relationships influence investment decisions.
3) Understanding the differences in the role of social relationships in different institutional environments.

To address these objectives, 3 interview questions are designed to investigate to what extent do investors rely on social relationships to facilitate the smooth progress of investment projects, compared to financial factors, what advantages do social relationships have in investment decision-making, and at which stage of an investment project social relationships play its role, through what means influence investment decisions, and whether their impact varies in different institutional environments.

To explore the motivations behind investment synergy effects and understand how synergy effects influence decision-making, interview objectives are established. These objectives include:

1) Through interviews with investors, supplement and refine the theoretical framework regarding the impact of non-financial factors on investment decisions, and attempt to identify other potential non-financial factors.
2) Understand the mechanisms by which investment synergy effects influence investment decisions.
3) Explore the heterogeneous manifestations of investment synergy effects in different types of investment projects.

4) Determine investors’ attitudes towards investment synergy effects as an important non-financial factor.

To address these objectives, 4 interview questions are designed to investigate to what extent investors consider the synergy effects between themselves and their investment targets, whether synergy effects are an important non-financial factor influencing investment decisions, how it contributes to the smooth progress of investment projects and in what circumstances or for which type of investment projects, investors place greater emphasis on investment synergy effects.

Finally, apart from contract clauses, social relationships, and investment synergy effects, what other non-financial factors can influence investment decisions? This question aims to identify additional non-financial factors that affect investment decisions. For interview objectives and questions, see Appendix 1.

As this study involves the construction of a new theory, it faces several uncertainties. The interview process may reveal new non-financial factors, which are used to enrich and refine the understanding of non-financial influences on investment.

2. Interviewees

This study employs interviews with several experienced investors to cross-validate data from different interviewees, thereby enhancing the reliability and validity of the research conclusions. Yin (2003) suggests that conclusions drawn from two or more cases are more robust and convincing than those from a single case. Eisenhardt and Graebner (2007) also argue that theories constructed from multiple case studies are generally more robust, universal, and verifiable than those from single case studies. Therefore, five senior investors are invited for interviews to enhance the credibility of the study.

To scientifically and reasonably select interviewees and ensure the interviews include sufficient data to provide both quantitative and qualitative theoretical bases for small and medium-sized investment companies or small-scale investors, the selection criteria are as follows:

1) Small and medium-sized companies with limited surplus for external investment.

2) Small and medium-sized investment companies with limited funds.

Based on these criteria, five interviewees are selected who are representative within their industries and meet the above criteria:

- Interviewee 1: CFO of Company FRD. Established in 2004 and listed on the Shanghai Stock Exchange Main Board in 2020, FRD provides comprehensive supply chain services to high-end automotive and home appliance industries. The CFO was engaged in related investment work before FRD’s listing and has surplus funds for external investments post-listing.

- Interviewee 2: President of Company TG. Approved by the Ministry of Commerce, TG specializes in small household appliances with stable growth, primarily for export to regions such as the USA, Europe, South America, the Middle East, and Africa. TG has good company performance and has surplus funds for investment.

- Interviewee 3: Partner at TX Private Equity Fund. TX is a small to medium-sized investment company focused on health and technology sectors, providing professional, systematic, and long-term financial services. TX is a small and medium-sized investment company with a small investment scale.

- Interviewee 4: Board Secretary and Legal Counsel of Company HX. As a listed company, HX provides electronic components and wireless communication related products, LCD TV motherboards, and digital storage products. After going public, HX has surplus funds for external investments but may hesitate to invest based on financial data.

- Interviewee 5: Vice President of Company JS, in charge of investments. JS is an innovation-driven listed biopharmaceutical company dedicated to the discovery, development, and commercialization of innovative therapies. JS is in the biopharmaceutical industry and often invests in startups that are not yet profitable.

3. Data Source

The coding of investment contract clauses is a sensitive topic, so most of the coded data in this study comes from interview materials. After finalizing the interview outline with relevant experts and my supervisors, I contacted the interviewees about a week in advance to explain the purpose and scope of the interview. To obtain useful and comprehensive information, I informed the interviewees that the interview would be open-ended. Subsequently, I conducted in-depth interviews with the five interviewees via WeChat calls at the agreed time. I conducted the interviews in person and recorded the entire interviews with the consent of the interviewees. Each interview lasted approximately 30-60 minutes on average. When interviewees answered the questions, I asked some targeted questions based on the specific circumstances to confirm or supplement important information. Following Eisenhardt (1989), I reviewed the interview notes and recordings within the following 24 hours. All the notes and recordings were converted into electronic documents. For any uncertain or missing information, I further called the interviewees by phone to check and supplement the information. Ultimately, I compiled nearly 50,000 words of interview material.

4. Data Coding

The analysis of interview data involves extracting themes from a large amount of qualitative data. The first step in this process is data coding. Useful qualitative data are those related to the research themes and are presented as segments of text that convey specific meanings. Each segment of meaningful text is considered an item, and coding involves classifying these items based on the meanings they express. I thoroughly reviewed all the interview materials and conducted selective coding. The coding criteria are as follows: 1) each item must have a clear meaning and be relevant to this study; and 2) during the coding process, if it is found that the previous coding is not accurate enough or new discoveries are made, the previous coding will be revised after verification.

4.1 Sorting Interview Items

Classifying the relevant items into 5 categories, namely, the impact of setting protective clauses in investment contracts on investment decision-making, the impact of setting earn-out clauses in investment contracts on investment decision-making, the role of social relationships in investment decision-making, synergy effects, and others. After data sorting, a total of 216 valid items were identified. Among these, 117 items related to the role of setting protective clauses in investment decision-making, 28 related to the role of setting earn-out clauses in investment decision-making, 28 related to the role of social relationships in investment decision-making, 32 related to synergy effects, and 11 related to others. Table 4-1 below summarizes the interview items.

Table 4-1 Summary of Interview Items

	Interviewee 1	**Interviewee 2**	**Interviewee 3**	**Interviewee 4**	**Interviewee 5**	**Total**
The Impact of Setting Protective Clauses in Investment Contracts on Investment Decision-making						
1. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of The First Option in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	6	4	2	1	4	17
2. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Director Appointment Right in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	2	2	5	3	3	15

4. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Non-compete in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	2	2	3	1	3	11
7. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Co-sale Right in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	1	2	1	1	3	8
8. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Anti-dilution Provision in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	1	2	2	2	2	9
9. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Liquidation Preference in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	3	1	1	1	1	7
10. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Informtion Right in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	1	1	1	1	1	5
11. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Due-diligence in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	1	1	3	2	2	9
12. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Other Guarantees by controlling shareholders (Asset Security, Dividen Restrictions, etc.) in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	1	1	2	1	3	8
13. In an investment, what other reasonable setting of protective clauses in investment contract has a greater impact on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	2	3	1	2	1	9
14. Which protective clauses in investment contracts do you think investors value most?	1	4	3	2	3	13

15. What do you think are the motivations for investors to pay attention to the clause setting in investment contracts?	1	1	1	1	2	6
Sub-total	22	24	25	18	28	117
The Impact of Setting Earn-out Clauses in Investment Contracts on Investment Decision-making						
3. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Repurchase Exit Guarantee in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	2	3	1	2	4	12
5. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of Performance Commitment in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	2	1	3	2	2	10
6. In your opinion, in a certain investment, what do you think the impact of the reasonable setting of IPO Commitment in investment contract on promoting the smooth progress of the investment project? Are there any unique advantages compared with financial factors?	1	1	1	1	2	6
Sub-total	5	5	5	5	8	28
The Role of Social Relationships in Investment Investment Decision-making						
1. To what extent do you think you reply on social relationships to promote the smooth progress of investment projects? Compared with the role of financial factors, what are the advantages in investment decision-making?	3	3	2	3	3	14
2. At what stage of an investment project do social relationships play a role? In what ways do they influence investors' investment decisions?	1	3	1	1	1	7
3. Do you think the role of social relationships in influencing investment decisions varies in different institutional environments?	2	1	1	1	2	7
Sub-total	6	7	4	5	6	28
Synergy Effects						
1. When evaluating investment targets, in addition to the above two types of non-financial factors, what other non-financial factors do investors pay most attention to? Will you consider such as the popularity of the industry, the synergy effects of the investment project, and so on?	1	4	3	5	3	16
2. To what extent do you consider synergy effects with investment targets when evaluating investment targets?	1	2	1	1	2	7

Do you think synergy effects is one of the important non-financial factors that influence investment decisions?						
3. How do you think investment synergy effects affect the smooth progress of investment projects?	0	1	1	1	2	5
4. Under what circumstances, or in what types of investment projects, will investors pay more attention to investment synergy effects?	0	1	1	1	1	4
Sub-total	2	8	6	8	8	32
Others						
1. Except the above, what other non-financial factors do you think can influence the investment decision-making, and compared with financial factors, what advantages do they have?	4	4	0	2	1	11
Total	39	48	40	38	51	216

4.2 The Role of Protective Clauses in Investment Decision-making

4.2.1 The Importance of Protective Clauses in Investment Contracts

In terms of the role of protective clauses in investment decision-making, contract clauses are categorized into nine items: The First Option, Director Appointment Right, Non-compete Right, Co-sale Right, Anti-dilution Provision, Liquidation Preference, Information Right, Due-diligence, and Others. Interviews were conducted with five interviewees regarding the significance of these nine investment contract clauses in decision-making. After sorting the data, 117 valid items were identified and categorized based on the role of these nine investment contract clauses in decision-making. The responses from the five interviewees were classified into three dimensions: important, neutral, and unimportant, based on the content of the items. Distinguishing between important, neutral, and unimportant is a subjective judgment process. For example, the statement "I think this is quite important, it may not be for everyone, but for the core company, some small rules, mainly for the executives and major shareholders" was rated as "important". The statement "I think this is somewhat neutral" was classified as "neutral". The statement "In our past investments, it seems we haven't particularly focused on this" was classified as "unimportant" (see Table 4-2 for details).

Table 4-2 Summary of Importance of Protective Clauses in Investment Contracts

<table>
<tr><th colspan="4">Protective Clauses</th></tr>
<tr><td></td><td>Interview</td><td>Importance</td><td>Items</td></tr>
<tr><td rowspan="5">1. The Role of The First Option in investment decision-making</td><td>Interviewee1</td><td>Unimportant</td><td>Such clauses often do not have any sustainability.</td></tr>
<tr><td>Interviewee2</td><td>Important</td><td>Compared with the financial data, it has a certain advantage, and is quite obvious. Based on my many years of experience, I think the contract clauses are still very important. Through some of investment contract clauses, there are also some ways to verify your judgment.</td></tr>
<tr><td>Interviewee3</td><td>Unimportant</td><td>The clauses themselves don't have great impact, because in the investments I've participated in, of course we have never led the investment, but follow the investment in some projects. I generally don't study the clauses too deeply.</td></tr>
<tr><td>Interviewee4</td><td>Important</td><td>I think this is normal. For business development, if you are an original investor, an early-stage investor, you have The First Option, it is quite normal.</td></tr>
<tr><td>Interviewee5</td><td>Unimportant</td><td>If the existing shareholders retain The First Option, it may have some negative impact on the subsequent introduction of other shareholders; we may not require such a so-called The First Option which may cause certain obstacles to the company and the shareholders who may be introduced in the future. I think it may have a negative impact on the company's development of other related cooperation.</td></tr>
<tr><td rowspan="3">2. The Role of Director Appointment Right in investment decision-making</td><td>Interviewee1</td><td>Important</td><td>This position is very important. Generally speaking, as long as our shareholding ratio exceeds 10%, I will ask for a seat on the board of directors. This seat on the board of directors is very important, because at least I can express my point of view on the matter, or possibly intervene in the company.</td></tr>
<tr><td>Interviewee2</td><td>Important</td><td>After comparison, the appointment of Directors and Supervisors, still has advantages.</td></tr>
<tr><td>Interviewee3</td><td>Important</td><td>Yes, it has some impacts, because I think it is related to your investment amount. If your investment amount is relatively large, then you will pay special attention to this clause.</td></tr>
</table>

	Interviewee4	Neutral	If just a small shareholder, I think this is unnecessary and does not matter. I will consider the structure of the board of directors. It is a check and balance, or supervision.
	Interviewee5	Neutral	The key is to see the company's ability to operate in compliance. If its overall operation is relatively standardized and we are satisfied with many job positions, then if I cannot reach a very important investment ratio, I may not require this.
4. The Role of Non-compete Right in investment decision-making	Interviewee1	Unimportant	Often such clause is waived, but it may still be signed, but it will not affect our investment decision; this does not have much advantage, because Non-compete clause may still be related to the individuals. We have seen many such cases, that is, even Non-compete clause, he still has various ways to circumvent this.
	Interviewee2	Important	Non-compete clauses are restrictions for actual controllers, non-competition clauses and financial factors are two different dimensions and there is not much comparability between them. Theoretically, if a company dares to violate Non-compete clauses, such a company should not be invested in. Non-compete clauses are natural or the most basic.
	Interviewee3	Neutral	This may be a veto item. Without Non-compete clauses, the investors are more likely to give up.
	Interviewee4	Important	I think this is quite important, it may not be for everyone, but for the core company, some small rules, mainly for the executives and major shareholders.
	Interviewee5	Important	We requrest some Non-compete clauses, which is something that the investee company should do from the perspective of its company development and responsibility to investors. My understanding is that founders must impose Non-compete clauses.
7. The Role of Co-sale Right in investment decision-making	Interviewee1	Unimportant	This is a protective clause, which is to protect small shareholders. I think finance is more important for such a clause.
	Interviewee2	Important	Generally speaking, you write about this in your exit clauses, and IPOs will include Co-sale, etc. It is a topic. The investment clauses are guarantees for exit, whether Co-sale or IPO, they are all for exit, an exit guarantee.
	Interviewee3	Neutral	I think this is somewhat neutral.
	Interviewee4	Unimportant	This thing can protect the rights and interests of small shareholders. I think this thing is also a non-essential.
	Interviewee5	Important	I'll definitely make a strong request. If I am not given this, it will definitely be a deduction for judging this

			project. I cannot say it is a rejection, but it will definitely be a deduction.
8. The Role of Anti-dilutiton Provision in investment decision-making	Interviewee1	Unimportant	If the project is profitable enough, I don't mind this kind of clause.
	Interviewee2	Unimportant	It cannot be called to be anti-dilution, it is completely Anti-dilution, because in the case of dilution, for example, there is capital increase, capital increase by major shareholders, capital increase by external investors, which is actually a good thing.
	Interviewee3	Unimportant	From the perspective of financial investors, you would say that the dilution clause is not particularly important to you.
	Interviewee4	Unimportant	I think this clause is not so important in the entire investment. The key is to look at the proportion of your shares in the investment.
	Interviewee5	Important	Co-sale Right and Anti-dilution are the clauses we will definitely ask for.
9. The Role of Liquidation Preference in investment decision-making	Interviewee1	Important	We believe that this kind of clause is something you must give if you want to take my money; regardless of whether you are financially sound or not, these clauses are a necessary condition for my investment, and the prerequisite is that these clauses must be good.
	Interviewee2	Unimportant	I don’t think this is important. It’s already liquidated. If liquidation is done, theoretically, the equity, under normal circumstances, even if liquidation is prioritized, liquidation means that the assets are insufficient to cover the liabilities.
	Interviewee3	Unimportant	From the perspective of liquidation, the Company Law actually has regulations on this. So, I don’t think I will pay special attention to this clause.
	Interviewee4	Neutral	This depends on your position in the entire investment.
	Interviewee5	Important	A right protection for early-stage project investors. Unless they are sure to apply for an IPO soon, we will ask the company for this because it is a common requirement.
10. The Role of Information Right in investment decision-making	Interviewee1	Unimportant	Information Right or the financial clauses are more important, because Information Right, how should I put it, is not as smooth as expected when it comes to execution.
	Interviewee2	Important	Information Right is very important, including your financial affairs. Your so-called financial affairs mean that you are informed. The financial data you get are all false. So, Information Right is also a basic right.

	Interviewee3	Neutral	I think this impact is neutral. I won’t say it is stronger than financial factors. When I say neutral, I mean it is probably similar to financial factors.
	Interviewee4	Neutral	I think that according to the articles of the company, as long as the rules and regulations are followed, it will be fine. Because for this kind of thing, if you disclose the financial information normally and the financial information is true to the company’s status, I think as an investor, it is enough to know these things.
	Interviewee5	Important	Regarding Information Right, we usually tend to sign a supplementary agreement with the company, or ask the company to give us a letter of commitment.
11. The Role of Due-diligence in investment decision-making	Interviewee1	Important	This depends on the institution. If you don’t conduct due-diligence, I won’t invest in it, no matter how good your project is.
	Interviewee2	Important	Due-diligence is also a basic condition. When I do due diligence, I cannot be restricted. If you don’t have these basic guarantees, your so-called financial factors will not exist.
	Interviewee3	Important	Of course, the most important thing in due-diligence is finance, but it is not just due diligence, it is not limited to finance. I am more concerned about non-financial factors. In general, I am more concerned, especially during due diligence, because financial factors are static, and if you want to invest, you invest in its future, which is dynamic. The dynamic factors determine your non-financial factors, and I think they have greater decisive power.
	Interviewee4	Neutral	The due diligence clause also depends on the strong position of the investors and the company. If your financial information is true and reasonable, the due diligence is actually just a basis for your judgment, but it cannot play a decisive role here.
	Interviewee5	Neutral	We should have some routines, that is, during due diligence, the investee company or the major shareholder of the investee compamy should disclose the relevant information truthfully, and we will have some responsibility commitments.
12. The Role of Other Gurantee by controlling	Interviewee1	Unimportant	This is basically what we have agreed upon. What is necessary is that I want a seat on the board of directors. In fact, this is what I want to do.
	Interviewee2	Unimportant	In comparison, this is not so important. This thing itself must be done. The restriction on dividends is a thing that may not be very reasonable.

	Interviewee3	Important	This is about the security of investment. Generally speaking, investors actually hope to be safe. If you are talking about the expectation of return, it can be low, but for the security of investment, the consideration is actually a little bit bigger.
	Interviewee4	Unimportant	For financial investment, as long as the financial statements are true, and if the company's entire management is standardized, that thing is the controlling shareholder. If it is not realized, and your financial supervision is reasonable, I think this thing will not affect.
	Interviewee5	Unimportant	In our past investments, it seems we haven't particularly focused on this.

Based on Table 4-2, the importance of protective clauses in investment contracts is determined. Different scores are assigned according to the level of importance: 0=unimportant, 10=important, and 5=neutral. The scores from the five interviewees are then summed, and the total scores are used to calculate the importance of each protective clause (shown in Table 4-3).

Table 4-3 Importance of Protective Clauses in Investment Contracts

Protective Clauses	Interviewee1	Interviewee2	Interviewee3	Interviewee4	Interviewee5	Score	Average	Importance
Director Appointment	Important	Important	Important	Neutral	Neutral			
Score	10	10	10	5	5	40	8	1
Due-diligence	Important	Important	Important	Neutral	Important			
Score	10	10	10	5	5	40	8	1
Non-compete	Unimportant	Important	Neutral	Important	Important			
Score	0	10	5	10	10	35	7	2
Information Right	Unimportant	Important	Neutral	Neutral	Important			
Score	0	10	5	5	10	30	6	3
Co-sale Right	Unimportant	Important	Neutral	Unimportant	Important			
Score	0	10	5	0	10	25	5	4

Liquidation Preference	Important	Unimportant	Unimportant	Neutral	Important			
Score	10	0	0	5	10	25	5	4
The First Option	Unimportant	Important	Unimportant	Important	Unimportant			
Score	0	10	0	10	0	20	4	5
Anti-dilution Provision	Unimportant	Unimportant	Unimportant	Unimportant	Important			
Score	0	0	0	0	10	10	2	6
Other Guarantees	Unimportant	Unimportant	Important	Unimportant	Unimportant			
Score	0	0	10	0	0	10	2	6
Sub-total	30	60	45	40	60	235	47	
Overall Averag	3.333	6.667	5.000	4.444	6.667		5.22	

From Table 4-3, it is evident that if we draw a line based on the mean of 5, Director Appointment, Due Diligence, Non-compete, and Information are greater than 5, indicating that these protective clauses are important to the interviewees. Additionally, the overall average score is 5.22, which is above the mean, indicating that the interviewees generally believe that protective clauses in investment contracts are important for investment decisions.

4.2.2 Mechanism of Protective Clauses in Investment Decision-making

The analysis of the mechanism through which the inclusion of protective clauses in investment contracts impacts investment decision-making is conducted via interviews focusing on the role of these clauses. Through these interviews, 117 items are identified and categorized into nine sub-dimensions: exit protection, investment security, management participation, penalty mechanisms (reverse incentive mechanisms), supervision and balances, validation, information disclosure, legal compliance, and risk reduction. These nine sub-dimensions are further consolidated into four main dimensions:

- Dimension 1: Capital Security and Investment Performance Enhancement, comprising exit protection and investment security.

- Dimension 2: Management Participation and Supervision Balances, including management participation, penalty mechanisms, and supervision and balances.
- Dimension 3: Information Asymmetry, involving validation and information disclosure.
- Dimension 4: Risk Reduction, encompassing legal compliance and risk reduction.

Table 4-4 details the main dimensions, sub-dimensions, and items of the mechanism by which the inclusion of protective clauses in investment contracts affects investment decision-making.

Table 4-4 Mechanism of Protective Clauses in Investment in Decision-making

Main Dimension	Sub-dimension	Items
Captial Security and Investment Performance Enhancement	Exit Protection	Clauses like Co-sale actually guarantee your future exit. Among non-financial factors, I think this is quite important. Exit is relatively important, which means it will attract more attention. From the exit perspective, we will definitely ensure that we have it.
	Investment Security	It's about self-protection, self-protection, ensuring the safety of funds, which means at least you can get your principal back; because it involves the safety of your entire investment; there will be decisions to promote investment, because if you are the shareholder, you are providing some kind of bottom-line protection for the investor; this is about the safety of investment, because generally speaking, investors actually still hope that they are safe, because if you say that the expectation for return can be low, but for the safety of investment, the consideration is actually a little bigger; I think the main consideration is this, the overall safety consideration.
Managemet Participation and Supervision Balances	Management Participation	The seat on the board of directors is very important, at least I can express my point of view on the matter, or maybe intervene in the company. In fact, it depends on your appointment as a director. The appointment of a director has an influence on the invested company. I think this is quite important. It will not apply to everyone, but there are some small rules for the core of the core company, and most importantly, for its senior executives and controlling shareholders. If you can become a director, the company law actually has some decision-making provisions for the board of directors. For investors, you have more rights to participate in protecting your investment or exerting influence on the invested company.

	Penalty Mechanisms (Reverse Incentives)	Any promise without penalties or reward and punishment mechanisms is of little value. What we also value is the responsibilities of the management and what kind of punitive measures may be taken against them when there is mismanagement or improper business operations.
	Supervision and Balances	I would consider the structure of the board of directors, which is a balance, or a supervisory function.
Information Asymmetry	Validation	Through some clauses in some investment agreements, there are also some ways to verify your judgment; this judgment on the industry and the team is more critical than just looking at financial data.
	Information Disclosure	These are the things that can prevent pitfalls and the lack of real information disclosure.
Risk Reducion	Legal Compliance	I think this is the most important thing, as long as they don't violate the law; the key still depends on the company's ability to operate in compliance with regulations. If its overall operation is relatively standardized and we are relatively satisfied with many of its job positions, then if I cannot reach a very important investment ratio, I may not require this; we may agree on which ones are important and which decisions must be reviewed and approved by the board of directors, and which decisions must be approved by the shareholders' meeting. We will agree on this.
	Risk Reduction	In order to reduce our risks to a certain extent, if we can get the right of repurchase, I think it is a plus, but it is not a decisive factor.

The analysis of interview materials highlights the critical importance of protective clauses in investment contracts for investors. Venture capital contracts play a central role in venture capital transactions, and the structuring of clauses in these contracts acts as a mechanism for both constraining and incentivizing investee companies. Most clauses in investment contracts are deemed crucial by investors. Through Director Appointment clauses, investors can engage in the management of the investee company and supervise its operations; through Information Right and Due Diligence clauses, the issue of information asymmetry between investors and investee companies can be largely resolved. Other clauses, such as non-competition, co-sale, and liquidation preference, contribute to standardizing the operation of the investee company, thereby reducing investors' risk. The inclusion of protective clauses in investment contracts plays a significant role in investment decision-making and is crucial in the investment process. The interview results confirm Hypothesis 1: Protective clauses in investment contracts help attract investment.

4.3 The Role of Earn-out clauses in Investment Decision-making

4.3.1 The Importance of Earn-out clauses in Investment Contracts

Regarding the impact of earn-out clauses in investment contracts on investment decision-making, these clauses can be categorized into three types: Performance Commitment, IPO Commitment, and Repurchase. To assess the influence of these three types of earn-out clauses on investment decisions, interviews were conducted with five respondents. After organizing the interview data, 28 valid items were identified and categorized based on the impact of these clauses. Each respondent evaluated the importance of these clauses, classifying them as important, neutral, or unimportant. The detailed results are presented in Table 4-5.

Table 4-5 Summary of Importance of Earn-out Clauses in Investment Contracts

	Interivew	Importance	Items
3. The role of exit guarantee clauses such as buyback in investment agreements in investment decisions	Interview1	Unimportant	This is basically nothing, because when it comes to repurchase and exit, it is usually when there are problems with the project. It is either an IPO exit or an exit by selling old shares. However, at that stage, the financial situation is often not very good.
	Interview2	Neutral	This should be viewed in two ways. The repurchase clause is to protect investors, but the repurchase clause also protects your interests, which means it affects the interests of the invested enterprise.
	Interview3	Important	This influencing factor should account for a relatively large proportion. Among non-financial factors, I think it is quite important. Exit is still relatively important, that is, there will be more attention. It should be said that most of them will have this agreement.
	Interview4	Important	I think Repurchase is very important.
	Interview5	Unimportant	Relatively speaking, if the company insists on not repurchasing, we can still give up the repurchase right if the company is doing well. In other words, if the company is doing well, you can give up the Repurchase.
5. The	Interview1	Unimportant	Any promise without penalties or rewards and punishments is of no value.

	Interview2	Unimportant	In fact, most of the time you are not very sure about even such a first-level commitment or even a bet.
	Interview3	Neutral	It cannot be said that there is no such thing, but it is not necessarily completely decisive, because even if you write a PPT and write about the expected indicators behind it, he may not necessarily believe you.
	Interview4	Unimportant	This is a reference. Because of the performance clause, you cannot withdraw immediately just because the performance clause is met or not met. So this is a reference factor.
	Interview5	Neutral	Performance commitments may not be fulfilled, so the corresponding penalties promised by the management or some adjustments to the valuation are also a guarantee of the interests of the company when investing in it. So I think performance commitments are not a plus point to determine whether the project is investable.
6. The role of IPO commitment clauses in investment agreements in investment decisions	Interview1	Important	This may be more valuable, especially for mid- to late-stage projects, and more attractive than financial factors.
	Interview2	Important	For financial investors, I think this clause is necessary.
	Interview3	Important	Most of the current projects are aiming for IPO, because this is also an important exit channel. For domestic investment, this is actually a relatively important exit channel, so the impact will be relatively large.
	Interview4	Neutral	I think this depends on my expectations for the investment project. Do you think you should invest in a company with growth potential and value, or do you invest with the purpose of promoting listing and capital profit?
	Interview5	Unimportant	If my company is really good, and he doesn't promise a buyback or an IPO, we may still invest, because no matter what, from our perspective, we understand that the founder himself has the same interests as the investors in terms of the IPO.

The importance of earn-out clauses in investment contracts is based on Table 4-5. Scores ranging from 0 to 10 were assigned based on importance levels, with 0 indicating unimportant, 10 indicating important, and 5 indicating neutral. The scores for each clause were summed and ranked to calculate the overall importance ranking, as shown in Table 4-6.

Table 4-6 Importance of Earn-out Clauses in Investment Contracts

Earn-out clauses	Interviewee1	Interviewee2	Interviewee3	Interviewee4	Interviewee5	Total	Average	Importance
IPO Commitment	Important	Important	Important	Neutral	Unimportant			
Score	10	10	10	5	0	35	7	1
Repurchase	Unimportant	Neutral	Important	Important	Unimportant			
Score	0	5	10	10	0	25	5	2
Performance Committment	Unimportant	Unimportant	Neutral	Unimportant	Neutral			
Score	0	0	5	0	5	10	2	3
Sub-total	10	15	25	15	5	70	14	
Overall Average	3.33	5	8.33	5	1.67	23.33	4.67	

From Table 4-6, it is evident that, except for the IPO clause, which appears important to the interviewees, the Exit Guarantee and Performance Commitment clauses are less than or equal to 5, indicating they are not important to the interviewees. The overall average score is 4.67, less than 5, indicating that, overall, the interviewees believe that earn-out clauses are not important.

4.3.2 Mechanism of Earn-out Clauses in Investment Decision-making

The mechanism by which the inclusion of earn-out clauses in investment contracts influences investment decision-making was analyzed through interviews focusing on protective clauses in these contracts. From these interviews, 28 items were identified and categorized into 7 sub-dimensions: Rejection, High-quality Projects, Aligned Interest, Trust, Penalty Mechanisms, Difficulty of Execution, and Force Majeure. These 7 sub-dimensions were then consolidated into 3 main dimensions: High-quality Projects, Alignment of Goals, and Difficulty of Execution.

Table 4-7 lists the main dimensions, sub-dimensions, and items of the mechanism by which the inclusion of earn-out clauses in investment contracts affects investment decision-making.

Table 4-7 Mechanism of Earn-out Clauses in Investment Decision-making

Main Dimension	Sub-dimension	Items
High-quality Projects	Rejection	This should be viewed in two ways. The repurchase clause guarantees the interests of investors, but it also guarantees your interests, which means it affects the interests of the invested enterprise. Many enterprises may not be willing to accept the clauses you set, because as a person of integrity, they need to measure whether they have the ability to repurchase.
	High-quality	Relatively speaking, if the company insists on not repurchasing, we can still give up the repurchase if the company is doing well, that is to say, if the company is doing well, you can give up the repurchase right; if the major shareholder has the ability, then we may think it will be safer to let it go, but if it is a start-up company, and the major shareholder is actually some individuals, I don't think it will necessarily make us feel more secure just because of the repurchase; in order to reduce our risks to a certain extent, if we can get the repurchase right, I think this is a plus, it is not a decisive factor.
Alignment of Goals	Aligned Interest	If my company is really good, and he doesn't promise a buyback or an IPO, we may still invest, because no matter what, from our perspective, we understand that the founder himself has the same interests as the investors in terms of the IPO.
	Trust	In fact, most of the time you are not sure about even a first-level commitment or even a bet. You cannot say that it does not exist, but it is not necessarily completely decisive, because even if you write a PPT and write about the expected indicators behind it, he may not necessarily believe you.
Difficulty of Execution	Penalty Mechanisms	There is still a certain necessity for this, that is, the performance commitment. But how should I put it? If this kind of performance commitment is not linked to some penalties, then its existence is actually meaningless; any commitment without penalties or without a reward and punishment mechanism is of no value.
	Difficulty of Execution	This is basically nothing, because when it comes to repurchase and exit, it is usually when there are problems with the project that they will repurchase and exit, either through IPO or by selling old shares, but often at that stage, his financial situation is not very good; this is a protective clause, but in fact, in the process of execution, it can be executed to the point of breaking up.
	Force Majeure	This is a reference, because of the performance clause, you can't withdraw immediately because the performance clause is met or not met, so this thing is a reference factor; sometimes it is due to objective reasons that cause force majeure to cause such performance changes, variations or changes. It is impossible to give up investment because of this, or change investment immediately. This thing depends on the situation.

From the interviews, it is evident that earn-out clauses are not considered important by the interviewees. Investee companies often refuse such clauses for high-quality investment projects. Even without earn-out clauses, investors are still willing to invest, as high-quality projects do not lack investors. Both investors and investees have aligned interests in the company's development, and if a certain level of trust exists, investors are willing to invest even without earn-out clauses. Meanwhile, it can be difficult to execute earn-out clauses if the investee company does not list as planned due to various reasons. In such cases, even if there is a earn-out clause, it may be challenging to enforce.

Additionally, it is possible that the interviewees tend to invest in later-stage projects and/or are conservative investors. Later-stage projects are more stable, leading investors to prioritize protective clauses over earn-out clauses to ensure control rights and mitigate risk. Conservative investors value long-term stability and risk mitigation, preferring protective clauses and placing less emphasis on earn-out clauses. For these reasons, investors may sometimes choose to invest even without earn-out clauses. The interview results do not support Hypothesis 2: Earn-out clauses in investment contracts help attract investment.

4.4 The Role of Management Team in Investment Decision-making

4.4.1 The Importance of Management Team in Investment Contracts

Regarding the impact of the management team on investment decision-making, five interviewees were interviewed separately. After sorting, 14 valid items were obtained. These items were analyzed, and the interviewees were classified into three categories: important, neutral, and unimportant, based on the content of the items. According to the interview content, all five interviewees believe that the management team is an important non-financial factor that should be considered in investment decision-making.

Table 4-8 Importance of Management Team in Investment Contracts

	Interview	Importance	Items
The Role of Management Team in Investment Decision-making	Interview1	Important	You need to look at whether the industry track is in line with the macro policy, and then the technical capabilities of the entire team. As for the technical capabilities, I pay more attention to that, or what the potential of the team is. In terms of team capabilities and technical capabilities.
	Interview2	Important	It's about technology, or the ability to manage the team; the macro environment, and the team.
	Interview3	Important	The most important thing is the stability of the team. If the team is good and the industry is good, then the stability of the team is also important. I think the success of a company depends on people. The stability and integrity of the team are very important. If the team is honest, mature and hardworking, then I think it is more reliable.
	Interview4	Important	Next, we need to look at the team. Is the team capable of running faster than others in this field? Is the team relatively stable? Is the team honest? The first thing is the team, which is the entire background of the team, including the overall operation of the team. This is what I am more concerned about. The character of the investment team and the confirmation of their social value are the most important things in the entire investment. If there is a problem with the core team or the character or the team, any other economic benefits will become useless.
	Interview5	Important	We pay a lot of attention to the experience of the team members, their past performance, and their current operations. I think the team is important. Investors will also be concerned about your team's background, including your current situation, and where you are likely to end up in the future. The second thing I think is the team. If your team is not on a good track, the investment value will be greatly reduced.

As shown in Table 4-8, all interviewees consider the management team to be important in investment decisions.

4.4.2 Mechanism of Management Team in Investment Decision-making

Regarding the role of the management team as an important non-financial factor in investment decision-making, coding on interview items revealed eight sub-dimensions: Management Capability, Technical Capability, Broad Vision, Experience and Past Performance, Team Operation, Team Stability, Integrity and Character, and Honesty, Maturity, and Diligence. These were further categorized into two main dimensions: Operational Capability (including Management Capability, Technical Capability, Broad vision, Experience and Past Performance, and Team Operation), and Integrity and Character (including Team Stability, Integrity and Character, and Honesty, Maturity, and Diligence).

Table 4-9 lists the main dimensions, sub-dimensions, and items of the mechanism by which the composition of the management team in investment contracts affects investment decision-making.

Table 4-9 Mechanism of Management Team in Investment Decision-making

Main Dimension	Sub-dimension	Items
Operational Capability	Management Capability	It’s technology, or the ability to manage a team.
	Technical Capability	You need to see whether the industry track is in line with macro policies and the technical capabilities of the entire team.
	Broad Vision	Secondly, I think the team is actually quite important. A team that has people from big companies will have a broader vision. And if they have successful entrepreneurial experience before, that will also be better.
	Experience and Past Performance	I think we attach great importance to the experience of the team members, their past performance, and their current thinking on the entire operation of the team.
	Team Operation	The first is the team, that is, the entire background of the team, including the overall operation of the team. This is what I am more concerned about.
Integrity and Character	Team Stability	I think the most important thing is the stability of the team. Next, we need to look at the team to see if it can run faster than others in this track, whether the team is relatively stable, and whether the team is honest.
	Integrity and Character	The team is good, the industry is good, and the stability of your team is also very important. I think the stability of your team and the integrity of the team are very important. I think the character of the investment team and the recognition of its social value are the most important things in the entire investment now.
	Honesym Maturity and Diligennce	Relying on a team that is relatively honest, mature and hardworking, I think this may be more reliable.

From the interview data, it is evident that all interviewees consider the management team to be a crucial factor in investment decision-making. An excellent management team typically has a strong track record and a broad vision. They usually possess outstanding technical and managerial skills, as well as integrity, honesty, and considerable stability. These qualities lead interviewees to emphasize that the management team of the investee company is a significant non-financial factor in investment decision-making. The interview results validate Hypothesis 3: Investment projects with an outstanding management team have stronger investment attractiveness.

4.5 The Role of Industry Tracks in Investment Decision-making

4.5.1 The Importance of Industry Tracks in Investment Contracts

Interviews were conducted with five respondents to explore the significance of industry tracks in investment decision-making. After organizing the interview data, ten valid items were identified regarding the impact of industry tracks on investment decisions. These items were analyzed and categorized into three dimensions: important, neutral, and unimportant. The analysis revealed that all five respondents consider the industry track to be a crucial non-financial factor in investment decision-making.

Table 4-10 Importance of Industry Tracks in Investment Contracts

	Interview	Importance	Items
The Role of Industry Tracks in Investment Decision-making	Interview1	Important	You need to see whether this industry track is in line with the macro policy; on this basis, these two can be combined. In fact, your overall prospect is actually related.
	Interview2	Important	Then the development level of this track; whether the team is capable of running faster than others in this track; the entire track, including the market prospects of its entire product, may be viewed more from this aspect.
	Interview3	Important	It still depends on a good track; the second is the industry track. I think this is second only to the team, because if your team is in a not very good track, the investment value will actually be greatly reduced.
	Interview4	Important	You will look for such a company only if you are optimistic about the track, and you will also need to know what the company's position is in the track and what its core competitiveness is.
	Interview5	Important	If I want to invest, I will look at your future. There are several futures for you. I think one is what track you are in and what is the current static state of your company in the track. The first track is very important. The track determines to a certain extent the probability of your future success.

All interviewees emphasized the importance of industry tracks in investment decision-making.

4.5.2 Mechanism of Industry Tracks in Investment Decision-making

Regarding the role of industry tracks as an important non-financial factor in investment decisions, the coding and sorting of interview items identified three sub-dimensions: Track Value, Core Competitiveness, and Market Prospects. These were further consolidated into the main dimension of High-quality Projects. Table 4-11 details the main dimension, sub-dimensions, and items of the mechanism through which industry tracks influence investment decisions.

Table 4-11 Mechanism of Industry Tracks in Investment Decision-making

Main Dimension	Sub-Dimension	Items
High-quality Projects	Track Value	The second is the industry track. I think this is second only to the team. If your team is in a not-so-good track, the investment value will be greatly reduced.
	Core Competitiveness	You will always look for such a company if you are optimistic about this track. What is the position of this company in this track and what is its core competitiveness?
	Market Prospects	Because the main thing is probably to see the big things, including the industry and the company. You said it is also a non-financial factor, which can be said to be a non-financial factor, that is, the entire track of the company, including the market prospects of its entire product. Maybe you will see more from this aspect.

Industry Tracks	Interviewee1	Interviewee2	Interviewee3	Interviewee4	Interviewee5	total	average score
	important	important	important	important	important		
score	10	10	10	10	10	50	10

From the analysis, it is clear that all interviewees regard industry tracks as pivotal in investment decision-making. A strong industry track adds value to investments, with projects in high-quality industry tracks typically possessing core competitiveness and promising market prospects. Such projects are generally more appealing for investment, confirming Hypothesis 4: Investment projects with high-quality industry tracks have stronger investment attractiveness.

4.6 The Role of Social Relationships in Investment Decision-making

4.6.1 The Importance of Social Relationships in Investment Contracts

Interviews were conducted with five respondents to explore the role of social relationships in investment decision-making. After organizing the interview data, 28 valid items were identified, addressing three key questions: the extent to which social relationships facilitate the smooth progress of investment projects, the stage at which social relationships play a role in investment projects, and whether the influence of social relationships on investment decisions varies across different institutional environments.

The analysis of these 28 valid items revealed that the five respondents categorized social relationships into three dimensions based on their content: important, neutral, and unimportant. All five respondents agreed that social relationships are a crucial non-financial factor to consider in investment decision-making. Some even quantified this with detailed weight, stating, "This is very important because in our industry, early-stage projects are mostly introduced by colleagues or classmates; this accounts for about seventy to eighty percent," and "Currently, most investments are based on social relationships within the circle because it’s unlikely to randomly invest in some financial product. It’s mostly through social networks or personal circles; if applying the 28 Principle, this falls under the 8" (as shown in Table 4-12).

Table 4-12 Importance of Social Relationships in Investment Contracts

	Interview	Importance	Items
The Role of Social Relationships in Investment Decision-making	Interview1	Important	This is very important, because most of the early projects in our industry were introduced to each other by colleagues and classmates; most of them are about 70 to 80%. If they account for such a proportion, even if I invest Several companies may be related to each other in some way; in the process of obtaining the project, there must be some social relationship recommendations
	Interview 2	Important	This is very important. You are speaking from the perspective of an investor. I believe that social relationships and other aspects of your business actually reflect your influence as an investor and the degree of trust he has in you.
	Interview 3	Important	Now most of the investment is based on social relationships, that is, investing within this circle, because you can't buy some financial products for no reason, this is unlikely, basically it is still based on social relationships, that is, within the circle of friends; I think if the 28 principle is used, this belongs to 8
	Interview 4	Important	This depends on whether I am doing this as an individual investor or an institutional investor. If it is for me personally, social relationships may account for 51%, and the corporate one may account for 49%; institutional investors may have a greater impact on the corporate one than on relationships, and interpersonal relationships will account for more; if we talk about the proportion, social relationships should account for more.
	Interview5	Important	I think that social relationships are very important for investing in a good project. I think it may be because of this, which requires a certain level of trust endorsement. I know him, but you don’t. I think this is very critical. Social relationships are very important for investing in a good project. Of course, you can’t just rely on social relationships. You also need other professional evaluations and some standard investment processes.

social relationships	Interviewee1	Interviewee2	Interviewee3	Interviewee4	Interviewee5	total	average score
	important	important	important	important	important		
score	10	10	10	10	10	50	10

All respondents emphasize the importance of social relationships in investment decision-making.

4.6.2 Mechanism of Social Relationships in Investment Decision-making

In interviews regarding the role of social relationships at different stages of investment projects, four respondents highlight the crucial role of social relationships during the project acquisition stage. One respondent notes, "It has a greater impact in the early stages. Later on, independent judgment factors become more significant. From an investment perspective, social relationships are particularly important in the information acquisition stage." Another respondent believes that social relationships could influence the entire project stage. Table 4-13 below summarizes the stages at which social relationships play a role in investment projects.

Table 4-13 The Role of Social Relationships at Different Stages of Investment Projects

	Stages	Items
Interview1	the entire	I think the entire progress. Generally, when I see a project, whether we want to invest or not, we will also look at whether we have the post-investment management capabilities.
Interview2	acquisition	In the early stage, and when the contract is signed at the end; when signing the contract, the most critical thing in the contract is the price. If you have a good relationship and high influence, he will accept some concessions on the valuation and clauses.
Interview3	acquisition	The impact is greater in the early stages, and as time goes on, there will be more factors that influence your independent judgment. I think from an investment perspective, in fact, in the stage of obtaining investment information, social relationships play a relatively important role.
Interview4	acquisition	One is angel, and the other is before IPO. Basically, there are more of them at these two ends, and fewer in the middle.
Interview5	acquisition	I think in the early stage, it actually played a greater role in the previous stage, which is the acquisition stage

In practice, finding high-quality investment projects has always been challenging, and investors' social relationships serve as an important channel for discovering such projects. How do social relationships, as a critical non-financial factor, influence investment decisions? Through coding and sorting interview items, six sub-dimensions are identified: Easy Communication, Trust, Information, Trust Endorsement, Low-cost Acquisition, and Good Project

Acquisition. Further summarizing, two main dimensions are identified: Informal Institution (Easy Communication, Trust, Information, and Trust Endorsement) and High-quality Projects (Low-cost Acquisition and Good Project Acquisition). Table 4-14 lists in detail the main dimensions, sub-dimensions, and items of the mechanism of social relationships affecting investment decisions.

Table 4-14 Mechanism of Social Relationships in Investment Decision-making

Main Dimension	Sub-dimension	Items
Informal Institution	Easy Communication	companies still need to communicate frequently.
	Trust	This is from the perspective of an investor. I believe that your social connections actually reflect your influence as an investor and his level of trust in you.
	Information	The impact is greater in the early stages, and as time goes on, there will be more factors that influence your independent judgment. I think from an investment perspective, in fact, in the stage of obtaining investment information, social relationships play a relatively important role.
	Trust Endorsement	I think this may require a certain level of trust endorsement. I know him, but you don't. I think this is quite crucial.
High-quality Projects	Low-cost Acquistion	When signing a contract, the most important thing in the contract is the price. If you have a good relationship and you have a high influence, he will accept some concessions on the valuation and clauses.
	Good Project Acquisition	Social connections are very important for investing in a good project. Of course, you cannot rely solely on social connections. You also need to have other professional evaluations and some standard investment processes. This is very important because most of the early projects in our industry are introduced by colleagues and classmates. If you don't have certain social connections, you can't get in. So I think these two points are still very important.

From the above analysis, it is evident that all respondents consider social relationships to be a critical factor in investment decision-making. In practice, most investments, especially for small and medium-sized investors, are made within their social circles, among familiar acquaintances. Investments are generally based on social relationships, focusing on projects within one's circle of friends. Small and medium-sized investors typically find it challenging to identify high-quality investment projects. However, an investor's social relationship is a crucial channel for discovering such projects. Social relationships play a vital role during the project acquisition stage. Since the parties involved are familiar with each other, there is a certain level of trust, making communication and interactions easier. This mutual trust and ease of communication often result in obtaining good projects at a lower cost. In summary, the interview data validate Hypothesis 5: Investment projects with strong social relationships have greater investment attractiveness.

4.7 The Role of Synergy Effects in Investment Decision-making

4.7.1 The Importance of Synergy Effects in Investment Contracts

Regarding the impact of synergy effects on investment decision-making, five interviewees are individually interviewed. After sorting, 32 valid items are obtained concerning the role of synergy effects in investment decision-making. A total of four questions are asked:

1. When evaluating investment targets, in addition to the above non-financial factors, what other non-financial factors do investors pay the most attention to?
2. To what extent will synergy effects with the investment target be considered when evaluating investment targets?
3. Are synergy effects considered to be one of the important non-financial factors affecting investment decisions?
4. How do synergy effects affect the smooth progress of investment projects, and under what circumstances or in what types of investment projects do investors pay more attention to synergy effects?

After analyzing these 32 valid items based on the role of investment synergy in investment decision-making, the five interviewees are classified into three dimensions: important, neutral, and unimportant, according to the content of the items. According to the summary of the interview items, all five interviewees believe that investment synergy effects are an important non-financial factor that should be considered in investment decisions. For example, one respondent states, “He can only make 100 million in five years. I go to help him coordinate. I have certain resources. In five years, he has made 1 billion. Do you think you will invest? I will definitely invest”. Another respondent mentions, “I think if he is the one with stronger professionalism and greater dependence on the supply chain, I think the synergy effect is more important”. Additionally, “First, if there is a synergy effect, when we judge this investment project in the internal enterprise, it may be easier for everyone to get our internal support”. Table 4-15 provides a detailed summary of the items.

Table 4-15 Importance of Synergy Effects in Investment Contracts

	Interview	Importance	Items
The Role of Synergy Effects in Investment Decsion-making	Interview1	Important	I prefer what you said, that there is a synergy effect, because sometimes you do it, if you are a professional investor like you, some companies do it, their investment may be upstream and downstream or something.
	Interview2	Important	The reason for synergy effects is that it can bring him some growth, so I think this is certain, or to put it simply, your investment can help the company, you may help others, and actually help others, the possibility of this investment is higher; he can only make 100 million in five years, I go to help him with synergy, I have certain resources, and he has made 1 billion in five years, do you think you will invest? I will definitely invest.
	Interview3	Important	I think overall, I personally have a neutral attitude towards synergy effects; I think if the one that is more professional and more dependent on the supply chain, I think synergy effects are more important.
	Interview4	Important	Under investment synergy, it depends on your own judgment. What are the synergy effects you bring to the company? Then, how to promote the value of the company? If the company holds a larger share, it will consider holding or considering synergy effects of the company more.
	Interview5	Important	We are an industrial investor, so we will definitely consider the synergy effect of the industry. First, if there is a synergy effect, when we judge the investment project in our internal enterprise, it may be easier for everyone to get our internal support. It must be highly relevant to our own industry. I think industrial investors will basically pay more attention to synergy effects.

Synergy Effects	Interviewee1	Interviewee2	Interviewee3	Interviewee4	Interviewee5	total	average score
	important	important	important	important	important		
score	10	10	10	10	10	50	10

All interviewees agree that synergy effects are important in investment decision-making.

4.7.2 Mechanism of Synergy Effects in Investment Decision-making

Regarding the role of investment synergy effects, as a significant non-financial factor in investment decision-making, through coding and sorting of interview items, 10 sub-dimensions are identified:

1. Connecting Upstream and Downstream
2. Supply Chain Synergy
3. Business Synergy
4. Industry Synergy
5. New Resources
6. Growth Enhancement
7. Expected Returns
8. Mutual Benefits and Win-win
9. Company Value
10. Team Support

Further summarizing, two main dimensions are identified:

1. Resource Sharing (including Connecting Upstream and Downstream, Supply Chain Synergy, Business Synergy, Industry Synergy, and New Resources)
2. Mutual Benefits and Win-win (including Growth Enhancement, Expected Returns, Mutual Benefits and Win-win, Company Value, and Team Support)

Table 4-16 lists the main dimensions, sub-dimensions, and items of the mechanism by which synergy effects affect investment decision-making.

Table 4-16 Mechanism of Synergy Effects in Investment Decision-making

Main Dimension	Sub-dimension	Items
Resource Sharing	Connecting Upstream and Downstream	Some companies do it, they may invest in upstream and downstream
	Supply Chain Synergy	I think if the whole company is more professional and more dependent on the supply chain, I think the synergy effect will be more important.
	Business Synergy	Investors value synergy effects, whether it is business synergy or personal network synergy. If you give him money, it is also a synergy.
	Industry Synergy	We are an industrial investor, so we will definitely consider the synergy effect of this industry. We will consider it. It is definitely highly relevant to our own industry. I think industrial investors will basically pay more attention to this synergy effect.
	New Resource	Synergy should be the whole process. From the first handshake when you open the door, you must know that both sides are talking about collaboration. In the end, you will do. How will he do it? What can you bring to him?
Mutual Benefits and Win-win	Growth Enhancement	The reason for synergy is that it can bring him some growth, so I think this is certain, or to put it simply, your investment can help the company, you may help others, and actually helping others increases the possibility of this investment; he can only make 100 million in five years, and I go to help him with synergy. I have certain resources, and he has made 1 billion in five years, do you think you will invest? I will definitely invest; if you have the ability to synergize, then of course, as long as I can help him grow quickly, then this will be of great use to myself.
	Expected Returns	That is to say, when I invest in him, I may not have a very direct synergy effect, but I judge that there is a high probability that we will have synergy in the future.
	Mutual Benefits and Win-win	If there is a synergy effect later, which allows me to see more clearly, then I may be willing to strengthen cooperation at the business level, so that we can achieve mutual benefit and win-win results. Or when I raise funds later, I am willing to increase my investment and help him find suitable investors to participate.
	Company Value	Under investment synergy, it depends on your own judgment. What are the synergy benefits you bring to the company? Then, how to promote the value of the company?
	Team Support	First, if there is a synergy effect, when we judge this investment project internally, it may be easier for everyone to get our internal support.

From Table 4-16, it is evident that all interviewees believe that investment synergy effects are an important factor in investment decisions. Investors generally invest in many projects. In these investment projects, investors can help the investee companies connect upstream and downstream, generate supply chain synergy, business synergy, or industrial synergy. In China's relationship-based society, if there are common investors, the investees can establish connections through the relationship between investors, and can understand each other's new resources, new technologies, new market directions, and other new information, thus achieving resource sharing. Resource sharing is likely to bring business growth, thereby increasing profits, achieving mutual benefit and win-win results, and increasing the corporate value of the investing company and the invested company. In summary, the above interview data verify Hypothesis 6: Investment projects with strong synergy effects have greater investment attractiveness.

Chapter 5 Evidence from Questionnaire Surveys

This section presents the evidence gathered from questionnaire surveys, also known as questionnaire surveys, a research method used to collect data through standardized questionnaires. Questionnaires are widely employed in social surveys, psychological research, market research, and other fields, allowing researchers to gather substantial data quickly and efficiently, often distributed via networks, thereby reducing costs. Researchers design a series of questions tailored to the research's purpose and content, distributing them through various means such as distribution, mailing, online platforms, or face-to-face interviews. The collected data is then collated and analyzed to derive insights about the surveyed subjects. Questionnaires are designed by researchers to suit specific objectives, offering respondents multiple-choice or open-ended questions. Researchers can draw conclusions from respondents' answers through statistical analysis. Despite its standardization and prompt results, questionnaires may elicit false or erroneous responses due to factors like self-defense mechanisms or memory lapses. Nonetheless, questionnaires have found extensive application in youth research, educational psychology, and social investigations.

5.1 Design of Questionnaire Survey

In a questionnaire, questions are designed first, followed by the identification of qualified respondents. Kang et al. (2009) posit that questionnaires are crafted based on theoretical assumptions and research objectives, comprising questions, items, alternative answers, and instructions for completion. According to Cheng and Hu (2017), questionnaire design should align closely with the research purpose and theme, aiming for systematic and comprehensive formulation of key points. Questionnaire surveys represent a commonly used method in empirical research.

Six research hypotheses guide the design of survey questions. For instance, regarding the effectiveness of protective clauses in investment contracts in attracting investment, the questionnaire explores whether such clauses are pivotal for investors and their impact on investment interest, risk reduction, operational efficiency, team stability, contract structure clarity, legal rights assurance, and dispute reduction in the investment process. Similar inquiries are posed regarding the efficacy of earn-out clauses, the significance of excellent management teams, the importance of industry tracks, the role of social relationships, and the impact of investment synergy effects on investment attractiveness.

To assess whether investment projects with an excellent team possess stronger investment attractiveness, we aim to determine if the management team of the investee is a crucial factor for investors in their decision-making process. Specifically, we investigate whether an outstanding management team can enhance the operating performance of the invested enterprise through its extensive experience, build a reputation that increases investor trust, and maintain the stable operation of the enterprise.

Regarding the attractiveness of investment projects with high-quality industry tracks, we seek to understand if the industry track is a primary consideration for investors when making investment decisions. We also examine whether the choice of industry track impacts future investment returns, if a good industry track facilitates easier exits, if it is more appealing to strategic investors, and if it enhances the project's financing capacity.

In exploring whether investment projects with social relationships have greater investment attractiveness, we aim to discover if investors take social relationships into account when making decisions. We also investigate whether social relationships can increase the reliability of project sources, reduce information asymmetry between investors and investees, and lower investment costs for projects obtained through social networks.

To evaluate if investment projects with strong synergy effects have enhanced investment attractiveness, we seek to determine if synergy effects are a significant consideration for investors. Additionally, we examine whether synergy effects can reduce investment risks, increase the comprehensive return and performance of the investment portfolio, and promote resource sharing and mutually beneficial outcomes.

After reviewing relevant materials and consulting experts, we formulated seven questions for each hypothesis, resulting in a total of 42 questions. Respondents are asked about the role of investment contract clauses, team quality, industry track, social relationships, and synergy effects in determining investment attractiveness. The questionnaire employs a 5-point Likert scale, where each question can be scored from 1 to 5 based on respondents' investment experiences. Detailed information about the questionnaire can be found in Appendix 2.

5.2 Data Source

This study focuses on non-financial factors in investment decisions, requiring interviewees with substantial investment experience, making it challenging to find a sufficient number of participants. The questionnaires were distributed through my social networks, including classmates from business school and professional colleagues. Respondents were asked to provide information such as gender, age, company type, investment experience, position, and investment scale. The participants were primarily investors working in investment or industrial companies, including classmates, friends, and current and former colleagues.

The questionnaire was hosted on WJX and distributed through various investment groups on WeChat, including those comprising classmates, friends, and colleagues. Respondents were asked to complete the questionnaire and encouraged to forward it to others in related fields. The questionnaire's purpose, estimated completion time, and confidentiality assurances were clearly stated at the beginning. Respondents were informed that their data would be kept strictly confidential and anonymized, with only the research team having access to it.

They were also informed that the anonymized data might be shared with qualified researchers or institutions according to academic policies, and any published results would be at a summary level without identifying individual participants or their companies. Participation was voluntary, and participants could withdraw at any time, although anonymity prevented withdrawal after submission.

5.3 Data Sorting

The analysis is based on 172 valid questionnaires. Among the respondents, 116 were male (67%) and 56 were female (33%). The age distribution was as follows: 1 participant under 30 (1%), 47 between 30-40 (27%), 91 between 40-50 (53%), and 33 over 50 (19%). Regarding company type, 77 respondents were from private non-listed companies (45%), and 27 from private listed companies (16%), with private companies comprising over 50% of the respondents.

Table 5-1 By Gender

Gender	Quan.	Percentage
Male	116	67%
Female	56	33%
Total	172	100%

Table 5-2 By Age

Age	Quan.	Percentage
Below 30	1	1%
30-40	47	27%
40-50	91	53%
Above 50	33	19%
Total	172	100%

Table 5-3 By Company Nature

Company Nature	Quan.	Percentage
Non-listed Private Company	77	45%
Listed Private Company	27	16%
Non-listed State-owned Company	9	5%
Listed State-owned Company	10	6%
Non-listed Foreign-owned Company	7	4%
Listed Foreign-owned Company	18	10%
Private Investment Company	11	6%
State-owned Investment Company	5	3%
Others	8	5%
Total	172	100%

Regarding investment experience, 117 participants had more than 5 years of experience (68%), 26 had 3-5 years (15%), and 15 had 1-3 years (9%), indicating a high level of investment experience among participants. In terms of positions, there were 34 Presidents (20%), 34 General Managers (20%), 36 Vice Presidents (21%), 22 CFOs (13%), and 11 Investment Directors (6%), suggesting that respondents held relatively high positions. Regarding investment scale, 90 participants invested less than 200 million yuan (52%), 21 invested between 200-500 million yuan (12%), 12 invested between 500 million-1 billion yuan (7%), and 49 invested more than 1 billion yuan (29%), indicating that most participants were relatively small investors.

Table 5-4 By Investment Experience

Investment Experience	Quan.	Percentage
Under 1 year	14	8%
1-3 years	15	9%
3-5 years	26	15%
Over 5 years	117	68%
Total	172	100%

Table 5-5 By Position

Position	Quan.	Percentage
President	34	20%
GM	34	20%
Vice President in charge	36	21%
CFO	22	13%
Investment Director	11	6%
Others	35	20%
Total	172	100%

Table 5-6 By Investment Scale

Investment Scale	Quan.	Percentage
Below 200 M	90	52%
200-500 M	21	12%
500 M - 1 B	12	7%
Over 1 B	49	29%
Total	172	100%

5.4 Data Analysis on Questionnaire

Table 5-7 presents the mean scores and T-test results for each question. The mean score is calculated by averaging the scores from all 172 respondents.

Table 5-7 Descriptive Statistics Results and T-test of Questionnaire

	N	Mean	SD	Min	P25	P50	P75	Max	T-test (Mean>2.5)
Questions Regarding Hypothesis 1									
It's irrelevant for investors to have protective clauses in investment contracts. (Reserve Adjustment)	172	4.105	1.233	1	4	5	5	5	17.06***
In investment contracts, protective clauses can help reduce the risks of investment projects and increase investors' confidence.	172	3.983	1.006	1	3	4	5	5	19.33***
The protective clauses in investment contracts limit the decision-making and flexibility of the management team and reduce the operational performance, which reducing their attractiveness to investors. (Reserve Adjustment)	172	3.279	1.01	1	3	3	4	5	10.11***
The protective clauses in investment contracts provide clear guidance to the management team, helping avoid future disputes and establish a solid foundation for cooperation.	172	3.831	0.962	1	3	4	5	5	18.16***
The protective clauses in investment contracts lead to complex contract structures, increase the cost of understanding and execution, and reduce investors' interest. (Reserve Adjustment)	172	3.477	1.084	1	3	4	4	5	11.82***
The protective clauses in investment contracts ensure that investors obtain the rights and protection they deserve within the legal framework and enhance their confidence.	172	4.029	0.854	1	4	4	5	5	23.47***
The protective clauses in investment contracts increase the risk of potential legal disputes, leading to increased concerns and reduced confidence among investors about future legal disputes. (Reserve Adjustment)	172	3.709	1.153	1	3	4	5	5	13.75***
Overall Average Score of Hypothesis 1		3.77							17.06***

Table 5-7 Descriptive Statistics Results and T-test of Questionnaire (Cont'd)

	N	Mean	SD	Min	P25	P50	P75	Max	T-test (Mean>2.5)
Questions Regarding Hypothesis 2									
If without the bet clauses (including exit guarantees such as Repurchase, performance commitments, and IPO commitments, even good investment projects may not be attractive to investors.	172	2.75	1.17	1	2	3	4	5	2.80***
The bet clauses in investment contracts help investors and management teams share the risks of future business development and enhance investors' willingness to provide funds.	172	3.686	0.964	1	3	4	4	5	16.13***
The bet clauses in investment contracts exposes the actual controller of the company to excessive risks and adopts risky strategies, which excessively increases the risks and reduces investors' interest. (Reserve Adjustment)	172	3.273	1.032	1	3	3	4	5	9.83***
The bet clauses in investment contracts help establish a trusting relationship between investors and the management team, and protect the interests of investors. (Reserve Adjustment)	172	3.448	1.077	1	3	4	4	5	11.53***
If the design and execution of the bet clauses in investment contracts are too complex, they will increase the uncertainty and operational costs of investment and reduce investors' interest in the project.	172	3.43	1.026	1	3	4	4	5	11.89***
The bet clauses in investment contracts provide investors with guaranteed exit opportunities, thereby enhancing their confidence.	172	3.907	0.811	2	3	4	4	5	22.75***
The existence of bet clauses indicates that the invested company is very in short of money and has a low negotiating position, making it less attractive. (Reserve Adjustment)	172	3.477	1.089	1	3	4	4	5	11.76***
Overall Average Score of Hypothesis 2		3.42							21.02***

Table 5-7 Descriptive Statistics Results and T-test of Questionnaire (Cont'd)

	N	Mean	SD	Min	P25	P50	P75	Max	T-test (Mean>2.5)
Questions Regarding Hypothesis 3									
In the investment decision-making process, investors do not consider the level and ability of the management team of the invested company. (Reserve Adjustment)	172	4.5	0.889	1	4	5	5	5	29.52***
An outstanding management team utilizes its advantages such as excellent execution and professional experience to achieve outstanding operating performance.	172	4.459	0.695	1	4	5	5	5	36.95***
An outstanding management team often has overconfidence, lacks transparency in management, and has poor communication with investors. (Reserve Adjustment)	172	3.605	1.006	1	3	4	4	5	14.40***
An outstanding management team is more likely to win the trust of investors and gain their favor.	172	4.465	0.712	1	4	5	5	5	36.18***
Projects with outstanding management team usually have too high valuations, lack of cost-effectiveness, and provide investors with too low returns. (Reserve Adjustment)	172	3.57	0.937	1	3	4	4	5	14.97***
An excellent management team usually achieves excellent operating performance through good teamwork and team stability.	172	4.093	0.818	1	4	4	5	5	25.53***
An outstanding management team is more likely to be satisfied with the status quo and has a conservative attitude towards innovation and risk-taking, thus lacking innovation and growth potential. (Reserve Adjustment)	172	3.843	0.982	1	3	4	5	5	17.94***
Overall Average Score of Hypothesis 3		4.07							29.52***

Table 5-7 Descriptive Statistics Results and T-test of Questionnaire (Cont'd)

	N	Mean	SD	Min	P25	P50	P75	Max	T-test (Mean>2.5)
Questions Regarding Hypothesis 4									
In the investment decision-making process, a good industry track may not increase investors' investment interest. (Reserve Adjustment)	172	4.291	0.929	1	4	5	5	5	25.29***
A good industry track means higher potential returns and greater market opportunities.	172	4.116	0.857	1	4	4	5	5	24.73***
Investment projects in good industry tracks are more likely to attract strategic investment, promote more cooperation and support, and are more likely to succeed.	172	4.105	0.757	1	4	4	5	5	27.78***
Investment projects in good industry tracks are more likely to have future financing opportunities, thereby reducing the difficulties of exit.	172	3.837	0.863	1	3	4	4	5	20.31***
Investment projects in good industry tracks are more competitive and have higher valuations, thus reducing investors' interest. (Reserve Adjustment)	172	3.32	0.941	1	3	3	4	5	11.43***
Investment projects in good industry tracks have greater growth potential and are more likely to achieve good investment performance.	172	3.756	0.794	1	3	4	4	5	20.75***
Investment projects in good industry tracks face greater market risks posed by technological advancements, making them less attractive to investors. (Reserve Adjustment)	172	3.767	0.914	1	3	4	4	5	18.20***
Overall Average Score of Hypothesis 4		3.88							33.93***

Table 5-7 Descriptive Statistics Results and T-test of Questionnaire (Cont'd)

	N	Mean	SD	Min	P25	P50	P75	Max	T-test (Mean>2.5)
Questions Regarding Hypothesis 5									
In the investment decision-making process, investors not only consider objective indicators such as feasibility and return, but also consider subjective factors such as social relationships.	172	3.552	1.004	1	3	4	4	5	13.74***
Investment projects connected through social relationships are more reliable with lower risks, and provide investors with more confidence.	172	3.029	0.994	1	2	3	4	5	6.98***
Investment projects connected through social relationships are more likely to obtain comprehensive and reliable information about the project, reducing information uncertainty.	172	3.198	0.989	1	3	3	4	5	9.25***
Investment projects connected through social relationships lack commercial value, are more deceptive, and are more likely to lead to investment losses. (Reserve Adjustment)	172	3.453	0.92	1	3	3	4	5	13.60***
Investment projects connected through social relationships involve relationship disputes, which bring additional instability to the project and discourage investors. (Reserve Adjustment)	172	3.343	0.888	1	3	3	4	5	12.45***
Investment projects connected through social relationships have lower transaction costs and smoother transactions, making them more attractive to investors.	172	3.192	0.881	1	3	3	4	5	10.30***
The emotional factors tainted in investment projects connected through social relationships can reduce objectivity and make them less attractive to investors. (Reserve Adjustment)	172	3.262	0.896	1	3	3	4	5	11.15***
Overall Average Score of Hypothesis 5		3.28							20.18***

Table 5-7 Descriptive Statistics Results and T-test of Questionnaire (Cont'd)

	N	Mean	SD	Min	P25	P50	P75	Max	T-test (Mean>2.5)
Questions Regarding Hypothesis 6									
The synergy effects do not increase investors' interest. (Reserve Adjustment)	172	3.89	0.921	2	3	4	5	5	19.80***
The synergy effects help reduce the risk of a particular investment, thereby increasing its attractiveness to investors.	172	3.738	0.869	1	3	4	4	5	18.68***
The synergy effects mean having impacts on multiple parties, which increases uncertainty of the invested project and execution risk, thus reducing investors' interest. (Reserve Adjustment)	172	3.645	0.928	1	3	4	4	5	16.18***
The synergy effects help maximize portfolio returns, thereby increasing investment performance. (Reserve Adjustment)	172	3.709	0.785	1	3	4	4	5	20.19***
The synergy effects lead investors to hold on for the long term, thereby increasing exit difficulty and lowering investment returns.	172	3.256	0.987	1	3	3	4	5	10.04***
The synergy effects increase investor returns and improve their interest by sharing resources and reducing costs.	172	3.686	0.834	1	3	4	4	5	18.64***
Investment projects with the synergy effects make investments more complex and unpredictable, thereby making them less attractive to investors. (Reserve Adjustment)	172	3.686	0.964	1	3	4	4	5	16.13***
Overall Average Score of Hypothesis 6		3.89							25.13***

Table 5-8 Average and T-test of Hypothesis 1

protective clause	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Average	T test (mean>2.5)	range
score	4.105	3.983	3.279	3.831	3.477	4.029	3.709	3.77		
T test (mean>2.5)	17.06***	19.33***	10.11***	18.16***	11.82***	23.47***	13.75***		17.06***	
H1	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.77	17.06***	4

From Table 5-7 and Table 5-8, drawing a line based on the mean of 2.5, the average score of the 7 questions related to Hypothesis 1 is above 2.5, with an overall mean of 3.77. The T-test results show that this is significantly greater than 2.5 at the 1% level, supporting Hypothesis 1: Protective clauses in investment contracts help attract investment.

Table 5-9 Average and T-test of Hypothesis 2

bet clause	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Average	T test (mean>2.5)	range
score	2.75	3.686	3.273	3.448	3.43	3.907	3.477	3.42		
T test (mean>2.5)	2.80***	16.13***	9.83***	11.53***	11.89***	22.75***	11.76***		21.02***	
H2	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.42	21.02***	5

From Table 5-7 and Table 5-9, for Hypothesis 2, the average score of the 7 questions is above 2.5, with an overall mean of 3.42. The T-test results show it is significantly greater than 2.5 at the 1% level, supporting Hypothesis 2, though there is some inconsistency with interview results, indicating possible controversy or sample size issues.

Table 5-10 Average and T-test of Hypothesis 3

management team	Q15	Q16	Q17	Q18	Q19	Q20	Q21	Average	T test (mean>2.5)	range
score	4.5	4.459	3.605	4.465	3.57	4.093	3.843	4.07		
T test (mean>2.5)	29.52***	36.95***	14.40***	36.18***	14.97***	25.53***	17.94***		29.52***	
H3	Supported	Supported	Supported	Supported	Supported	Supported	Supported	4.07	29.52***	1

From Table 5-7 and Table 5-10, for Hypothesis 3, the average score of the 7 questions is above 2.5, with an overall mean of 4.07. The T-test results show it is significantly greater than 2.5 at the 1% level, supporting Hypothesis 3: Investment projects with outstanding management teams have stronger investment attractiveness.

Table 5-11 Average and T-test of Hypothesis 4

Industry Track	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Average	T test (mean>2.5)	range
score	4.291	4.116	4.105	3.837	3.32	3.756	3.767	3.88		
T test (mean>2.5)	25.29***	24.73***	27.78***	20.31***	11.43***	20.75***	18.20***		33.93***	
H4	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.88	33.93***	3

From Table 5-7 and Table 5-11, for Hypothesis 4, the average score of the 7 questions is above 2.5, with an overall mean of 3.88. The T-test results show it is significantly greater than 2.5 at the 1% level, supporting Hypothesis 4: Investment projects in high-quality tracks have stronger investment attractiveness.

Table 5-12 Average and T-test of Hypothesis 5

social relationships	Q29	Q30	Q31	Q32	Q33	Q34	Q35	Average	T test (mean>2.5)	range
score	3.552	3.029	3.198	3.453	3.343	3.192	3.262	3.28		
T test (mean>2.5)	13.74***	6.98***	9.25***	13.60***	12.45***	10.30***	11.15***		20.18***	
H5	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.28	20.18***	6

From Table 5-7 and Table 5-12, for Hypothesis 5, the average score of the 7 questions is above 2.5, with an overall mean of 3.28. The T-test results show it is significantly greater than 2.5 at the 1% level, supporting Hypothesis 5: Investment projects with good social relationships have stronger investment attractiveness.

Table 5-13 Average and T-test of Hypothesis 6

Synergy Effects	Q36	Q37	Q38	Q39	Q40	Q41	Q42	Average	T test (mean>2.5)	range
score	3.89	3.738	3.645	3.709	3.256	3.686	3.686	3.89		
T test (mean>2.5)	19.80***	18.68***	16.18***	20.19***	10.04***	18.64***	16.13***		25.13***	
H6	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.89	25.13***	2

From Table 5-7 and Table 5-13, for Hypothesis 6, the average score of the 7 questions is above 2.5, with an overall mean of 3.89. The T-test results show it is significantly greater than 2.5 at the 1% level, supporting Hypothesis 6: Investment projects with good synergy effects have stronger investment attractiveness.

Table 5-14 summarizes the average score rankings for the hypotheses.

Table 5-14 Average Score Ranking of Questionnaire Regarding the Hypothesis Testing

Management Team	Q15	Q16	Q17	Q18	Q19	Q20	Q21	Average	T test (mean>2.5)	range
H3	Supported	Supported	Supported	Supported	Supported	Supported	Supported	4.07	29.52***	1
Synergy Effects	Q36	Q37	Q38	Q39	Q40	Q41	Q42	Average	T test (mean>2.5)	range
H6	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.89	25.13***	2
Industry Track	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Average	T test (mean>2.5)	range
H4	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.88	33.93***	3
Protective Clauses	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Average	T test (mean>2.5)	range
H1	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.77	17.06***	4
Bet Clauses	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Average	T test (mean>2.5)	range
H2	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.42	21.02***	5
Social Relationships	Q29	Q30	Q31	Q32	Q33	Q34	Q35	Average	T test (mean>2.5)	range
H5	Supported	Supported	Supported	Supported	Supported	Supported	Supported	3.28	20.18***	6

In this study, we deeply explore the impact of protective clauses, earn-out clauses, management teams, industry tracks, social relationships, and synergy effects on investment decision-making. Through survey data analysis and T-tests, we draw several key conclusions. Firstly, protective clauses significantly enhance investment attractiveness by improving operational efficiency, clarifying investment contract structures, safeguarding investors' legal rights, and reducing litigation disputes. However, the role of earn-out clauses is mixed. Secondly, an outstanding management team is crucial for investment decisions, as experienced and reputable teams can significantly increase investor trust. Additionally, high-quality industry tracks, strong social networks, and synergy effects play important roles in investment decision-making by reducing risks, increasing returns, improving information transparency, and lowering costs. Overall, our findings indicate that non-financial factors significantly influence investment decisions, providing a comprehensive basis for investors and practical recommendations to enhance investment attractiveness and reduce risks.

Chapter 6 Empirical Evidence on Investment Contract Clauses

This section presents empirical evidence derived from the content of investment contracts. Empirical analysis, a research method in social sciences, focuses on the current social or disciplinary realities and infers and explains them through examples and experiences. This method typically involves various analytical tools, such as quantitative and aggregate analysis, equilibrium and non-equilibrium analysis, static and dynamic analysis, qualitative and quantitative analysis, logical deduction and empirical induction, economic models, and assumptions of rational individuals. In economics, empirical analysis is often employed to test economic theories or hypotheses, verify the validity of these theories by collecting and analyzing economic data, predict the development trends of economic phenomena, and evaluate policy effects.

6.1 Data Source

Investment contracts are considered trade secrets by companies, which are generally reluctant to disclose them publicly. Obtaining authentic texts of investment contracts is challenging. I collected true investment contracts through my social connections, including classmates from business school and friends from work. Even with these familiar connections, I ensured that the providers understood the collected contract samples were solely for academic purposes and would not be used otherwise. Some contract samples were signed and stamped by both parties, while others were not. However, the providers of the unsigned and unstamped contracts assured that their contents were consistent with the actual signed and stamped versions. Some companies, being cautious, only provided standard investment contract texts, noting that these were rarely modified during the actual signing process. After several months of effort, I collected a total of 194 investment contract samples, from which 2 duplicates and 17 supplementary agreements were excluded, resulting in 175 valid samples.

6.2 Sorting and Reviewing the Investment Contract Clauses

I categorized the 175 valid investment contract samples based on protective and earn-out clauses. Earn-out clauses have become increasingly popular in the investment and financing field. Initially seen in foreign equity financing, they quickly became a widely used risk prevention tool in mainland China's equity investments. Earn-out clauses are now a common performance control method in equity investment practice. Investors often view these clauses as self-protective measures. The effectiveness of earn-out clauses has always been a topic of interest and debate. These clauses are also frequently seen in China's capital markets, especially during IPO processes.

Thus, the investment contract clauses are classified into two categories comprising of protective clauses and earn-out clauses. Protective clauses include The First Option, Director Appointment Right, Non-compete Clause, Co-sale Right, Anti-dilution Provision, Liquidation Preference, Information Right, Due Diligence, and Other Guarantees. Earn-out clauses include Repurchase and Exit Guarantee, Performance Commitment, and IPO Commitment. Earn-out clauses typically pressure the investee to fulfill financial commitments if certain conditions are not met, whereas protective clauses are usually more acceptable to the investing party. The classification of clauses is shown in Table 6-1.

Table 6-1 Categories of Investment Contract Clauses

Earn-out clauses			Protective Clause								
Repurchase and Exit Gurantee	Performance Commitment	IPO Commitment	The First Option	Director Appointment Right	Non-compete Right	Co-sale Right	Anti-dilution Provision	Liquidation Preference	Information Right	Due-diligence Right	Other Gurantee (Asset Security, Dividen Restrictions)

According to the 175 valid contract samples, Table 6-2 organizes the number of samples by industry.

Table 6-2 Summary of Contract Samples

Sample	175	194 contract samples are collected in total, deducted 2 duplicated and 17 supplementary agreements																
Industry	Media	Service	Individual	Engineeri	Supply	Healthcare	Transporta	Finance	Technolog	Energy	Agricultur	Catering	Real	None	Logistics	Informatio	Pharmacy	Manufactu	Total
Quan.	1	4	1	1	1	3	1	22	70	6	2	1	1	29	1	1	12	18	175
Percentag	0.6	2.3	0.6	0.6	0.6	1.7	0.6	12.6	40.0	3.4	1.1	0.6	0.6	16.6	0.6	0.6	6.9	10.3	100.0

Note: None – the investment contracts cannot be provided by the actual contract due to some reasons and only the investment contract samples are provided from different individuals.

6.2.1 Classification of Contract Samples According to "Whether Earn-out Clauses are Included"

Table 6-3 Classification of Contract Samples: Whether or Not Earn-out Clauses are Included

No Earn-out Clauses Included	1 Earn-out Clause Included	2 Earn-out Clauses Included	3 Earn-out Clauses Included	Total
99	31	30	15	175
56%	18%	17%	9%	100%

From Table 6-3, it is evident that among the investment contracts, 99 samples (56%) do not contain earn-out clauses, while 76 samples (43%) include at least one earn-out clause. Specifically, 31 samples (18%) have one earn-out clause, 30 samples (17%) have two earn-out clauses, and 15 samples (9%) have three earn-out clauses. This indicates that even without the guarantee of earn-out clauses, investors are willing to invest in good projects.

6.2.2 Analysis on Contract Samples According to Protective Clauses

Table 6-4 Classification of Contract Samples: With/not "The First Option"

The First Option	With	Withouth	Total
Sample Size	53	122	175
Percentage	30%	70%	100.0%

Table 6-4 shows that 53 samples (30%) include The First Option right, while 122 samples (70%) do not.

Table 6-5 Classification of Contract Samples: With/not "Director Appointment Right"

Director Appointment Right	With	Without	Total
Sample Size	53	122	175
Percentage	30%	70%	100.0%

Table 6-5 shows that 53 samples (30%) include Director Appointment Right, while 122 samples (70%) do not.

Table 6-6 Classification of Contract Samples: With/not "Non-compete"

Non-compete	With	Without	Total
Sample Size	70	105	175
Percentage	40%	60%	100%

Table 6-6 shows that 70 samples (40%) include Non-compete clauses, while 105 samples (60%) do not.

Table 6-7 Classification of Contract Samples: With/not "Co-sale Right"

Co-Sale Right	With	Without	Total
Sample Size	43	132	175
Percentage	25%	75%	100%

Table 6-7 shows that 43 samples (25%) include Co-sale Right, while 132 samples (75%) do not.

Table 6-8 Classification of Contract Samples: With/not "Anti-dilution Provision"

Anti-dilution	With	Without	Total
Sample Size	47	128	175
Percentage	27%	73%	100%

Table 6-8 shows that 47 samples (27%) include Anti-dilution Provision, while 128 samples (73%) do not.

Table 6-9 Classification of Contract Samples: With/not "Liquidation Preference"

Liquidation Provision	With	Without	Total
Sample Size	46	129	175
Percentage	26%	74%	100%

Table 6-9 shows that 46 samples (26%) include Liquidation Preference, while 129 samples (74%) do not.

Table 6-10 Classification of Contract Samples: With/not "Information Right"

Information Right	With	Without	Total
Sample Size	130	45	175
Percentage	74%	26%	100%

Table 6-10 shows that 130 samples (74%) include Information Right, while 45 samples (26%) do not.

Table 6-11 Classification of Contract Samples: With/not "Due-diligence"

Due-diligence	With	Without	Total
Sample Size	18	157	175
Percentage	10%	90%	100%

Table 6-11 shows that 18 samples (10%) include Due Diligence, while 157 samples (90%) do not.

Table 6-12 Classification of Contract Samples: With/not "Other Guarantees"

Other Guarantees (Asset Security, Dividen Restrictions)	With	Without	Total
Sample Size	151	24	175
Percentage	86%	14%	100%
Other Guarantees include: legality of equity, timely processing of equity changes, dividend restrictions, transitional arrangements, restrictions on major asset disposals, restrictions on related-party transactions, key personnel's retention, timely provision of financial information, executive compensation restrictions, confidentiality, most favorable investors, and so on			

Table 6-12 shows that 151 samples (86%) include Other Guarantees, while 24 samples (14%) do not. These guarantees include legality of equity, timely processing of equity changes, dividend restrictions, transitional arrangements, restrictions on major asset disposals, restrictions on related-party transactions, key personnel retention, timely provision of financial information, executive compensation restrictions, confidentiality, most favorable investors, and others.

6.2.3 Analysis on Contract Samples According to Earn-out clauses

Table 6-13 Classification of Contract Samples: With/not Repurchase

Repurchase	With	Without	Total
Sample Size	57	118	175
Percentage	33%	67%	100%

Table 6-13 shows that 57 samples (33%) include Repurchase clauses, while 118 samples (67%) do not.

Table 6-14 Classification of Contract Samples: With/not Performance Commitment

Performance Commitment	With	Without	Total
Sample Size	18	157	175
Percentage	10%	70%	100%

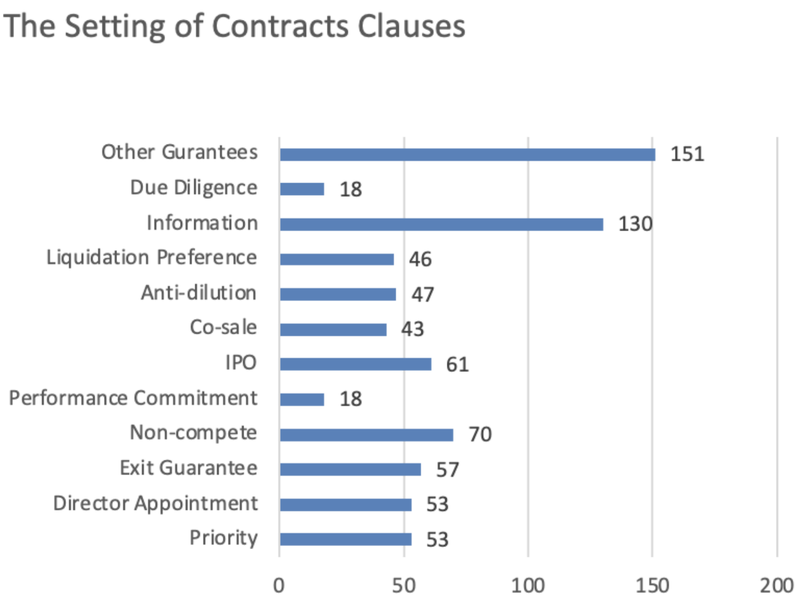
Table 6-14 shows that 18 samples (10%) include Performance Commitment, while 157 samples (90%) do not.

Table 6-15 Classification of Contract Samples: With/not IPO Commitment

IPO Commitment	With	Without	Total
Sample Size	61	114	175
Percentage	35%	65%	100%

Table 6-15 shows that 61 samples (35%) include IPO Commitment, while 114 samples (65%) do not.

Table 6-16 Statistical Summary of Protective Clauses in Investment Contracts



As shown in Table 6-16, the descriptive statistics of these investment contract clauses indicates that protective clauses are common and important to investors, supporting Hypothesis 1 that protective clauses in investment contracts help attract investment. Among the 175 samples, 99 (56%) do not include earn-out clauses, while 76 (43%) do, with only 15 samples (9%) having three earn-out clauses. This high proportion of contracts without earn-out clauses suggests that investors are willing to invest in good projects even without such guarantees, contrary to Hypothesis 2 that earn-out clauses significantly promote investment.

6.3 Regression Results of Investment Contract Clauses on Investment Amounts

From the compiled data, 112 samples include investment amounts. Given the varying quality and non-financial factors of projects of different scales, investment scale is used as a control variable in the regression analysis. Four samples were excluded due to the lack of investment proportion data, resulting in 108 samples used for the regression analysis. Table 6-17 lists the variables and their definitions.

Table 6-17 Variables

Variable	Definition
INVEST	the natural logarithm of investment amount recorded in investment contract
Priority	1=with The First Option in investment contract; otherwise, 0
Appoint	1=with Director Appointment in investment contract; otherwise, 0
Exit	1=with Repurchase in investment contract; otherwise, 0
Restriction	1=with Non-compete in investment contract; otherwise, 0
Commit	1=with Performance Commitement in investment contract; otherwise, 0
IPO	1=with IPO Commitment in investment contract; otherwise, 0
Co_sale	1=with Co-sale Right in investment contract; otherwise, 0
Anti_dilut	1=with Anti-dilution in investment contract; otherwise, 0
Liquidation	1=with Liquidation Preference in investment contract; otherwise, 0
Informed	1=with Information Right in investment contract; otherwise, 0
Investigation	1=with Due-diligence in investment contract; otherwise, 0
Warranty	1=with Other Guarantees in investment contract; otherwise, 0
Num_items	the number of protective clauses in investment agreements
Size	total amount of investment project (in 100m RMB)
Num_items_earnout	the number of earn-out clauses in investment contract
Num_items_protective	the number of protective clauses in investment contract

Table 6-18 presents the regression analysis of the investment contract variables on investment amounts (investment proportions).

Table 6-18 Descriptive Statistics Analysis of Protective Clauses

VarName	Obs	Mean	SD	Min	P25	Median	P75	Max
INVEST	108	6.877	1.758	-0.062	6.215	6.908	8.006	10.771
Priority	108	0.389	0.490	0.000	0.000	0.000	1.000	1.000
Appoint	108	0.398	0.492	0.000	0.000	0.000	1.000	1.000
Exit	108	0.426	0.497	0.000	0.000	0.000	1.000	1.000
Restriction	108	0.481	0.502	0.000	0.000	0.000	1.000	1.000
Commit	108	0.139	0.347	0.000	0.000	0.000	0.000	1.000
IPO	108	0.407	0.494	0.000	0.000	0.000	1.000	1.000
Co_sale	108	0.324	0.470	0.000	0.000	0.000	1.000	1.000
Anti_dilut	108	0.361	0.483	0.000	0.000	0.000	1.000	1.000
Liquidation	108	0.352	0.480	0.000	0.000	0.000	1.000	1.000
Informed	108	0.778	0.418	0.000	1.000	1.000	1.000	1.000
Investigation	108	0.130	0.337	0.000	0.000	0.000	0.000	1.000
Warranty	108	0.898	0.304	0.000	1.000	1.000	1.000	1.000
d_gamb	108	5.083	3.589	0.000	2.000	4.000	9.000	12.000
Num_items	108	0.528	0.502	0.000	0.000	1.000	1.000	1.000
Num_items_earnout	108	0.972	1.072	0.000	0.000	1.000	2.000	3.000
Num_items_protective	108	4.111	2.735	0.000	2.000	3.000	7.000	9.000
Size	108	4.566	7.687	0.006	0.520	1.462	4.752	37.220

The results indicate that the most common clause is Asset Security-related protective clauses, with nearly 90% of contracts including this clause. The Information Right clause appears in 78% of the total samples, while Performance Commitment is less common, appearing in only 14% of contracts. The average number of earn-out clauses is 0.972, while protective clauses average 4.111, suggesting that protective clauses are more widely used compared to earn-out clauses.

6.3.1 Regression Results on Investment Amount Base on Investment Contract Clauses

Table 6-19 Regression Results on Investment Amount based on Individual Protective Clause

	INVEST	*INVEST*	*INVEST*	*INVEST*	*INVEST*	*INVEST*	*INVEST*	*INVEST*	*INVEST*
	1	2	3	4	5	6	7	8	9
Priority	0.672**								
	(2.17)								
Appoint		1.177***							
		(8.92)							
Restriction			0.57						
			(1.56)						
Co_sale				0.38					
				(1.70)					
Anti_dilut					0.391**				
					(2.47)				
Liquidation						0.674***			
						(3.71)			
Informed							1.803***		
							(4.51)		
Investigation								1.346***	
								(6.35)	
Warranty									1.165**
									(2.87)
Size	0.000*	0.000**	0.000*	0.000*	0.000*	0.000*	0.000**	0.000**	0.000*
	(2.05)	(2.44)	(2.07)	(1.98)	(1.93)	(1.96)	(2.44)	(2.32)	(1.89)
intercept	6.268***	5.963***	6.252***	6.412***	6.399***	6.304***	5.150***	6.346***	5.485***
	(17.22)	(20.63)	(13.63)	(18.82)	(20.05)	(18.96)	(10.94)	(29.95)	(22.66)
N	108	108	108	108	108	108	108	108	108
adj. R^2	0.15	0.22	0.14	0.12	0.12	0.15	0.30	0.18	0.15

t statistics in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6-20 Regression Results on Investment Amount based on Individual Earn-out Clauses

	INVEST	*INVEST*	*INVEST*
	1	2	3
Exit	0.11		
	(0.27)		
Commit		0.964^{***}	
		(3.11)	
IPO			0.40
			(1.07)
Size	0.000^{*}	0.000^{*}	0.000^{*}
	(2.13)	(2.06)	(1.92)
intercept	6.465^{***}	6.431^{***}	6.384^{***}
	(15.42)	(22.96)	(16.04)
N	108	108	108
adj. R^2	0.11	0.15	0.12

t statistics in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The regression results on investment amounts based on individual protective clauses show significant positive effects for several clauses. Including The First Option clause in the contract increases the mean investment amount by 10%, the Director Appointment clause by 17%, the Anti-dilution clause by 17%, the Liquidation Preference clause by 10%, the Information Right clause by 26%, the Due-diligence clause by 20%, and other protective clauses by 17%, all at varying levels of statistical significance. Overall, the presence of more protective clauses in an investment contract significantly boosts the investment amount, supporting the hypothesis that protective clauses help attract investments.

Among the earn-out clauses, only the Performance Commitment clause has a significant positive effect on the investment amount, while exit and IPO clauses do not. This partially supports the hypothesis that earn-out clauses significantly promote investment. The lack of significant impact from exit and IPO clauses may be due to the conservative and risk-averse nature of the investors in the sample, who prefer stable returns from later-stage projects and thus prioritize protective clauses over earn-out clauses.

For high-quality projects, even without repurchase and IPO commitments, investors are still willing to invest. Investee companies, holding internal information and facing no shortage of investors, often resist accepting earn-out clauses that impose pressure on them. However, protective clauses such as The First Option, Director Appointments, Anti-dilution, Liquidation Preference, Information Rights, Due-diligence, and others are generally acceptable. The regression data indicate that while IPO commitment and repurchase exit clauses do not significantly increase investment amounts, protective clauses do. Therefore, even without earn-out clauses, investors are still inclined to invest in good projects.

6.3.2 Regression Results of Investment Amount by Classifying Characteristic Variables of Investment Contract Clauses (Whether Protective Clauses are Included)

Table 6-21 Regression Results on Investment Amount According to "With/not Earn-out clauses"

	(1)	(2)	(3)
	ln_investamount	ln_investamount	ln_investamount
Num_items_protective	0.201^{***}		
	(6.16)		
Num_items_earnout		0.221	
		(1.20)	
Num_items			0.139^{***}
			(4.20)
size	0.068^{*}	0.070^{*}	0.000^{*}
	(2.04)	(1.92)	(1.95)
intercept	5.741^{***}	6.344^{***}	5.877^{***}
	(14.92)	(15.43)	(14.15)
N	108	108	108
adj. R^2	0.208	0.128	0.19

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6-21 shows that non-contingent protective clauses in investment contracts significantly promote the investment amount, with each additional term increasing the mean investment amount by 3%. This supports Hypothesis 1, that protective clauses attract investment. Investors, being external parties with less information than investees, include protective clauses to safeguard their interests, leading to their prevalence in investment contracts.

In addition, it can be seen from the regression data of investment amount based on the classification features of investment contract clauses that earn-out clauses have no significant positive effect on investment amount. Hypothesis 2 is not supported, that is, earn-out clauses increase investment amount. As discussed before, the insignificant role of earn-out clauses in investment might be due to the fact that investors in our sample contracts are risk adverse and prefer later-stage projects. In such case, investors prefer stable return and need protective clauses rather than earn-out clauses to achieve such purpose.

However, earn-out clauses do not significantly affect investment amounts, refuting Hypothesis 2. This might be because investors in the sample are risk-averse and prefer stable returns from later-stage projects, relying more on protective clauses than earn-out clauses. High-quality projects, with more leverage and informational advantage, tend to avoid accepting stringent clauses like repurchase and IPO commitments, which may require financial commitments if business operations fluctuate.

The results above might be subject to the impact of endogeneity. For instance, high-quality projects have more protective clauses and less earn-out clauses and meanwhile attract more investment. The evidence based on interviews and questionnaire surveys less likely subjects to such concern.

In practice, good investment projects are difficult to find, and investees typically hold the upper hand in negotiations due to their informational advantage. In cases where the company is performing well and has multiple potential investors, investees usually reject pressure-inducing clauses such as repurchase and IPO commitments. Conversely, in less promising projects, investees may accept such clauses to secure funding, addressing immediate financial needs.

The sample contracts with repurchase and IPO commitments show a weak correlation with investment amounts. Stronger projects have more leverage and resist restrictive clauses, while weaker projects, needing funding, accept them. Interviews with investors reveal that even without earn-out clauses, they mitigate information asymmetry and reduce risks by carefully examining the investee’s team, industry track, and designing protective contract clauses like Director Appointment Right, Information Right, and Due-diligence. These measures ensure the investee company's compliance with legal and regulatory requirements, minimizing risks.

In summary, this study employs three research methods to test the proposed hypotheses. The results, summarized in Table 6-22, validate that protective clauses in investment contracts significantly attract investments, while the impact of earn-out clauses is less pronounced. The findings highlight the importance of protective clauses in investment decision-making and suggest that investors prioritize them over earn-out clauses to secure their investments and ensure stable returns.

Table 6-22 Hypothesis Testing Results in 3 Research Methods

Hypothesis	Interviews	Surveys	Empirical Analysis	
			Single Characteristic	Classification Characteristic
Hypothesis 1: Protective clauses in investment contracts help attract investment.	Supported	Supported	Supported	Supported
Hypothesis 2: Earn-out clauses promote investment significantly.	Not Supported	Supported	Partial Supported	Not Supported
Hypothesis 3: Investment projects with outstanding management teams have stronger investment attractiveness.	Supported	Supported	N/A	N/A
Hypothesis 4: Investment projects within high-quality industry tracks have stronger investment attractiveness.	Supported	Supported	N/A	N/A
Hypothesis 5: Investment projects with good social relationships have stronger investment attractiveness.	Supported	Supported	N/A	N/A
Hypothesis 6: Investment projects with good synergy effects have stronger investment attractiveness.	Supported	Supported	N/A	N/A

Chapter 7 Conclusion and Future Direction

7.1 Key Findings

Previous research on the investment value of companies has primarily focused on financial data analysis and comparison to determine worth. Ge and Du (2005) highlight that financial data sometimes provide incomplete information, such as the inability to recognize human resources as assets, the excess profits from some knowledge assets, and the long-debated self-created goodwill in financial statements. It's also challenging to quantify the role of the management team in creating new value and increasing wealth. This paper, through interviews with actual investment practitioners, questionnaire surveys, and the collection of practical investment contracts, explores the impact of non-financial factors on investment decision-making. The key findings of this study are as follows:

Protective Clauses. Protective clauses in investment contracts are crucial for attracting investment. These clauses can significantly enhance operational performance, improve the clarity of investment contract structures, provide legal protection for investors, and reduce potential legal disputes, thus increasing investment appeal. The findings indicate that protective clauses are a key reference for investors when making investment decisions, and appropriately set protective clauses can substantially increase investor interest.

Earn-out clauses. The role of earn-out clauses is controversial. Earn-out clauses increase risk-sharing and provide investors with a safeguard for their exit, but for high-quality investment projects, many investors are still willing to invest even without earn-out clauses.

Outstanding management team. An outstanding management team is vital for investment decisions. Such teams, with their rich management experience, enhance investor appeal and trust. They tend to manage operations more prudently, thereby increasing investor confidence. The findings indicate that an outstanding management team is a crucial factor for investors when making investment decisions.

High-quality Industry Tracks. High-quality industry tracks are essential for investment decisions. These tracks are more likely to yield substantial profits and attract strategic investors. They significantly improve the ease of financing projects, thus increasing their attractiveness to investors. The findings show that high-quality industry tracks are a key reference factor for investors.

Social Relationships. Social relationships play a critical role in investment decisions. They reduce potential specific risks, increase project transparency, and reduce information asymmetry between the parties. Social relationships also significantly lower investment costs, enhancing investor appeal. The findings suggest that social relationships are a crucial factor for investors when making investment decisions.

Synergy Effects. Synergy effects are vital for investment decisions. They reduce potential specific risks, increase overall portfolio returns, and improve resource sharing among investment projects, thus increasing their attractiveness to investors. The findings indicate that synergy effects are an important reference factor for investors.

7.2 Limitations

Investment is a complex decision-making process, and this study has some limitations in sample selection and data collection as follows:

1) This study identified five criteria for interviewees; however, only five interviewees were selected, which is a small sample size and may not be representative.

2) The questionnaire surveys mainly targeted investors from investment or industrial companies (or listed companies). The data collection channels were relatively narrow, including classmates and alumni, friends, and colleagues. The questionnaire surveys examined six hypotheses, with seven questions for each hypothesis. A total of 42 questions may be insufficient.

3) Through collecting investment contracts, this study analyzes the impact of non-financial factors on investment decisions. However, only 194 investment contract samples were collected, with 175 valid samples, which is insufficient and may lack representativeness.

7.3 Future Direction

For further research, the following areas could be explored to provide better and more comprehensive theoretical foundations for investment decision-makers:

1) This study explores the impact of non-financial factors on investment decisions. Future research could combine non-financial and financial factors to provide investors with more comprehensive decision-making criteria.

2) While this study identifies the importance of protective clauses and earn-out clauses in investment decisions, it does not delve into which specific clauses should be included or how to set the most effective earn-out clauses. Further research is needed in these areas, as other non-financial factors might also impact investment decisions.

3) This study finds that management teams significantly influence investment decisions, but it does not investigate how to select management teams. Future research could address this gap.

4) The study identifies the importance of industry tracks in investment

decisions but does not explore how to select industry tracks. Future research could provide insights into this aspect.

5) The influence of social relationships and synergy effects on investment decisions is highlighted, but the specific aspects of social relationships and synergy effects are not examined in depth.

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Appendix 1: Interview

1.1 Questions about the role of investment contract clauses setting in the investment decision-making

1) In your opinion, in a certain investment, what impact does the setting of The First Option in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?
2) In your opinion, in a certain investment, what impact does the setting of Director Appointment Right in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?
3) In your opinion, in a certain investment, what impact does the setting of Exit Guarantee clauses such as Repurchase in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?
4) In your opinion, in a certain investment, what impact does the setting of Non-Compete in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?
5) In your opinion, in a certain investment, what impact does the setting of Performance Commitments in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?
6) In your opinion, in a certain investment, what impact does the reasonable setting of IPO Commitments in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?
7) In your opinion, in a certain investment, what impact does the setting of the Co-sale Right in the investment agreement have on promoting the smooth

progress of the investment project? Are there any unique advantages compared to financial factors?

8) In your opinion, in a certain investment, what impact does the setting of Antidilution Provision in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?

9) In your opinion, in a certain investment, what impact does the setting of Liquidation Preference in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?

10) In your opinion, in a certain investment, what impact does the setting of Information Right in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?

11) In your opinion, in a certain investment, what impact does the setting of Due Diligence in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?

12) In your opinion, in a certain investment, what impact does the setting of Other Guarantees (Asset Security, Dividends Restrictions, etc.) of the controlling shareholders in the investment agreement have on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?

13) In a certain investment, do you think that the setting of Interest protection clauses in the investment agreement will have a greater impact on promoting the smooth progress of the investment project? Are there any unique advantages compared to financial factors?

14) Which interest protection clauses in investment agreements do you think investors value most?

15) What do you think are the motivations for investors to pay attention to the

clauses set in investment agreements?

1.2 Questions about the role of social relationships in the investment decision-making

1) To what extent do you think you rely on social relations to promote the smooth progress of investment projects? Compared with the role of financial factors, what are its advantages in investment decisions?
2) At what stage of an investment project social relations play a role? In what ways do they generally influence investors' investment decision?
3) Do you think the role of social relations in influencing investment decisions varies in different institutional environments?

1.3 Questions about the synergy effects and other non-financial factors

1) When evaluating the investment targets, in addition to the above two non-financial factors, what are the other non-financial factors that investors pay most attention to? Will you consider factors such as the popularity of the industry and the synergy of investment projects?
2) To what extent do you consider synergies with investment targets when evaluating investment targets? Do you think the synergy effect is one of the important non-financial factors that influence investment decision?
3) How do you think the investment synergy effect affects the smooth progress of investment projects?
4) Under what circumstances, or in which types of investment projects, investors will pay more attention to the investment synergy effect?
5) In addition to the above two non-financial factors and the synergy effect, what other non-financial factors do you think can influence the investment decision, and compared with financial factors, what advantages do they have?

Appendix 2: Questionnaire

Your demographic information

1. Gender: a) Male b) Female
2. Age: a) Under 30 b) 30 – 40 c) 40 – 50 d) Above 50
3. Firm Ownership: a) Non-listed private company b) Listed private enterprise c) Non-listed state-owned company d) Listed state-owned company e) Non-listed foreign-owned company f) Listed foreign-owned company g) Private investment company h) State-owned investment company i) Others
4. Investment Experience: a) Under 1 year b) 1-3 Years c) 3-5 Years d) Over 5 years
5. Position: a) President b) GM c) Deputy GM d) CFO e) Investment Director f) Others
6. Invest Scale: a) Below 200 M b) 200-500 M c) 500M – 1B d) Over 1B

Please answer the questions below based on your investment experience (1=Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree).

QUESTION	1	2	3	4	5
1. It's irrelevant for investors to have protective clauses in investment contracts.					
2. In investment contracts, protective clauses can help reduce the risks of investment projects and increase investors' confidence.					
3. The protective clauses in investment contracts limit the decision-making and flexibility of the management team and reduce the operational performance, which reducing their attractiveness to investors.					
4. The protective clauses in investment contracts provide clear guidance to the management team, helping avoid future disputes and establish a solid foundation for cooperation.					
5. The protective clauses in investment contracts lead to complex contract structures, increase the cost of understanding and execution, and reduce investors'					

interest.					
6. The protective clauses in investment contracts ensure that investors obtain the rights and protection they deserve within the legal framework and enhance their confidence.					
7. The protective clauses in investment contracts increase the risk of potential legal disputes, leading to increased concerns and reduced confidence among investors about future legal disputes.					
8. If without the earn-out clauses (including exit guarantees such as Repurchase, performance commitments, and IPO commitments, even good investment projects may not be attractive to investors.					
9. The earn-out clauses in investment contracts help investors and management teams share the risks of future business development and enhance investors' willingness to provide funds.					
10. The earn-out clauses in investment contracts exposes the actual controller of the company to excessive risks and adopts risky strategies, which excessively increases the risks and reduces investors' interest.					
11. The earn-out clauses in investment contracts help establish a trusting relationship between investors and the management team, and protect the interests of investors.					
12. If the design and execution of the earn-out clauses in investment contracts are too complex, they will increase the uncertainty and operational costs of investment and reduce investors' interest in the project.					
13. The earn-out clauses in investment contracts provide investors with guaranteed exit opportunities, thereby enhancing their confidence.					
14. The existence of earn-out clauses indicates that the invested company is very in short of money and has a low negotiating position, making it less attractive.					
15. In the investment decision-making process, investors do not consider the level and ability of the management team of the invested company.					
16. An outstanding management team utilizes its advantages such as excellent execution and					

professional experience to achieve outstanding operating performance.					
17. An outstanding management team often has overconfidence, lacks transparency in management, and has poor communication with investors.					
18. An outstanding management team is more likely to win the trust of investors and gain their favor.					
19. Projects with outstanding management team usually have too high valuations, lack of cost-effectiveness, and provide investors with too low returns.					
20. An excellent management team usually achieves excellent operating performance through good teamwork and team stability.					
21. An outstanding management team is more likely to be satisfied with the status quo and has a conservative attitude towards innovation and risk-taking, thus lacking innovation and growth potential.					
22. In the investment decision-making process, a good industry track may not increase investors' investment interest.					
23. A good industry track means higher potential returns and greater market opportunities.					
24. Investment projects in good industry tracks are more likely to attract strategic investment, promote more cooperation and support, and are more likely to succeed.					
25. Investment projects in good industry tracks are more likely to have future financing opportunities, thereby reducing the difficulties of exit.					
26. Investment projects in good industry tracks are more competitive and have higher valuations, thus reducing investors' interest.					
27. Investment projects in good industry tracks have greater growth potential and are more likely to achieve good investment performance.					
28. Investment projects in good industry tracks face greater market risks posed by technological advancements, making them less attractive to investors.					
29. In the investment decision-making process, investors not only consider objective indicators					

such as feasibility and return, but also consider subjective factors such as social relationships.					
30. Investment projects connected through social relationships are more reliable with lower risks, and provide investors with more confidence.					
31. Investment projects connected through social relationships are more likely to obtain comprehensive and reliable information about the project, reducing information uncertainty.					
32. Investment projects connected through social relationships lack commercial value, are more deceptive, and are more likely to lead to investment losses.					
33. Investment projects connected through social relationships involve relationship disputes, which bring additional instability to the project and discourage investors.					
34. Investment projects connected through social relationships have lower transaction costs and smoother transactions, making them more attractive to investors.					
35. The emotional factors tainted in investment projects connected through social relationships can reduce objectivity and make them less attractive to investors.					
36. The synergy effects do not increase investors' interest.					
37. The synergy effects help reduce the risk of a particular investment, thereby increasing its attractiveness to investors.					
38. The synergy effects mean having impacts on multiple parties, which increases uncertainty of the invested project and execution risk, thus reducing investors' interest.					
39. The synergy effects help maximize portfolio returns, thereby increasing investment performance.					
40. The synergy effects lead investors to hold on for the long term, thereby increasing exit difficulty and lowering investment returns.					
41. The synergy effects increase investor returns and improve their interest by sharing resources and reducing costs.					
42. Investment projects with the synergy effects make					

investments more complex and unpredictable, thereby making them less attractive to investors.					