Assessment #3: Research

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Wirtz, Peter, and Max Berre. "Connectedness of Entrepreneurial Ecosystems: The Impact of VC Financing Mobility on Startup Valuations." *Small Business Economics*, vol. 65, no. 3, 2025, pp. 1301–25. https://doi.org/10.1007/s11187-025-01021-6.

Assessment:

As suggested by the title, "Connectedness of Entrepreneurial Ecosystems: The Impact of VC Financing Mobility on Startup Valuations" by Peter Wirtz and Max Berre, examines the degree to which venture capital cross national ecosystem boundaries alter the pre-money valuations certain startups receive. Employing a reduced regression sample of precisely 646 observations, the work compares domestic and transnational investments while controlling for conventional financial and macroeconomic factors (Wirtz and Berre 7). Wirtz and Berre ultimately reach the understanding that domestic deals receive a statistically significant valuation premium; with that said, stronger investor protections, ecosystem competitiveness, and available venture capital can partially offset penalties associated with foreign VC involvement (Wirtz and Berre 14).

This article transformed an idea I had only previously considered abstractly in investor familiarity; evidently, it can be translated into an observable financial outcome. More importantly though, my ISM research to this point has placed increased focus on whether venture funding truly becomes global simply due to the ability to deploy money internationally. The

following study complicates this belief greatly. It's clear that capital may cross borders without changing investors' institutional habits, networks, or their broader assumptions. Wirtz and Berre go further to explain that geographic and cultural distances can amplify the cost needed to obtain relevant investment information, increasing the information asymmetry discussed; this asymmetry, of course, then leads to larger expectations from the investor side (6). Consequently, I see globalization's potential as a factor that can prompt equitable access to capital without necessarily equalizing the ways companies are valued on the global scale.

Such modifies my prior thinking in a particularly significant way. While I initially perceived investor unfamiliarity to be the cause of culturally-influenced valuation gaps, Wirtze and Berre now force me to distinguish misvaluation from rational pricing. The truth is, a foreign investor may offer lower valuations on the basis of several factors: unfamiliar laws, networks, customers, or information may genuinely increase the cost of investment evaluation. Cultural inappreciation might certainly play a role, but it's unlikely to be the sole reason why a startup receives a more immense discount. The author's finding that stronger investor protection and comparative competitiveness increase cross-border valuations support this claim (Wirtz and Berre 14). After all, if identifiable safeguards can result in reduced discounts as well, then it can't be said that the gap is automatically prejudicial or grounded in unawareness. As I apply this to my past research, I assume it'll prevent me from beginning with the conclusion I initially hypothesized.

Having said that, I'm still unsure whether this study completely explains the mechanism it documents. Methodologically, the paper comes across persuasive because the researchers control for revenue, beta, and country-risk measures, before then reporting fixed-effect robustness tests that produce consistent findings (Wirtz and Berre 14). My skepticism stems from

the fact that the regressions use 646 observations despite missing-data attrition from the initial dataset. Furthermore, the sample is primarily concentrated in European markets, leaving out perspectives from across the Atlantic (Wirtz and Berre 7). Together, these limitations leave me pondering two specific matters: whether companies with complete financial data differ in systemic regards from less formal, more vulnerable ventures, and also the applicability of the observed penalty beyond Europe.

As I consider the other limitations of this work, I believe the one most relevant to my intended topic is the one the authors explicitly identify: they failed to include local business culture and suggest future research on comparative norms, such as risk-taking (Wirtz and Berre 15). This omission provides me with a much sharper research direction. Specifically, Wirtz and Berre bundle geography, institutions, information access, networks, and potentially even culture in their domestic-versus-international measure. Thus, although the study establishes that valuations change when investors cross ecosystems, it inherently can't determine how much of the discount is rooted in culturally unfamiliar behavior after controls are applied; I can change this. By asking if cultural distance explains any residual cross-border valuation discount after controlling for fundamentals, I'd be able to address the core question yet to be analyzed. My current thought is that I can approach this inquiry via a layered framework, evaluating conventional financial fundamentals and measurable ecosystem risks before anything else; afterward, I'd look to culturally dependent signals in the form of local trust, consumer behavior, diaspora networks, communication norms, or attitudes toward growth. I assume my curiosity isn't as far fetched as I once thought.

Beyond research however, such also alters how I'll likely approach interviews and mentorship throughout the course of my time in ISM. Rather than asking VCs the broad question

of whether culture “matters” or “impacts their valuation”, I’ll go deeper: I intend to ask how they know if they’re discount of a foreign company with an unfamiliar market is grounded in actual risk or their lack of awareness. This article additionally gives me directions in examining whether local or diaspora co-investors change the valuation an investor is willing to offer. Who knows? If culturally knowledgeable investors can reduce information asymmetry, they might function as a risk-control mechanism in and of themselves.

In overviewing its broader impact, I recognize the value of this source in that it challenged my presumptions as opposed to strengthening them. Starting out, I began seeking evidence that cross-border investing creates valuation disparities and despite finding it, I left realizing that proving the disparity didn’t prove me right. Instead, it’s shaped my new goal in ISM: distinguishing the portion of a discount caused by real risk from the portion caused by culture. This exploration will fuel my journey to addressing the larger social cause I hope to address: how might valuation genuinely become global without having to look identical everywhere?

Assessment #3: Annotated Article