Assessment #4: Research

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Subject: Cultural Distance, Local Partners, and Cross-Border Venture Capital Syndication

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Kollmann, Harald, Jakob Müllner, and Jonas Puck. "The Company You Keep: Syndicate Formation in Venture Capitalists' Cross-Border Investments." *International Business Review*, vol. 34, no. 6, 2025, article 102424. https://doi.org/10.1016/j.ibusrev.2025.102424

Assessment:

In "The Company You Keep: Syndicate Formation in Venture Capitalists' Cross-Border Investments," the authoring researchers study how foreign VCs structure investment syndicates when investing across borders. Employing 15,725 cross-border venture capital investments from 2010 to 2020, they conclude that greater geographic and psychic distance tends to be associated with smaller syndicates but greater likelihoods of including a local VC partner (Kollmann et al. 1). Collectively, their findings suggest that investor responses to unfamiliarity are closely related to changing who participates in the deal, as opposed to simply taking on more risk.

Such findings deeply advance my research as they provide a possible response to the cross-border valuation gaps I've observed. Coming in, I'd mainly viewed unfamiliarity as an added risk; specifically, I figured an outside investor may be less knowledgeable in regards to a market and thus, demand higher returns and solely accept lower entry valuations. Kollmann, Müllner, and Puck have evolved my view of that picture. It's evident that investors can restructure the deal by bringing in partners who possess knowledge, access, and social capital

that they lack. For me, that once again poses an alternative means to tackle my past question of whether or not cultural distance produces a discount; it moves me to consider whether particular syndicate structures can reduce the information gap that may produce the discount in the first place.

I'd argue the article's use of "psychic distance" has altered how I perceive culture in venture environments. Rather than relying on a strict national culture score, the work incorporates language, religion, education, democracy, and industrial development as opposed to using culture alone (Kollmann et al. 4). In my eyes, such presents itself as both useful and limiting to an extent. While it better represents the overarching unfamiliarity an investor might experience throughout the valuation process, it simultaneously makes it more arduous to isolate culture from economic and institutional differences. This is significant as were I seeking to determine whether culturally unfamiliar businesses are specifically disadvantaged, I'd need to separate those variables. After all, "foreignness" isn't necessarily one, definitive condition.

Outside of its relevance to my research, an additional finding I found particularly surprising was that of greater distances producing smaller syndicates. It'd be expected of foreign investors to add more partners to obtain more information, though Kollman et al. suggest larger groups create increased agency costs (6); they claim this results in investors favoring fewer but more strategically vulnerable partners, especially if local (Kollmann et al. 7). This leaves me with an entirely new approach to cultural intelligence. As it seems, a lead investor obviously does not need to possess all the relevant cultural knowledge if their syndicate can provide access to someone who might. With this being the case, it's important I focus part of my future research on maximizing the means by which investors can form such syndicates at transnational scales.

The work's result concerning host-market recognition was equally interesting. Though the authors anticipated foreign VCs with strong awareness to rely less on locals, they were actually more likely to form such syndicates. It seems to be implied that this recognition may make foreign investors easier for local VCs to trust and approach (Kollmann et al. 9). Looking at my research, we can see this raises yet another question: could diaspora investors serve a similar role? For all we know, an investor may live outside the market yet still understand its language, consumer behavior, norms, and community networks.

From a methodological perspective, I find the study to be strong but certainly not definitive. Admittedly, the work's 15,725-investment sample spans 67 home markets and 55 host markets, with the authors performing several robustness checks to ensure validity (Kollmann et al. 10); that said, they acknowledge that syndicate formation is often highly endogenous, entailing that the factors causing certain VCs to partner may also influence the outcomes being studied. I'm equally as cautious about Kollmann et al.'s use of Google Trends as a measure of investor recognition. Though visibility may signal reputation, it doesn't necessarily equal trust, cultural competition, or even quality in investment. Not to mention, their dataset also ends in 2020, signaling that it may not fully capture precisely how remote diligence and digital collaborations have altered international investing since then.

Ultimately, this article is transformative for several reasons, but primarily because it shifts my research from identifying problems to investigating solutions. I now actively seek to examine the chain of cultural distance increasing information asymmetry, and the use of intermediaries to reduce it. For the purposes of future interviews, I might ask VCs whether local partners alter their confidence in customer behavior, founder credibility, and exit opportunities. More significantly though, this source prevents me from seeing cultural distance as a permanent

disadvantage to investment access. It suggests that distance can be managed through intentional deal design and relationships, which once again leads me to the broader inquiry of how economic and unfamiliarity-based risk can be differentiated in investment decisions. As I progress, I hope to discover if intermediary partners, or perhaps another solution, are the key to clarifying that judgement.

Assessment #4: Annotated Article