



## Returnee entrepreneurs and firm performance in Chinese high-technology industries

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### ABSTRACT

Building on the knowledge-based view and network perspectives, this paper explores the relationships between knowledge, networks and firm performance. Using a unique, hand-collected dataset of 353 small and medium enterprises (SMEs) of returning entrepreneurs and 358 local entrepreneur-owned SMEs from Zhongguancun Science Park in China, we find that the SMEs of returning entrepreneurs perform better than those owned by local entrepreneurs due to their technological and commercial knowledge as well as their international entrepreneurial orientation. Our results show that international networks positively affect firm performance in high-tech industries. Our findings indicate that returnee entrepreneurs gain competitive advantages through utilising their intangible assets to exploit business opportunities and development in an emerging economy.

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### 1. Introduction

International human mobility has recently increased significantly, and two-way flows of human capital between emerging economies and OECD countries have become a new phenomenon. For example, more than 275,000 overseas Chinese scientists and students had returned to China by 2006. Among these, 5000 returnees have set up 2000 new high-tech firms in Zhongguancun Science Park (ZSP), China's Silicon Valley.<sup>1</sup> Returnees are defined here as scientists and engineers, or students who were trained or studied/worked in OECD countries, and returned to their native countries to become returnee entrepreneurs by setting up new ventures. Migrants returning from overseas have played an important role in the economic development of emerging economies, such as Taiwan and South Korea, China and India (Saxenian, 2002, 2005).

However, only a few comparative, descriptive studies have been carried out on the issue of returnees (Saxenian, 2002). Very little is known about how the background and character of returning entrepreneurs affect the performance of their ventures. In addition, there is a lack of formal evidence showing to what extent returnee-owned firms gain a substantial competitive advantage compared with local entrepreneur-owned firms. What are the differences in performance between returnee entrepreneurs and local entrepreneur-owned firms?

We aim to fill these gaps by examining the performance of returnee entrepreneur-owned firms compared with local entrepreneur-owned firms in ZSP. Specifically, we examine how the knowledge and social capital factors of returnee entrepreneurs influence firm performance.

China provides an excellent opportunity to examine these issues. The Chinese government has designed various preferential policies to attract Chinese overseas talent as "...developing an adequate scientific, technological and business environment will provide rewarding opportunities for the return of individuals who have upgraded their skills abroad"

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<sup>1</sup> People Daily, Overseas Edition, 21, September 2007.

(OECD Observer, 2002). Following the collapse of the dot-com boom in the late 1990s, the United States and other developed countries have become less attractive than some large emerging economies, such as China and India, where new entrepreneurial opportunities are associated with exploiting a relatively low-cost skill base and targeting the potentially vast domestic marketing. Therefore, it is not surprising that China has attracted a large number of talented returnees.

Returnee entrepreneurs, who studied or worked in OECD countries in the past, possess a number of important characteristics that differentiate them from local entrepreneurs. First, returnee entrepreneurs may have specific human capital that relates to a spectrum of skills and knowledge with varying degrees of transferability (Castanias and Helfat, 1992). Returnee entrepreneurs may have acquired academic knowledge in the form of general education and scientific and technical training. They may also have acquired practical business skills from either working in a commercial environment or through having started a business.

Second, returnees may have specific social capital that involves the relational and structural resources attained through a network of social relationships (Adler & Kwon, 2002; Cooper & Yin, 2005). An individual who develops social capital through working abroad may be able to use that social capital to access diverse sources of knowledge when they become a returnee entrepreneur.

In this paper, we consider returnee entrepreneurs in China as one particular group and compare them with home-grown entrepreneurs. To assess whether returnees have competitive advantages derived from their international backgrounds and networks, we need to compare this group with local-grown entrepreneurs who have not been abroad to study or work. In this way, we can examine whether the special characters of returnee entrepreneurs can make differences in their firm performance. Both groups studied are based in ZSP and operate in the same business environment.

Our study offers a number of contributions to the existing literature. First, using an integrated framework which embraces a knowledge-based view (KBV) and social capital theory, we investigate a new phenomenon of returnee entrepreneurs and their role in firm performance. Specifically, we examine the links between entrepreneurial characteristics and firm performance and investigate how the human and social capital factors of returnee entrepreneurs affect the business success of high-tech SME. Second, we consider not only the role of individual internal and external factors in firm performance, but also the interaction of these factors in terms of the combination of technological knowledge, commercial knowledge and networks, and their effects on entrepreneurial venture success. The findings from our study help to broaden our understanding of entrepreneurship in emerging economies and provide new insights into the existing literature by considering a new phenomenon of returnee entrepreneurs and their role in firm performance. In particular, the findings advance our understanding of the importance of complementary resources in creating sustained competitive advantage in high-tech industries.

The following section situates our analysis in the literature of the KBV and social capital theory. This is followed by a description of our data and methodology, while the subsequent section presents and analyses the empirical results. We then discuss our findings and finally conclude with policy and managerial implications.

## 2. Theory and hypotheses

In this study, we employ a combined research framework, namely the KBV and social capital theory. These two approaches complement each other. While the KBV focuses on knowledge creation and acquisition internally, social capital theory highlights the importance of relational capital in acquiring knowledge externally through firm networks. Thus it complements the KBV by emphasizing that critical resources may be beyond firm boundaries and so firms can share knowledge and information within their networks (Dyer & Singh, 1998). In this section, we discuss an integrated framework of the KBV and social capital theory first, and then establish our hypotheses based on the framework.

### 2.1. *The knowledge-based view*

The KBV proposes that knowledge is the firm's most valuable strategic resource and the principle basis for creating competitive advantages. Knowledge is created and stored within the individuals. The primary role of the firm is to apply the knowledge to the production process of goods and services, and its source of unique advantage rests in its ability to integrate the knowledge of different individuals (Ghoshal & Moran, 1996; Grant, 1996; Kogut & Zander, 1992; Nonaka, 1994; Spender, 1996; Teece, 1998).

KBV theorists have drawn directly from the resource-based view (RBV) of the firm, which argues that firms exist because they have resources which are unique, immobile and socially complex. These resources are the foundations of competitive advantages and firm performance (Barney, 1991; Penrose, 1959; Wernerfelt, 1984). Extending the RBV, the KBV particularly emphasizes the distinction between different types of knowledge-based activities and capabilities, and whether they are inherently internal to the firm or can be outsourced. Therefore, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage and superior corporate performance.

According to the KBV, knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. In general, knowledge can be classified into two types: explicit knowledge and tacit knowledge. While the former can be articulated and easily communicated between individuals and organizations, the latter (skills, know-how, and contextual knowledge) is manifest only in its application and it is difficult and costly to transfer tacit knowledge from one individual/organization to another (Kogut & Zander, 1992; Nonaka, 1994). In this regard, the possession of advanced technology and commercial knowledge is the essential tool for the successful development

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