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Knowledge and internationalization of returnee entrepreneurial firms

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ABSTRACT

This study aims to answer whether and how returnee entrepreneurs' international experience and returnee entrepreneurial firms' international market knowledge influence these firms' internationalization. Anchored in a framework combining an entrepreneurial and knowledge-based view, we develop a model and four hypotheses on the relations between returnee entrepreneurs' international experience, international market knowledge, international market commitment, and level of internationalization of the returnee entrepreneurial firm. Empirical evidence of the proposed model is derived from a recent sample of Chinese returnee SMEs in knowledge-intensive and high-technology industries. The main finding is that returnee entrepreneurs' international experience nurtures international market knowledge of returnee entrepreneurial firms, which in turn has a positive effect on these firms' international market commitment and level of internationalization. In terms of theory, the study extends our understanding of returnee entrepreneurial firms by uncovering the role of returnee entrepreneurs' international experience and returnee firms' international market knowledge during their initial and early international expansion.

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1. Introduction

In an increasingly globalized business world, entrepreneurial mobility is an attractive research area, offering opportunities for researchers interested in labor mobility and its association with entrepreneurship activities. According to Wright (2011: 137), "research on entrepreneurial mobility is fragmented and many aspects are largely neglected." One of the entrepreneurial mobility streams of research is focused on returnee entrepreneurs, a relatively new phenomenon associated with entrepreneurship, strategy, and international business (IB). *Returnee entrepreneurs* have been defined as individuals who return to their home countries to start up a new venture after several years of living abroad (Drori, Honig, & Wright, 2009). Often they are scientists, engineers, professionals, and students who have business experience and/or have studied in other countries (Dai & Liu, 2009; Filatotchev, Liu, Buck, & Wright, 2009), particularly in developed countries. On this basis, *returnee entrepreneurial firms* can be

defined as businesses created by returnee entrepreneurs in their home countries after coming back from having lived abroad. Existing IB literature focuses on returnee entrepreneurs in China and India, and indicates that these individuals typically have valuable international experience and knowledge as well as managerial and entrepreneurial skills (Chen, Tan, & Jean, 2016). Furthermore, it suggests that they are familiar with different institutional and market environments and may have acquired technical expertise and developed social and business networks abroad (Filatotchev et al., 2009; Kenney, Breznitz, & Murphree, 2013).

The literature discusses the contribution of returnee entrepreneurs to innovation and the economic development of emerging markets (Filatotchev, Liu, Lu, & Wright, 2011; Kenney et al., 2013; Liu, Lu, Filatotchev, Buck, & Wright, 2010; Saxenian, 2005; Wang, Zweig, & Lin, 2011), as they are conducive to knowledge spillovers and innovation through mobility across national borders (Filatotchev et al., 2011). Returnee entrepreneurs facilitate direct technology transfer and indirect technology spillovers to local firms, thereby helping the technological development of the home countries (Pruthi, 2014). In addition, their entrepreneurial abilities and the economic impact of "brain circulation" awaken interest among some emerging countries' governments, which materializes in the form of policies and incentives favorable to the

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establishment of returnee entrepreneurial firms (e.g., Kenney et al., 2013; Zweig, 2006).

Given the newness of this stream of research, the literature on returnee entrepreneurial firms is scarce. Most empirical studies are based on samples of high-technology SMEs in China (e.g., Filatotchev et al., 2009, 2011; Liu et al., 2010; Wright, Liu, Buck, & Filatotchev, 2008) and focus on issues such as the creation of returnee entrepreneurial firms and the role of knowledge transfer (Lin, Lu, Liu, & Zhang, 2016), social ties (e.g., Pruthi, 2014), and peer networks (Qin & Estrin, 2015). The characteristics of returnees and the effect they have on exports (Filatotchev et al., 2009), entrepreneurial practices (Liu & Almor, 2016), and domestic growth of local firms (Chen et al., 2016) have also drawn the attention of scholars. Other topics recently studied include the population density of returnees and other determinants of innovation performance for non-returnee SMEs (Filatotchev et al., 2011; Liu et al., 2010) and returnees' characteristics as determinants of business performance (Bai, Holmström, & Johanson, 2016; Dai & Liu, 2009).

Yet, there are gaps in understanding these firms' international expansion, and the extent to and the way in which the experience gained abroad can be useful in the first steps of returnee firms' internationalization. Interesting in this context is the role of individual experience in relation to firm-level knowledge, as the returnee gains the experience before the inception of the firm, while the firm knowledge is developed after the firm's creation. This is not only an interesting research issue affecting returnee entrepreneurial firms, it may also have implications for international new ventures. To date, research on the internationalization of returnee entrepreneurial firms has been sparse. Two articles, by Filatotchev et al. (2009) and by Dai and Liu (2009), have discussed in some detail issues related to foreign markets, but no research has focused on the internationalization of these firms as its main objective. We argue that returnee entrepreneurial firms' international and technological knowledge, based on returnee entrepreneurs' experience gained abroad, may not only be useful in domestic markets but could also contribute to their early internationalization (Drori et al., 2009; Filatotchev et al., 2009). "Returnee entrepreneurs are expected to be the early adopters and promoters of internationalization" (Filatotchev et al., 2009: 1010), and returnee entrepreneurial firms' internationalization is likely to display some common characteristics with the expansion of international new ventures (Jones & Coviello, 2005; Knight & Cavusgil, 2004) because of their possession of entrepreneurial abilities, knowledge and experience with doing business abroad from inception. Although returnee entrepreneurial firms have an international entrepreneurial orientation that enhances performance (Dai & Liu, 2009), and they are positively associated with export orientation and performance (Filatotchev et al., 2009), there are no studies focusing on and explaining the initial internationalization of these firms.

This paper aims to fill this gap in understanding the factors explaining the initial internationalization of returnee entrepreneurial firms by developing a model where the entrepreneur's international experience is expected to have a positive influence on the firm's international market knowledge, which in turn may affect its commitment to foreign markets as well as its level of internationalization. In line with Oviatt and McDougall (1994), we assume that returnee entrepreneurial firms are relatively new and opportunity-seeking and that they pursue a proactive strategy, and thus it is reasonable to focus on the first steps in the process. We anchor the model theoretically in an entrepreneurial and knowledge-based view, and we test it on a recent sample of Chinese returnee SMEs in knowledge-intensive and high-technology industries. We contribute to the literature on returnee entrepreneurs and IB by proposing an internationalization model

uncovering the importance of returnee entrepreneurs' international experience and returnee entrepreneurial firms' international market knowledge during the initial international expansion of these firms.

In the next section, we provide a theoretical background on the internationalization of returnee entrepreneurial firms. We then formulate four hypotheses connecting four critical constructs, namely, returnees' international experience, returnee entrepreneurial firms' international market knowledge, international market commitment and level of internationalization. Later, we describe the methodology and present the results. A discussion of the findings leads to our final remarks, including the identification of managerial, policy and research implications, and limitations and future research avenues.

2. Theory

2.1. The role of knowledge in firm internationalization

Derived from the resource-based view that perceives the firm as a unique bundle of idiosyncratic resources and capabilities, the knowledge-based view posits that a firm's value-creating activities are knowledge dependent (Grant, 1996; Liebeskind, 1996). Accordingly, knowledge is the most strategically important resource through which a firm coordinates other resources and builds its competitive advantage, which underpins firm growth (Barney, 1991; Kogut & Zander, 1993; Penrose, 1995; Spender & Grant, 1996).

A firm's knowledge is also viewed as the single most important factor in theories of internationalization (Prashantham, 2005) such as the original Uppsala internationalization model (Johanson & Vahlne, 1977), which stands in contrast to other internationalization theories (e.g., the eclectic framework and internalization theory) where control is the main mechanism used to reduce uncertainty. Knowledge is the result of various forms of learning (De Clerq, Sapienza, Yavuz, & Zhou, 2012), including experiential, vicarious, congenital, or grafting. It is difficult to ignore the importance of knowledge in internationalization (Clarke, Tamaschke, & Liesch, 2013; De Clerq et al., 2012) because it is the essential resource that enables a firm to address complexity and uncertainty (Grant, 1996; Liesch & Knight, 1999), and it also provides the platform on which firms can identify opportunities in foreign markets. Thus, it can be seen as a key driver for internationalization (Papadopoulos & Martín Martín, 2010).

Indeed, the Uppsala school conceptualizes internationalization as a process resulting from the interplay between market knowledge and commitment, as well as current activities and commitment decisions, where a firm's stock of knowledge determines its market commitment (Johanson & Vahlne, 1977). While the new approach of international entrepreneurship (IE) underscores early and rapid internationalization of firms, it still centers on the significant role of knowledge and asserts that the international experience gained by top management prior to the company being established, as well as the firm's knowledge intensity and learning ability, constitute a firm's core strengths enabling early internationalization (Oviatt & McDougall, 1994).

However, the knowledge discussed in the traditional Uppsala model (Johanson & Vahlne, 1977) is different from the IE approach. The former emphasizes experiential knowledge gained from a firm's practice in international markets and explains why the firm increases its international commitment. In contrast, IE emphasizes the role of an entrepreneur's personal international experience and technology-oriented knowledge, as these firms often operate in high-technology markets, in pursuit of growth opportunities through fast and early internationalization (Autio, 2005; Sapienza, Autio, George, & Zahra, 2006).

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