



## Leveraging networks, capabilities and opportunities for international success: A study on returnee entrepreneurial ventures



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### ABSTRACT

By integrating social capital theory with a capability-based view on performance, this paper aims to examine the extent to which returnee entrepreneurial ventures (REVs) gain international performance advantages from the founding entrepreneurs' experience with international networks. Using data on 200 Chinese REVs, the paper proposes and tests a structural model with a focus on the link between individual entrepreneurs and the subsequent development of firm capabilities. The results provide evidence that it is important that the returnee entrepreneurs have an international social network for the REV to develop an international network capability, which, in turn, mediates the effects on opportunity knowledge and the international performance of the REVs. The findings highlight the concurrent effect of the role of entrepreneurs and organizational learning in internationalization, and they provide an understanding as to the importance of the returnee-specific advantages for the international performance of these firms.

### 1. Introduction

Increasing globalization has strengthened the cross-border mobility of entrepreneurship (Wright, 2011), giving rise to a new phenomenon, returnee entrepreneurship. It is distinctive because the founders, namely *returnee entrepreneurs*, have received education or professional training abroad and bring knowledge and ideas back to their native countries (Drori, Honig, & Wright, 2009; Li, Zhang, Li, Zhou, & Zhang, 2012). Returnee entrepreneurs are often scientists, engineers, professionals and students who either have business experience or have studied abroad for years, and who have then returned to their home countries to start up a new venture (Dai & Liu, 2009; Filatotchev, Liu, Buck, & Wright, 2009). The businesses founded by returnee entrepreneurs in their home countries, accordingly, are called *returnee entrepreneurial ventures* (REVs).

During their time abroad, returnee entrepreneurs develop social and business networks through which they access diverse sources of knowledge (Prashantham & Dhanaraj, 2010; Pruthi, 2014). Indeed, it has been proposed that a main advantage of returnee ventures relates to their international relationships, which enable them to bring important innovative practices home that can help them exploit new opportunities and enhance future domestic performance (Wang, 2015). However, due

to a dominant focus on returnee firms' home-country performance (especially in relation to indigenous companies and their knowledge spill-over effects) (e.g. Dai & Liu, 2009; Liu, Lu, Filatotchev, Buck, & Wright, 2010), there is still a lack of evidence explaining the extent to which REVs gain international performance advantages from the founding entrepreneurs' experience with international networks. An often-neglected point is that REVs tend to internationalize shortly after inception (Filatotchev et al., 2009), and there are many new international ventures among these firms. In accordance with Oviatt and McDougall (1994, 2005), who highlight the individual experiences of the entrepreneurs, we assume that REVs are new and opportunity-seeking, and are driven by the founding entrepreneurs to pursue proactive strategies in their international efforts.

Despite the important role of individual entrepreneurs in international new ventures, recent theoretical advancement indicates that such a leading role may depreciate when individual entrepreneurs reach their limitations (Cumming, Sapienza, Siegel, & Wright, 2009). Nevertheless, the transfer of individual entrepreneurs' international experience into organizational knowledge may lead to a generation of capabilities (Casillas, Moreno, Acedo, Gallego, & Ramos, 2009), which becomes increasingly important in the course of internationalization (Weerawardena, Mort, Liesch, & Knight, 2007). This is because the

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subsequent development of capabilities enables new ventures to continuously revise or create knowledge (cf. Eisenhardt & Martin, 2000; Havnes & Senneseth, 2001; Zhou, Barnes & Lu, 2010). Knowledge, especially regarding identification and exploitation of opportunities, is a driving factor in firm internationalization (Johanson & Vahlne, 2009; McDougall, 1994, 2005;), leading to international performance.

Although it has been conceptually proposed, few studies have examined the suggested link between individual entrepreneurs and the subsequent development of firm capabilities, and their joint effects on the internationalization of new ventures. In an attempt to bridge this gap and to explain the international performance of REVs, this study develops a composite model to investigate the mediating effect of the international network capabilities of REVs that links the influence of social capital (in terms of returnee entrepreneurs' international social networks) on the acquisition of knowledge of REVs in terms of opportunities and subsequent international performance. The rationale for developing the model is based on the notion that the performance of REVs is often related to specific advantages such as access to international networks and the ability to leverage those advantages to develop opportunities. In order to expand and perform internationally, REVs need to know how to manage opportunity development, but as the entrepreneurs may exploit their social networks and their firms tend to conduct their business in networks, having the capability to act in a network is crucial.

By drawing on social capital theory and a capability-based view on international performance as a theoretical basis to build our arguments, and by using a sample of 200 internationalized REVs, this paper demonstrates the extent to which REVs can leverage *returnee-specific advantages* to improve international performance. The contribution of this paper is twofold: To the best of our knowledge, no previous study seems to have focused on how social capital (Nahapiet & Ghoshal, 1998), in terms of international network relationships *per se*, as well as the ability to develop an international network capability, may influence the international performance of REVs. By doing so, our study highlights the joint effect of the role of entrepreneurs and learning (Cumming et al., 2009) and provides an understanding of the importance of the returnee-specific advantages for the international performance of these firms. In addition, this study responds to the call to consider and discuss both social networks and business networks concurrently (Slotte-Kock & Coviello, 2010), and combines them with the international performance of firms. Thereby, we add insights into research on the international performance of emerging market new ventures in general (Yamakawa, Khavul, Peng, & Deeds, 2013), and REVs in particular.

The second contribution relates to the concept of 'opportunity' (Alvarez & Barney, 2007; Zahra, 2008) and the way in which knowledge about how to handle opportunities is necessary for a high level of international performance to be achieved (cf. Vasilchenko & Morrish, 2011). We suggest that this knowledge of opportunities derives from the international network (Andersson, Holm, & Johanson, 2006; Johanson & Vahlne, 2009) and is influenced by the capability to act in these networks. This study can, therefore, answer the question as to whether or not REVs are capable of actually converting such opportunity knowledge into international performance.

We have organized the remainder of the paper as follows: in the next section, we discuss the theoretical framework and present the hypotheses. In the subsequent section, we explain the data collection process, the sample and the operationalization of the theoretical constructs. After that we present the results, followed by a final section that provides a concluding discussion, including implications of the study and suggestions for future research.

## 2. Theoretical framework

### 2.1. Returnee entrepreneurship and returnee entrepreneurial ventures

The globalization of markets and the opening of economies have

created new opportunities for firms in these markets, e.g. emerging market firms. When their home market is opened, local firms face increased competition, which more or less forces many of them to seek opportunities in the international markets. The ability to exploit such opportunities is circumscribed by the degree to which a firm's capabilities align with those needed abroad (Madhok, 1996). In comparison with firms from developed markets, emerging market firms are from 'institutionally protected' markets and therefore lack the necessary international experience and resources possessed by established firms in developed countries (Vernon-Wortzel & Wortzel, 1988). In other words, many emerging market firms need to learn how to operate abroad and how to develop the capabilities to do so.

REVs are a distinctive form of small entrepreneurial emerging market firm. In line with international entrepreneurship literature (Oviatt & McDougall, 1994), the international experience of returnee entrepreneurs is the defining feature of REVs (Jones, Coviello & Tang, 2011), and returnee entrepreneurs are characterized by being empowered with an international mindset and an international network of social and business relationships (Liu et al., 2010; Wright, Liu, Buck, & Filatotchev, 2008). As such, REVs often show rapid internationalization (Filatotchev et al., 2009), whereby they develop new products that target global markets. In other words, they share the characteristics of international new ventures, in terms of being proactive and opportunity-seeking (Oviatt & McDougall, 1994), and of having gained 'international' knowledge prior to internationalization (Madsen & Servais, 1997).

In general, two specific features of the REV emerge. First, REVs have gained 'international' knowledge and capabilities before the inception of the firm (Hewerdine & Welch, 2013). Therefore, the internationalization and emergence of the firm are often parallel processes. Second, their young age gives them an advantage: they have not built up rigid structures and routines in the home market. Rather, the routines and organization are adjusted for internationalization directly from inception (Autio, Sapienza, & Almeida, 2000; Zahra, 2005). Early and rapid internationalization, on the other hand, often increases the likelihood of failure as a result of liabilities of newness (Mudambi & Zahra, 2007; Sapienza, Autio, George, & Zahra, 2006), and consequently REVs need to develop knowledge and capabilities to overcome such liabilities. One such capability is the accumulated and dispersed set of relationships, which can be used to mobilize resources and knowledge (Liu et al., 2010).

### 2.2. The notion of social capital among entrepreneurial ventures

Social capital theory emphasizes human relations, in particular social relations, with a focus on interpersonal relations and the resources embedded in them. Although there is discussion about a precise definition of social capital, for the purposes of this paper, social capital is viewed as "the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit [ . . . ] it comprises both the network and the assets that may be mobilized through the network" (Nahapiet & Ghoshal, 1998, p. 243). Social capital can take the form of networks containing both relational and structural resources attained by individuals and firms through a network (Adler & Kwon, 2002). It is viewed as an intangible resource that is difficult to replicate, thus providing firms with a significant advantage (Peng & Luo, 2000). Social capital provides networks that facilitate the identification, collection and allocation of scarce resources (Greene & Brown, 1997). In particular, social capital provides access to information and resources not available internally (Davidsson & Honig, 2003; Peng & Zhou, 2005), and thus has been considered particularly important to entrepreneurial firms. Social capital may also assist with the exploitation of opportunities by providing and diffusing critical information and other essential resources. Therefore, social capital theory provides an important theoretical foundation for understanding the impact of the special

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