



Social ties and venture creation by returnee entrepreneurs



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ABSTRACT

Recent years have witnessed the return of individuals of Indian or Chinese origin from developed markets to their home countries to start new ventures. Returnee Entrepreneurs (REs) facilitate both direct technology transfer and indirect technology spillovers to local firms, thus contributing to the technological development of emerging economies. Much previous work is based on the integration of ethnic entrepreneurs in their host countries or business activities of transnational entrepreneurs that traverse their host and home countries. This study explores the role of social ties in venture creation by REs. Based on twenty case studies in India, the findings show that (1) local ties are indispensable for venture creation, and (2) the heterogeneity in the way REs leverage social ties across the host and home countries is contingent on the location of their intention to start up and generation of idea for their venture. The implications of these findings are discussed.

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1. Introduction

Recent years have witnessed the return of individuals of Indian or Chinese origin from developed markets to their home countries to start their own ventures. As in prior studies (Filatotchev, Liu, Buck, & Wright, 2009; Wright, Liu, Buck, & Filatotchev, 2008), returnee entrepreneurs (REs) are defined as skilled personnel that have lived in a developed country for the purpose of work or study and have returned to their home country to start a new venture after several years of business experience and/or education abroad. Recent evidence from China suggests that REs facilitate both direct technology transfer and indirect technology spillovers to local firms, thus contributing to the technological development of emerging economies (Filatotchev et al., 2009; Liu, Lu, Filatotchev, Buck, & Wright, 2010). Yet, much previous work is based on the integration of ethnic entrepreneurs (EEs) in their host countries (Light & Gold, 2000; Portes & Jensen, 1989) or business activities of transnational entrepreneurs (TEs) that traverse their host and home countries (Patel & Conklin, 2009; Terjesen & Elam, 2009).

The objective of this paper is to explore the role of social ties in venture creation by REs. Unlike EEs that integrate with their host country, REs relocate to live at home after a period of residing abroad. The social ties developed abroad may not be appropriate

for the home environment due to considerable heterogeneity in the rules of the game for doing business in developed and emerging economies (Hoskisson, Wright, Filatotchev, & Peng, 2013; La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1998). Although personal ties of family or friends may facilitate return and enable REs to re-establish a link with the local environment after a period of sustained absence from home (Drori, Honig, & Wright, 2009), prior connections beyond the family may need to be re-built in order to translate ideas into opportunities (Bagwell, 2007). The development of local ties may be critical especially in a context where social networks enable access to resources in the absence of strong legal institutions (Bruton, Ahlstrom, & Wan, 2003). The role of ethnic networks of immigrant owner-founders in the recognition and exploitation of opportunities as they enter their home country has received recent research attention. However, this evidence is based on the internationalization of small firms (Chandra, Styles, & Wilkinson, 2013; Chung & Tung, 2013; Ojala, 2009) or new ventures (Coviello, 2006) located in developed countries. The following research question is addressed in this paper: to what extent REs leverage their social ties across their host and home countries to create a new venture and why?

The focus of this study is on India as an appropriate context in which to examine this issue. As one of the fastest growing economies globally (Cavusgil, Ghauri, & Akcal, 2013), India attracted approximately 35,000 skilled professionals back home mainly from the US in the two years immediately after the 'dotcom bust' (Parthasarathy & Aoyama, 2006). As in China, social ties have

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been associated with the value system and work ethic of India's transnational elite. However, unlike policy makers in China that have aggressively facilitated the return of their skilled personnel from overseas, Indian policy makers have been more hands-off in their approach (Saxenian, 2002, 2005). Unlike in China, where returnees have focused on developing products primarily for the domestic market, Indian TEs have been oriented toward providing software and other services for export, and learning has been contained within the transnational firm. Returnees' interactions with local customers or institutions may thus be vital to upgrading the capabilities of domestic firms and building the local ecosystem as they physically relocate to India to start their ventures. Yet, prior studies on REs are mainly focused on China (Wright et al., 2008) and little is known about how REs leverage social ties as they return to an environment where institutional support for entrepreneurial activity is thin.

The paper makes several contributions to the international entrepreneurship (IE) literature. First, it contributes to the specific literature relating to REs. With the exception of recent research in China that examines the role of returnees in knowledge spillovers to local firms (Liu et al., 2010) or location choice of REs at science parks (Wright et al., 2008), the literature on REs is sparse. An understanding of returnees' networks may be useful, especially in the context of policy rhetoric related to the significance of decentralized, rather than top-down, measures and firm-building capabilities for the development of entrepreneurship in emerging economies (Goldfarb & Henrekson, 2003). Second, the paper uses a strong and weak tie framework to investigate REs' networks. Entrepreneurial processes of opportunity recognition and resource acquisition require different combinations of strong and weak ties (Elfring & Hulsink, 2007) and different network profiles are associated with different dimensions of performance (Han, 2006). Yet, few studies have examined the structure of entrepreneurs' networks across international boundaries (Chen & Tan, 2009). In examining the function and utility of REs' social ties, this paper contributes to both the literature on networks (Hoang & Antoncic, 2003) and the IE literature (Bruton, Ahlstrom, & Obloj, 2008). Third, in focusing on REs in India, this paper extends the IE literature to incorporate links between developed and emerging economies. An understanding of entrepreneurship in emerging economies is quite limited despite their growing prominence (Kiss, Danis, & Cavusgil, 2012). India is one of the most important emerging players in the world economic arena and a unique institutional context compared to other emerging economies such as China, yet, studies based on India in the IE literature are few (Bruton et al., 2008). An understanding of returnees' networks and their potential role in upgrading domestic entrepreneurial capability in the context of relatively thin institutional support for REs may thus go beyond the generalization of previous studies on international entrepreneurs in emerging economies.

The structure of the paper is as follows. The nature of the institutional context for the return of skilled personnel in India is reviewed in Section 2, followed by the theoretical background for the study in Section 3. The research methodology is outlined in Section 4. The findings, and the propositions based on these findings, are presented in Section 5. Section 6 discusses the implications of the findings, and Section 7 concludes.

2. Highly-skilled returnees in India: context and significance

India is an important source of skilled personnel to developed economies, in particular, the United States (US) (Mani, 2004) and United Kingdom (UK) (McEwan, Pollard, & Henry, 2005). Since the 1990s, many senior Indian professionals in the US have been influencing their corporate employers to establish Indian subsidiaries, invest in start-up firms, or shape government policy

(Saxenian, 2005). Recent advances in communication have shifted the key unit of production from the firm to technical communities of skilled professionals, developments that have led to the emergence of a fast-growing community that directly links their host country with India. In recent years, many of these skilled Indian migrants have permanently returned home (Dossani & Kenney, 2002). This section briefly outlines the distinctive features of the institutional environment in India as impacting upon returnees' entrepreneurial behavior.

Since the 1990s, the Indian government has undertaken several reforms to stimulate entrepreneurship. As in China, a proactive policy toward innovation and establishment of Software Technology Parks (STPs) has created several opportunities in this sector (Parthasarathy & Aoyama, 2006; Saxenian, 2002). Referred to as the 'Silicon Valley of India', the Indian city of Bangalore is a prime example of the regional concentration of the software industry characterized by the presence of public and private sector enterprises, noted science-based universities and research organizations. However, unlike in China where policy has aggressively collaborated with research institutions to target physical infrastructure, state collaboration with universities and start-up firms to upgrade local infrastructure in India is rare, and incentives for academics to establish intellectual property rights and pursue commercialization of their technologies are weak. Whereas China has expanded the domestic market for IT and successfully linked its public science & technology efforts with the commercial activities of relatively autonomous industrial enterprises and spin-offs from state-owned institutions, growth in the indigenous IT industry in India is mainly driven by low, value-added services and the industry is dominated by a large number of small export-oriented firms (Saxenian, 2002). In contrast with China where incentives such as cheap office space, start-up loans or tax holidays are directed at attracting REs to indigenous science parks, tax incentives in designated STPs in India are mainly aimed at stimulating the growth of export-oriented software firms even as bureaucracy, corruption, and inadequate and expensive infrastructure continue to hinder business activity of the expatriate community in India.

The mobilization of social networks is an intrinsic part of the local culture in India in the context of limited access to resources in the conduct of business (Birtchnell, 2011). The relative lack of institutional support for REs in India raises further questions about the role of their social ties in returning home and founding new ventures. Virtually all research related to the cross-border flows of personnel in India is centered on the migration of highly-skilled personnel to the US (D'Costa, 2004) or EEs of Indian origin as business owners in the UK (Bachkaniwala, Wright, & Ram, 2001; Basu & Altinay, 2002). More recently, the contribution of Indian TEs abroad to the transfer of technical knowledge to India is being recognized (Saxenian, 2002, 2005). The issue of networks of individuals that have relocated to India to found new ventures, however, is relatively neglected. The next section presents the theoretical background for the study.

3. Theoretical background

3.1. Social networks, social capital and effectuation

The important and varied role of social networks in the entrepreneurial process is well established in the entrepreneurship (Aldrich & Zimmer, 1986; Greve & Salaff, 2003) and social capital literatures (Adler & Kwon, 2002). Social networks can be thought of as the actual set of links of all kinds amongst a set of individuals (Jack, 2005) or organizations (Kontinen & Ojala, 2011). Consistent with growing interest in the micro-processes of entrepreneurship and the role of managers' actions to orchestrate

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