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Are ‘sea turtles’ slower? Returnee entrepreneurs, venture resources and speed of entrepreneurial entry

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ABSTRACT

We add to neglected research on how venture resources and founder experience outside the home country interplay in facilitating venture creation speed. In particular, we investigate how returnee entrepreneurs influence the role of venture resources in the speed of entrepreneurial entry. Using a novel sample of 388 new ventures covering a range of technologies in China, we find that returnees from abroad are slower in new venture entry in the home country, compared with homegrown entrepreneurs. At the same time, ventures with innovative technology and backed by foreign capital are slower to set up due to higher levels of liability of newness and liability of foreignness. However, when these firms have a returnee founder who can leverage their experience with foreign resources and technological knowhow, such negative effects on entry speed are significantly mitigated. We discuss implications for further research and practice.

Executive summary

A developing research stream has analyzed the unique role of returnees in filling important entrepreneurial gaps in markets in emerging economies. Of particular importance in emerging economies that feature great uncertainties and fast changes in market opportunities is the time spent converting an idea into a business. However, we lack understanding of how returnee founder characteristics and venture resources play out in shaping the speed of opportunity enactment during the process of new venture creation.

The capability of returnees to make better use of advanced technological knowhow and foreign capital resources resulting from their experience abroad may help them speedily overcome the hurdles in establishing their ventures because of the benefits they offer in boosting the development of technology industries in their home countries. However, by virtue of having been away from their home market they may lack knowledge about home market institutions or social capital from not being able to develop local networks, which may slow their ability to establish their ventures. Hence, contextual influences on the different resources available to returnee entrepreneurs may have positive or negative influences on their entry speed.

Accordingly, our research questions are: To what extent does returnee entrepreneurs' lack of immediate embeddedness in domestic institutional environment slow their speed of entry compared to local entrepreneurs? To what extent can returnee entrepreneurs help ventures with innovative technology and those backed by foreign capital in the speed of creating the business?

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We develop and test hypotheses on a representative sample of 388 new technology firms in 13 major incubators and science parks in Beijing with follow-up face-to-face interviews with 36 returnees and non-returnee founders.

We find that returnees are slower in new venture entry in the home country, compared with homegrown entrepreneurs. But ventures with innovative technology and backed by foreign capital are slower to set up due to higher levels of liabilities of newness and foreignness. However, if these firms have a returnee founder who can leverage experience with foreign resources and technological knowhow, such negative effects are mitigated.

By comparing the gestation process between returnee and local entrepreneurs, we contribute firstly by advancing research on returnee entrepreneurship by adding to an emerging series of studies addressing the challenges faced by returnee entrepreneurs compared to their local counterparts. Interestingly, while past research has placed emphasis on resources associated with social capital for returnee entrepreneurship, we find insignificant coefficients in respect of our variables relating to the role of family and friends. Rather, speed of entry by returnees is strongly related to financial and technology resources.

Second, by exploring the speed of entry by returnee entrepreneurs in an emerging market context, we contribute by showing that absence from the home market context can slow entry speed. Finally, and more generally, we extend limited previous analyses that have suggested the importance of experience in different *institutional environments* to highlight that time to entry may vary between different types of founders.

Our findings suggest returnee entrepreneurs need to be aware that exposure to commercial environments in developed economies is not sufficient to facilitate speedy entry into their home market. Returnees able to access foreign capital as a result of their experiences in developed economies build financial resources that enable speedier access to markets. Returnees able to develop innovative technology prior to entry may be at a resource advantage and thus are able to enter environments of technological deficits more speedily.

1. Introduction

Returnee entrepreneurs are migrants returning from work or education in a developed economy to their home country to start a new venture. A developing research stream has analyzed the unique role of returnees in filling important entrepreneurial gaps in emerging economies (Li et al., 2012; Qin and Estrin, 2015; Saxenian, 2006; Wright et al., 2008). Although much attention has been devoted to the outcomes of businesses created by returnees (Kenney et al., 2013; Liu et al., 2010; Wright et al., 2008), very little is understood regarding the process of their venture creation activities, in particular the pre-launch phase. The time spent converting an idea into a business is particularly important in markets that feature great uncertainties and fast changes in market opportunities (Lévesque and Shepherd, 2004), such as emerging economies. However, we lack understanding of how returnee founder characteristics and venture resources play out in shaping the speed of opportunity enactment during the process of new venture creation.

The capability of returnees to make better use of advanced technological knowhow and foreign capital resources resulting from their experience abroad may help them to speedily overcome the hurdles in establishing their ventures because of the benefits they offer in boosting the development of technology industries in their home countries (Wright et al., 2008). However, by virtue of having been away from their home market they may lack knowledge about home market institutions or social capital from not being able to develop local networks, which may slow their ability to establish their ventures. Hence, contextual influences on the different resources available to returnee entrepreneurs may have positive or negative influences on their entry speed.

Accordingly, our research questions are: To what extent does returnee entrepreneurs' lack of immediate embeddedness in the domestic institutional environment slow their speed of entry compared to local entrepreneurs? To what extent can returnee entrepreneurs help ventures with innovative technology and those backed by foreign capital in the speed of creating the business?

We investigate these issues in the setting of China – the world's largest emerging economy featuring highly dynamic and uncertain market situations. China is also well known for being one of the countries observing accelerated returnee entrepreneurship by the so-called 'sea turtles' (Li et al., 2012; Wright et al., 2008).

Using a novel survey of new ventures covering a range of technologies in China, we find that in general returnees are slower in enacting an entrepreneurial opportunity in their home country, compared with homegrown entrepreneurs; it takes longer for them to set up the business. However, their presence can significantly expedite the entry of ventures backed by foreign capital and involving innovative technology, while ventures of these kinds usually suffer liability of foreignness and liability of newness, and are much slower to set up.

Our study makes several contributions to the literature. First, we advance research specifically on returnee entrepreneurship by adding to an emerging series of studies addressing the challenges faced by returnee entrepreneurs compared to their local counterparts. While past research has placed emphasis on resources associated with social capital for returnee entrepreneurship, in contrast we find that speed of entry by returnees is strongly related to financial and technology resources. While returnees' absence from the home market context can slow entry speed compared with local entrepreneurs, returnee founders who can leverage experience with foreign resources and technological knowhow can mitigate the negative effects of the liabilities of newness and foreignness experienced by local entrepreneurs.

Second, our findings contribute by shedding new light on the business gestation process in different contexts (Davidsson, 2016; Liao and Welsch, 2008; McMullen and Dimov, 2013; Samuelsson and Davidsson, 2009) by showing that time to entry is influenced by the nature of the different institutional environments where entrepreneurs have gained experience, that is whether