



# The dual-edged role of returnee board members in new venture performance

Ya-Hui Lin<sup>a,\*</sup>, Chung-Jen Chen<sup>b</sup>, Bou-Wen Lin<sup>b</sup>

<sup>a</sup> Department of International Business, College of Management, Ming Chuan University, 250 Zhong Shan N. Rd., Sec. 5, Taipei 111, Taiwan, ROC

<sup>b</sup> Graduate Institute of Business Administration, College of Management, National Taiwan University, 1, Sec. 4, Roosevelt Road, Taipei 106, Taiwan, ROC

## ARTICLE INFO

### Keywords:

Returnee board members  
Ownership structure  
Slack resources  
New venture performance

## ABSTRACT

This study examines how returnee board members influence new venture performance. By analyzing data from 103 new ventures in China, the study finds that there is an inverse U-shaped relationship between the proportion of returnee board members and new venture performance. It also finds that foreign ownership negatively moderates and that slack resources positively moderate the effect of the proportion of returnee board members on new venture performance. In addition, a significant three-way interaction shows that slack resources weaken the negative effect of foreign ownership on the relationship of returnee board members to new venture performance. This study enriches the body of knowledge in new venture and emerging economics literature.

## 1. Introduction

With increased globalization and international human mobility, many scholars have increasingly paid attention to the issue of returnees in emerging countries (Dai & Liu, 2009; Harvey, 2009; Lee & Roberts, 2015; Li, Zhang, Li, Zhou, & Zhang, 2012; Liu, Lu, & Choi, 2014; Qin, Wright, & Gao, 2017; Saxenina, 2006). Researchers have argued that returnees may act as a critical channel for international knowledge transfer (Liu, Lu, Filatotchev, Buck, & Wright, 2010), filling important technological and entrepreneurial gaps in emerging countries (Li et al., 2012). A developing research stream on returnees has examined how they affect the economic development of emerging countries (Harvey, 2009; Saxenina, 2006) and how returnee entrepreneurs influence firm innovation and performance (Dai & Liu, 2009; Filatotchev, Liu, Buck, & Wright, 2009; Li et al., 2012; Lin, Lu, Liu, & Choi, 2014; Liu et al., 2010; Liu et al., 2014; Wright, Liu, Buck, & Filatotchev, 2008). The existing literature, however, has yet to address how returnee decision-makers, such as board members, influence new venture performance.

New ventures often suffer the liabilities of newness and smallness (Li & Atuahene-Gima, 2001; Zhang & Li, 2010). They characteristically have small and limited managerial, personnel, and financial resources (Li & Zhang, 2007; Lu, Zhou, Bruton, & Li, 2010). Thus, understanding how to acquire the necessary resources to sustain an advantageous position is critical for new ventures (Lin et al., 2014). Previous studies suggest that the demographic characteristics of board members affect the availability of necessary resources for new ventures (Kor & Misangyi, 2008; Wincent, Anokhin, & Örtqvist, 2010). Accordingly, this study considers individual characteristics of board members, with a

particular emphasis on the influence of returnee board members. Returnee board members represent a unique demographic group in emerging countries (Lee & Roberts, 2015). Returnee board members with international backgrounds provide both knowledge and international networks that are critical for new venture survival and success. While foreign board members are also important to firms as human capital and as a vehicle to access new knowledge and foreign social capital (Choi, Park, & Hong, 2012), this study focuses on returnees rather than foreigners since returnees play a unique role in emerging countries and represent the phenomenon of replacing a “brain drain” with “brain circulation” in these countries (Saxenina, 2006).

Returnees are defined as people who have work and/or educational experience in the United States or other developed countries and then return to work in their home country (Lee & Roberts, 2015; Qin et al., 2017; Saxenina, 2006). Returnees often have advanced education and knowledge in the form of scientific and technical training (Dai & Liu, 2009; Lin et al., 2014). They may also have acquired advanced business knowledge and skills from working in foreign companies (Dai & Liu, 2009). Accordingly, returnees are more likely to have innovative capabilities and strong business skills to contribute to focal firms in emerging countries (Filatotchev et al., 2009). However, since returnees have been absent from the local market for a long time, they may lack local market knowledge and connections (Li et al., 2012; Lin et al., 2014). In this sense, returnees may face greater challenges when they operate in their home country. Hence, based on the knowledge-based view and social capital theory, this study argues that, within certain limits, the increase in the proportion of returnee board members enhances new venture performance due to returnees' advanced knowledge

\* Corresponding author.

E-mail addresses: [yhvica@mail.mcu.edu.tw](mailto:yhvica@mail.mcu.edu.tw) (Y.-H. Lin), [mcjchen@ntu.edu.tw](mailto:mcjchen@ntu.edu.tw) (C.-J. Chen), [bwlin@ntu.edu.tw](mailto:bwlin@ntu.edu.tw) (B.-W. Lin).

and networks from abroad. However, as the proportion of returnee board members increases beyond a certain level, this positive effect levels off because of returnees' disadvantages in terms of lack of local connections and knowledge, which is further offset by increased costs of organizational inflexibility. Specifically, this study suggests that the proportion of returnee board members has an inverse U-shaped relationship with new venture performance.

Moreover, as each new venture has a specific ownership structure and unique internal resources that might result in a different organizational context and thus influence firm behavior (Li & Zhang, 2007), these factors should be highlighted to ensure the efficacy of new venture activities. In this regard, this study examines the effects of two organizational factors: foreign ownership and slack resources. It is argued that these two factors influence the effectiveness of resources and knowledge contributed by returnee board members in new venture performance and thus impact new venture performance. In other words, this study suggests that the relationship between the proportion of returnee board members and new venture performance is moderated by foreign ownership and slack resources. Furthermore, strategic decisions and resource allocation must account for multiple organizational contexts (Bradley, Shepherd, & Wiklund, 2011) for organizations to be competitive. Accordingly, this study also examines the three-way interaction among the proportion of returnee board members, foreign ownership, and slack resources, indicating their joint effects on new venture performance.

This study makes several contributions. First, it extends the existing literature on new ventures by proposing returnee board members as a critical source of the resources necessary for new ventures (e.g., Dai & Liu, 2009; Li et al., 2012). Second, this study considers both the advantages and disadvantages of returnees and examines how they influence new venture performance when acting as board members. This study extends previous studies that only emphasize the advantages of returnees (Lee & Roberts, 2015; Liu et al., 2010). Third, this study identifies potential interactions between the proportion of returnee board members and new venture performance, which helps to advance the theoretical development of new venture development and broaden the understanding of conditions under which returnee board members can generate superior performance. Fourth, this study tests the joint effects of the proportion of returnee board members, foreign ownership, and slack resources on new venture performance. The evidence provides new insight into the role of returnee board members in new ventures of emerging countries. Finally, the findings of this study also provide important guidelines and implications for practitioners and policymakers. By adopting a fine-grained analysis of the advantages and disadvantages of returnees, returnee board members can better understand and overcome their vulnerabilities in their home country and thus better utilize their technological and managerial knowledge accumulated overseas. For policymakers, this study highlights the disadvantages of returnees in terms of their lack of local market knowledge and connections. Although local governments in emerging countries have provided many incentives to attract returnees, they should also provide opportunities for returnees to interact with local business communities and government-affiliated organizations to help them better understand local markets and develop local connections.

Empirically, this study employs objective data from China's emerging economy. Among many emerging countries, China plays a significant role in today's global market. In addition, the Chinese government provides various political and economic incentives to attract Chinese overseas talent to fill its technological and entrepreneurial gaps (Dai & Liu, 2009; Li et al., 2012). Thus, China has attracted large numbers of overseas Chinese scientists and students to return to China. For example, in 2015, 409,100 students returned to China, an increase of 12.14% over 2014 (National Bureau of Statistics of China, 2016). It has been argued that the increasing number of returnees from developed countries plays an important role in China's economic growth. As a result, China offers an attractive research context for this study.

## 2. Research background and hypotheses

### 2.1. Returnees and new venture performance

New ventures, defined as firms that are eight years old or less at the time of their initial public offerings (IPO) (Atuahene-Gima, Li, & De Luca, 2006; Zahra, 1996), often face the “the liability of newness” (Bamford, Bruton, & Hinson, 2006; Li & Zhang, 2007). That is, they have shortages of managerial knowledge and operational resources (Eisenhardt & Schoonhoven, 1990). A lack of necessary resources results in uncertainties and risks to the business operations of new ventures (Lin et al., 2014). In this vein, studies have suggested that returnees having advanced knowledge and foreign networks are especially relevant for new ventures (Dai & Liu, 2009; Filatotchev et al., 2009; Lin et al., 2014; Liu et al., 2010; Liu et al., 2014). They can help new firms accumulate human capital and social capital to overcome resource constraints (Li et al., 2012). Although previous studies have offered insight into how returnee entrepreneurs influence firms' innovation and export performance, those studies have not elaborated on issues pertaining to how the returnee influences new venture performance as a board director. In many new firms, not only managers but also board members can help new ventures overcome resource constraints and recognize business opportunities (Daily, McDougall, Covin, & Dalton, 2002; Kroll, Walters, & Le, 2007). Accordingly, this study attempts to develop hypotheses linking returnee board members of new ventures to their performance.

Returnees are seen as a significant mechanism for the international diffusion of knowledge and for upgrading the technological capability of new ventures in emerging countries (Filatotchev et al., 2009). Saxenina (2002, 2006) indicates that returnees learn advanced business and technological knowledge in developed countries. When those talented immigrants return to their home country, they can transfer their successful experience and advanced expertise to help local firms upgrade their organizational capabilities and increase their competitive advantage. Relying on the knowledge-based view, Filatotchev et al. (2009) suggest that returnees' accumulated knowledge and experience in the context of internationalization can help small and medium-sized enterprises (SMEs) identify and exploit international business opportunities. Their international experience plays a critical role for businesses entering international markets (Cui, Meyer, & Hu, 2014). In addition, since returnees have studied in developed countries and had the opportunity to gain technology knowledge in the form of scientific and technical training, they can create a bridge to advanced technologies and help narrow the knowledge gap between local and foreign firms (Dai & Liu, 2009; Lin et al., 2014; Liu et al., 2014). Moreover, some returnees have advanced commercial knowledge from working in a commercial environment (Dai & Liu, 2009; Wright et al., 2008) as well as rich foreign network assets (Alon, Misati, Warnecke, & Zhang, 2011), which can influence the success of new ventures. However, returnees also have potential disadvantages and may actually limit new venture performance (Li et al., 2012; Lin et al., 2014). Dai and Liu (2009) suggest that returnees may lack knowledge about the home country environment and market institutions as well as local networks since they have been away from their home market for a long time. These obstacles will limit the ability of returnee board members to develop and manage new ventures. The research reviewed above asserts that returnees have both advantages and disadvantages in influencing organizational operations. Hence, this study proposes a curvilinear relationship between the proportion of returnee board members and new venture performance.

Furthermore, since returnees offer both advantages and disadvantages to new ventures, it is critical to examine the conditions under which returnee board members can reduce the negative impact of their disadvantages and exploit their advantages effectively to enhance new venture performance. In this study, we consider two contextual factors in terms of foreign ownership and slack resources. This study

Download English Version:

<https://daneshyari.com/en/article/7425021>

Download Persian Version:

<https://daneshyari.com/article/7425021>

[Daneshyari.com](https://daneshyari.com)