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Citation for published version:

Wang, H, Duan, T, Hou, W & Liu, X 2015, The Role of Returnees in Business: A Review. in Entrepreneur and Talent Management from a Global Perspective. Edward Elgar Publishing.

Link:

[Link to publication record in Edinburgh Research Explorer](#)

Document Version:

Peer reviewed version

Published In:

Entrepreneur and Talent Management from a Global Perspective

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The role of returnees in business: A review

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Abstract

In recent years, a growing number of overseas Chinese students and immigrants return to China to take advantage of the development opportunities by engaging business. Their roles in business receive increasing attention from policy makers, the media and scholars. This chapter intends to provide a review of the relevant literature. We note that returnees have started playing an important role in the society since 1840s. Returnees contribute to the modern business through facilitating knowledge transfer, increasing innovation, boosting productivity and ensuring economic growth. The evidence from other countries and the disadvantages of returnees are also discussed.

A chapter of the book *Entrepreneur and Talent Management from a Global Perspective* published by Edward Elgar and edited by Huiyao Wang and Yipeng Liu

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1. Introduction

With the development and increasing importance of a number of developing countries, a growing number of immigrants or international students started returning to their home country in order to explore the opportunity by establishing business as returnee entrepreneurs (Kapur, 2001). Recent studies show that returnees have gained significance in their home countries (Dai & Liu, 2009; Filatotchev et al., 2009; Lin, et al., 2014; Liu, et al., 2010b; Liu, Wright & Filatotchev et al., 2014; Pruthi, 2014; Wright et al., 2008). Such a trend of “brain gain” mitigates the concern of the phenomena of “brain drain” observed in early days when the talents from developing countries were attracted to developed countries (Bhagwati and Hamada, 1974). With the trend of “brain gain”, Chinese returnees play a key role in linking China to the world (Wang et al., 2011).

In modern China, from the first overseas student in 1841 to 413,900 overseas students in 2013, China had overtaken India becoming the largest origin of international students. With an increasing number of returning overseas Chinese, Chinese returnees made a great contribution to the development of society, economy and business. For example, from Xinhai Revolution in 1911 to the establishment of People’s Republic of China, returnees launched and led the China’s social change. In addition, the reform of the Chinese economy in 1978 and the establishment of the capital market in 1990 were led by returnee as well. The Chinese government launched a series of policies to attract overseas talents returning since returnees could bring the benefits in the past decades. For example, ‘Cheung Kong Scholars Programme’, ‘Recruitment Program of Global Experts’ and ‘Recruitment Program of Global Experts’ were implemented in 1998, 2008, 2011, respectively, intending to support overseas talents to contribute to the innovation of the academic and the business. Relying on survey data, Wadhwa et al. (2011) find that the government incentive is very important for the return of Chinese overseas talents. Accordingly, these policies could motivate the returning of

overseas talents with the higher education. Wang and Lu (2012) document that among returnees 36.1% has postgraduate degrees and 35.5% has PhD degrees. The increasing importance of returnees has stimulated research interest, and there is a growing number of studies on this topic.

From the historical perspective during 1840s to 1940s, returnee entrepreneurs contribute to the nation's industrialization and the nation's business through applying the advanced technology and the management mode as well as focusing on the R&D and the employees training (Wang et al., 2014).

In addition to the historical perspective, returnees also contribute to the modern business by bringing expertise or technology from other countries to China. For example, returnees have a positive impact on firm innovation (Liu et al., 2010; Filatotchev et al., 2011), growth (Wright et al., 2008), and operating performance (Filatotchev et al., 2009; Giannetti, et al., 2014). The evidence of other countries is consistent with China's studies. However, due to the underdeveloped institutions in China (Allen et al., 2005), the "brain gain" through returnees may be acquired at the cost of "resource loss". Duan and Hou (2014) find the supportive evidence that returnees CEOs underperform local CEOs in the listed firms due to the lack of local resources. Li et al. (2012) find the returnee entrepreneurs underperform native entrepreneurs in the technology ventures.

This chapter reviews the previous literature studying returnees and contributes to the existing literature in several ways. First, we systematically review the existing literature that is related to returnees and talents mobility in China. Second, we not only discuss the role of returnee in business, but note that returnees contribute to the innovation of academia for their home country. Third, we extend the discussion of the role of returnees to other countries.

The rest of this chapter proceeds as follows. Section 2 discusses history and institutional background. Section 3 reviews and discusses the literature about the role of returnees. Section 4 concludes.

2. History and Institutional Background

Returnees play an important role in the development of society in the modern China. The first overseas student of the modern China could be traced back to 1850. Rong Hong, the father of overseas students, attended Yale University in the US. After graduation, he returned China and led the “Westernization Movement”. The movement helped the Qing Dynasty start learning from the West in developing industries and education. In addition, in 1872, the Qing dynasty started to dispatch youth to study overseas with the advice of Rong Hong.

Along with the large-scale trend for Chinese studying abroad, a large number of overseas Chinese returned to China and contributed to the development of the Chinese society in the following century, especially three large leaps. First, in 1911, the Xinhai revolution led by Sun Yat-sen, a returnee from Japan, overthrew China’s imperial rule of 2000 years. Second, the People’s Republic of China was established by a batch of returnees in 1949. More specifically, 6 out of 10 founding marshals were returnees. Third, the reform and opening-up in 1978 was led by Xiaoping Deng who returned China from France. The reform establishes the independent role of the market and introduces the market economy.

In addition to three large leaps for the development of society in modern China, returnees also contribute to the development of China’s modern business and the capital market, especially after 1978. For example, the establishment of the Chinese capital market was launched in 1990 by 8 returnees from the US, which accelerated the development of Chinese enterprises, and offered returnee CEOs opportunities to use their expertise and experience. They acted as the ‘pushing hand’ in developing corporate governance and

corporate strategic management and bringing experiences and expertise from foreign mature stock markets to China.

Since returnees play an important role in the modern China, the Chinese government launches a series of policies to support and attract overseas Chinese. For example, the “Recruitment Program of Global Experts” was launched in 2008 by the Organization Department of the Communist Party in order to attract and support overseas outstanding Chinese to enhance innovation in enterprises and academia. The program intended to recruit approximately 2000 experts (including university professors, corporate top executives, and other technology- or innovation-oriented talents) with overseas PhD degrees within five to ten years. The Chinese government also offers favourable treatments in terms of registered residences (*hukou*), residence permits (for foreigners), a premier medical service, social security for the spouses and children of returnees, and even allows returnees to buy real estate without restrictions.

3. Review and Discussion

Previous literature has widely explored the role of returnees in the business, ranging from the historical perspective to their impact on modern business in China. In particular, an increasing number of studies has examined the impact of international experience of returnees on the modern business not only in China, but also in other countries such as India, Argentina. In addition, returnees in developed countries, such as the US, also play a role in the business (Roth, 1995; Daily et al., 2000; Carpenter et al., 2001), but the perspective of these studies focus on the international working experience which could facilitate firms obtain the information about foreign markets.

3.1. Historical Perspective

During 1840s to 1940s, China started to learn from western countries and accelerated the nation's industrialization. Returnees helped the nation's industrialization to take-off with bringing back the advanced technology and ideology from foreign countries which had completed the industrialization revolution. Wang et al. (2014) conduct the case studies that include several industries with a number of representative returnees, and subsequently analyse the role of returnees in the development of the nation's industrialization during 1840s to 1940s. They find that returnee entrepreneurs apply the advanced technology and the management mode to boost productivity, and focus on R&D and employees' training.

3.2. The impact of returnees on Chinese listed firms

As the largest emerging market, the role of returnees in the Chinese capital market is a debatable issue. Giannetti, et al. (2014) argue that the expertise of board directors is valuable to firms and find that the proportion of board directors with international experience is associated with the higher profitability and the higher productivity in listed firms. In addition, the proportion of board directors with international experience is positively associated with firm internationalization. However, although returnees are expected to add value to firms with their knowledge and expertise, they still have weaknesses, such as the lack of local resources due to their absence from the home-country environment for a period of time when living in foreign countries (Li, et al., 2012; Obukhova, Wang & Li, 2012; Lin et al., 2014). By testing the competing hypothesis from expertise- and resource-perspective, Duan and Hou (2014) find that returnee CEOs underperform local CEOs by ROA, ROS and market-to-book ratio, and such underperformance is driven by the overseas working experience. The possible explanation for their underperformance is that returnee CEOs are less likely to appoint politically connected executives to compensate their weaknesses. Returnee CEOs are also more likely to adopt aggressive corporate strategies due to the overconfidence.

In addition to the Chinese capital market, international experience which constitutes the representative feature of returnees, has been confirmed to have a positive effect on firm performance in the US capital market (Roth, 1995; Daily et al., 2000; Carpenter et al., 2001) since they are familiar with foreign markets. More specifically, Roth (1995) and Daily et al. (2000) find that CEO international working experience has a positive effect on ROA, ROI, and Market-to-Book ratio. Moreover, they further test that CEOs with international working experience could positively affect ROA, ROI and market-to-book ratio if the degree of firm internationalization is high. From the perspective of multinational firms, Carpenter et al. (2001) find that U.S. multinational companies performed better with CEOs with international assignment experience through using ROA and stock return to proxy firm performance. Their findings support the resource- and dynamic capability-based theory. In addition, as the compensation to CEOs with international experience, these CEOs receive the higher salary.

3.3. The impact of returnees on small Business

Although returnees are expected to carry technical expertise, managerial and entrepreneurial skills acquired in developed countries, Kenney et al. (2013) question the importance of returnees for igniting the take-off of the ICT (information and communications technology) industry in India, China and Taiwan in that most returnee entrepreneurs only returned after the success had been achieved by local entrepreneurs. Therefore, returnee entrepreneurs only contributed to the subsequent expansion phase of the industry rather than serving as the critical factor in the early formation and development of the ICT industry. Contrary to the impression of returnees, they are more beneficiaries of home nation development rather than initiators of the change. Almeida and Kogut (1999) and Song et al. (2003) note the importance of the talent mobility in helping emerging economies to catch up by adopting advanced technology through human mobility.

Specific to China, seeing the benefits brought about by returnees, the Chinese government launched a series of talent schemes to encourage overseas Chinese talents return to the home country. Cheung Kong Scholars Programme attracted new faculty members from overseas reputable universities, typically the overseas alumni, and provided critical academic resources for Chinese universities. Li et al. (2014) find the alumni returnee scholars as faculty tend to publish in journals with a higher impact than non-alumni returnee ones. However, returnee scholars exhibit decrease in international collaboration.

In addition to the impact of returnees on Chinese higher education, existing research has found that returnees act as a new channel for international knowledge spillovers and also contribute to the innovation of Chinese entrepreneurial firms (Filatotchev et al., 2011; Liu et al., 2010a; 2010b; Obukhova, 2012b). The findings from these studies show that returnee entrepreneurs positively affect the innovative activities of local firms through knowledge spillovers, and the presence of returnee- owned firms helps to enhance the technological capabilities of other local firms (Filatotchev et al., 2011). The technology gap between returnee-owned firms and non-returnee firm strengthens the positive impact of returnee-owned firms on the innovation of local firms based on a sample of SMEs in Zhongguancun Science Park (ZSP) in Beijing (Liu et al., 2010b). These studies suggest that returnees, as “knowledge brokers”, facilitate knowledge flows and stimulate innovation in emerging economies due to their dual exposure to the home and host countries. By transferring knowledge to local engineers, returnee entrepreneurs have a positive impact on the emergence of technological clusters in China (Obukhova, 2012b).

In addition, returnee entrepreneurs also contribute to firm performance and employment growth. By analysing high-tech Small- and Medium-sized Enterprises (SMEs), Wright et al. (2008) investigated how returnees choose locations for starting their new venture and how their location choices subsequently affect firm performance (Wright et al.,

2008). The findings indicate that returnee entrepreneurs with knowledge advantage proxied by the number of patents they transferred from abroad tend to locate in non-university science parks, while those with previous start-up experience abroad choose university science parks to start their business. Moreover, the firms set up by returnee entrepreneurs in non-university science parks enjoy stronger employment growth, and those with commercial experience abroad perform better in university science parks. The empirical evidence confirms the view that returnee entrepreneurs seek complementarity concerning their location choices in the home country and have a positive effect on employment growth on their firms located in non-university science parks. Also focusing on SMEs in science parks, Filatotchev et al. (2009) find that returnee entrepreneurs are associated with the higher export orientation and the better export performance. Liu et al., (2014) examine the impact of the learning capabilities of returnee entrepreneurs on firm performance. They found that experiential and vicarious learning help enhance firm performance, whereas vicarious learning is positively associated with employment growth. Firm age weakens reduces the impact of vicarious learning on employment growth. By examining the interrelationship between returnee entrepreneurs' learning capabilities and firm age, their research indicates that the impact of returnees' learning capabilities is contingent on organizational contexts.

Relatedly, Batjargal (2007) finds that the interaction of social capital and Western overseas experience of entrepreneurs help to increase the chance of survival of Internet firms based on the Internet ventures in an earlier sample period,. The overseas experience brings returnee entrepreneurs benefits in sparse networks which help to connect different clusters, regions and countries. For entrepreneurial firms in the IPO that is the transition period from the private to the public, Cumming et al. (2014) find that returnee CEOs outperform local CEOs in terms of IPO performance and post-IPO performance.

However, Li et al. (2012) find that the new technology ventures managed by returnee entrepreneurs underperform those managed by native entrepreneurs. Lin et al. (2014) use the survey data from the Zhongguancun Science Park and find that SMEs with returnee CEOs are not more innovative than those with native CEOs. Obukhova (2012a) uses the survey data of Shanghai's semiconductor-design industry and finds that the role of brokers for returnee entrepreneurs is insecure when they launched firms in the home country. These mixed empirical findings may imply that returnees have weaknesses due to their absence from the home-country environment for a period of time when living in foreign countries. They may encounter cultural shock, and face considerable difficulties in adjusting to China's under developed institutional environment (Li, et al., 2012; Obukhova, Wang & Li, 2012; Lin et al., 2014; Zhou and Hsu, 2011). Some earlier studies may have overestimated the advantages of returnees.

From the perspective of other countries, returnees also play an important role in the innovation. For example, Alnuaimi et al. (2012) examine to extent to which labour mobility promotes innovation in India. Indian firms can hires new inventors from abroad and some of them could be returnees. The impact of their patents is higher in comparison to inventors hired from other Indian organisations. Jonkers and Cruz-Castro (2013) examine the collaboration patterns and outputs upon return of the Argentinean returnee scholars, and find the overseas experience indeed increases the propensity to publish in journals with a higher impact. A big proportion of such publications are made without having international co-authorship. Gibson and McKenzie (2014) survey the migration outcomes and scientific productivity of researchers from small Pacific Islands countries. Although the overseas scholars from these countries have better access to research funds and more active scientific networks, they find the return rates of overseas scholars are 5-8 times larger than previous results (e.g. Gaule, 2011). Also using the survey data, Scellato et al. (2014) find that returnees

and foreign born scientists are associated with the larger international research networks comparing with native scientists across sixteen countries.

4. Conclusion

This chapter mainly reviews the role of returnees in China, and furthermore expanding the discussion to other countries. Since returnees play an important role in the development of society and business in modern China, the Chinese government launches a series of programmes to attract and support returnees playing a role. By reviewing a large number of studies for returnees across various issues, we conclude that returnees are associated with a high level of innovation (Liu et al., 2010; Filatotchev et al., 2011), higher growth (Wright et al., 2008), and better export performance (Filatotchev et al., 2009; Giannetti, et al., 2014). However, some scholars have suggested that returnee entrepreneurs have disadvantages due to their exit from the home-country environment for a period of time when living in foreign countries. Returnees may suffer from the liability of ‘outsiderness’ and a lack of local connections as well as difficulties in cultural readjustment (Li, et al., 2012; Lin et al., 2014). The underdeveloped institutional environment in China may exacerbate difficulties and challenges facing returnees when operating in China (Duan and Hou, 2014; Li et al., 2012). This may explain why returnees underperform locals and imply that the “brain gain” through returnees may be associated with the cost of “resource loss”. Thus, we call for more studies taking account of both the advantages and disadvantages of returnees and interactions between returnees and the local institutional context in their home country.

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