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Returnee Entrepreneurs and the Performance Implications of Political and Business Relationships under Institutional Uncertainty
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Abstract:
Returnee entrepreneurs, despite their assumed advantages in possessing international experiences and advanced knowledge, suffer from liability of returnee due to a lack of relationships with political and business actors and experience institutional uncertainty in the home market as they move across different institutional environments. This study investigates how returnee entrepreneurs can strategically utilize relationships with political and business actors to achieve better performance and the conditional effect of institutional uncertainty. Based on a survey of 200 Chinese returnee entrepreneurs, we find that business relationships play a dominant role in influencing business performance and that this role is even stronger under institutional uncertainty. Political relationships support the formation of business relationships and are associated with business performance via the mediation of business relationships. Our study contributes to developing a nuanced understanding of the complementary effect of political and business relationships on venture performance in emerging economies.
Dear Editor

We would like to thank you for your interest in our research and the time that you have dedicated to our manuscript in this review process. We appreciate your thoughtful comments and the opportunity that they have given us to reflect on our paper and improve it in so many ways.

We have prepared the paper in format according to the JBR guidelines. We believe our most updated manuscript features significant improvements in comparison to our original submission. Thank you for your time and effort in considering our revision.

We look forward to hearing from you.

Best regards,

Jie Wu

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Response to Editors

We would like to thank you for your interest in our research and the time that you have dedicated to our manuscript in this review process. We appreciate your thoughtful comments and the opportunity that they have given us to reflect on our paper and improve it in so many ways.

Our paper has gone through professional language checking and been formatted as per the guidelines of JBR.

Thank you again for your guidance.
Returnee Entrepreneurs and the Performance Implications of Political and Business Relationships under Institutional Uncertainty

Abstract

Returnee entrepreneurs, despite their assumed advantages in possessing international experiences and advanced knowledge, suffer from liability of returnee due to a lack of relationships with political and business actors and experience institutional uncertainty in the home market as they move across different institutional environments. This study investigates how returnee entrepreneurs can strategically utilize relationships with political and business actors to achieve better performance and the conditional effect of institutional uncertainty. Based on a survey of 200 Chinese returnee entrepreneurs, we find that business relationships play a dominant role in influencing business performance and that this role is even stronger under institutional uncertainty. Political relationships support the formation of business relationships and are associated with business performance via the mediation of business relationships. Our study contributes to developing a nuanced understanding of the complementary effect of political and business relationships on returnee venture performance in emerging economies.

Keywords: Returnee Entrepreneur, Political Relationships, Business Relationships, Business Performance, Institutional Uncertainty, Emerging Market
Returnee Entrepreneurs and the Performance Implications of Political and Business Relationships under Institutional Uncertainty

1. Introduction

This paper investigates returnee entrepreneurs and their relationship-building activities in the home country and how the performance implications of these activities may be influenced by institutional uncertainty. These returnee entrepreneurs typically migrate from developing and emerging countries (e.g., China, India, Brazil, etc.) to advanced countries (e.g., often the U.S. or Western Europe) for higher education or professional training and then return to their home countries and exploit their international migratory experience by starting business ventures (Drori, Honig, & Wright, 2009; Gruenhagen, Davidsson & Sawang, 2020). For example, Ctrip.com, a successful online travel agency from China that acquired global metasearch leader Skyscanner in 2017, was established by James Liang after his return to China after obtaining a PhD degree from Stanford University. With the technology and business knowledge accumulated in advanced economies, returnee entrepreneurs are argued to be important contributors to the development of innovation and entrepreneurship in emerging economies (Kenney, Breznitz, & Murphree, 2013; Liu et al., 2010; Wright, 2011).

Past studies on returnee entrepreneurs have focused on the characteristics of these individuals and the impact of their ventures on their home economies (e.g., Dai & Liu, 2009; Gruenhagen et al., 2020; Kenney et al., 2013; Pruthi 2014; Wright, Liu, Buck, & Filatotchev, 2008). However, returnees also have disadvantages that require efforts and attempts to survive and succeed when creating ventures upon moving back home (Li et al., 2012), especially
considering that changes in the temporal and spatial context can lead returnee entrepreneurs to feel great uncertainty (Lin et al., 2019; Liu & Almor, 2016). Perceived uncertainty is a salient part of entrepreneurship and challenges returnee entrepreneurs’ ability to deliver performance (Alvarez & Barney, 2005).

Specifically, these homebound entrepreneurs can suffer from the ‘liability of returnee’ when creating ventures in their home markets (Li et al., 2012), as their home countries may have evolved and experienced changes in society and in the market when they were away. Returnee entrepreneurs need to relearn and reacquaint themselves with the conditions of their home market, which can be quite different from what they knew. In addition, returnee entrepreneurs perceive institutional uncertainty when leaving advanced markets where institutions are sufficient and well kept to a home market that is characterized as emerging, where market-supporting institutions are either weak or nonexistent (Khanna & Palepu, 2010). This process can make returnee entrepreneurs feel extremely uneasy as they, on the one hand, have to unlearn their experience of working and living in an advanced economy and, on the other hand, relearn the rules and norms of business operations after moving home (Gruenhagen et al., 2020).

The literature has suggested that relationship building in home countries is critical for returnee entrepreneurs to help reduce their liabilities and manage uncertainty towards home institutions (Gruenhagen et al., 2020; Li et al., 2012; Lin et al., 2019). Specific to home countries such as China, a large body of the literature has addressed the importance of political and business relationships for firm operations (Chung, 2012; Chung & Kuo, 2018; Chung et al., 2020; Sheng et al., 2011; Wang & Chung, 2013; Wu & Chen, 2012). However, it is less clear how the political and business relationships built in the home country impact returnee
entrepreneurs’ business performance, especially considering the context of emerging economies marked by institutional uncertainty (Bao et al., 2016; Li et al., 2012; Liu & Almor, 2016; McKelvie, Haynie, & Gustavsson, 2011).

This study aims to fill this research gap by investigating the strategic use of political and business relationships of returnee entrepreneurs and how they may be impacted by the uncertainty these returnee entrepreneurs perceive with regard to home market institutions (e.g., Peng & Luo, 2000; Wu & Ang, 2020; Zhou, Barnes, & Lu, 2010; Zhu et al., 2017). We hypothesize that political and business relationships are both beneficial yet differentiated in influencing returnee entrepreneurs’ business performance. We further hypothesize that the effect of political and business relationships is conditioned by the level of institutional uncertainty. Moreover, we hypothesize that the unique institutional context for returnee entrepreneurs in China may lead political relationships to function in a subtle way that supports business relationship building, which in turn impacts business performance.

We tested our hypotheses based on a survey of 200 returnee entrepreneurs from six returnee business parks and cities located in China. China is an appropriate research setting that has received a substantial number of returnee entrepreneurs (Wang & Miao, 2013). It has also witnessed significant institutional changes, transitioning from a planned economy to a market-based economy. Many Chinese returnee entrepreneurs who left during the late 1990s and returned in the last few years may have difficulties recognizing and understanding the Chinese business context.

Our study makes at least two major contributions to the literature. First, this study contributes to the returnee entrepreneurship literature that mainly concentrates on specifying
how and under what conditions political and business relationships matter for returnee entrepreneurs when creating ventures in emerging home markets (Liu & Almor, 2016; McKelvie, Haynie, & Gustavsson, 2011). It does so not only by untangling the differential roles of political and business relationship building in contributing to returnee entrepreneurs’ performance but also by investigating a critical contextual element that conditions these two relationships: the institutional uncertainty of the home market. In doing so, we hence integrate research on returnee entrepreneurship (Lin et al., 2019; Wu & Ma, 2018) with insights from the literature on emerging economies (Peng & Luo, 2000; Sheng et al., 2011; Wang & Chung, 2013) to theoretically provide a more refined understanding of whether and how entrepreneurs can strategize in regard to different types of relationship building for better venture performance in emerging markets characterized by high institutional uncertainty, and also empirically test these theory-derived hypotheses.

More significantly, this study contributes to the political relationship and business relationship literature by offering a much more nuanced understanding of the interrelationship between the two. Building on the valuable insight of previous studies (e.g., Wu & Ang, 2020) that there is an interplay between political and business relationships that affects business performance, we go one step further to propose the indirect influence of political relationships on the business performance of returnee ventures under institutional uncertainty via the mediating effect of business relationship building, which unfortunately has been completely ignored by the literature but actually is the core challenge of returnee entrepreneurs who are motivated to readapt and readjust themselves to the different institutional and economic contexts of the home market from which they have been absent in order to acquire more advanced technology and business knowledge from overseas, and thus become, compared with
local entrepreneurs, less advantageous. Our study not only develops theoretical arguments for why political relationships serve as an important antecedent to the formation of business relationships, which leads to a nuanced understanding of how and from whom entrepreneurs may seek support for business relationship formation in emerging market contexts in general and for returnee entrepreneurship in particular (Armanios et al., 2017), but also offers probable reasoning for why the opposite direction, where business relationships may mediate the effect of political relationships on venture performance, is less likely to occur. Moreover, we provide strong empirical evidence by analyzing a unique dataset using structural equation modeling, and equally importantly, we run the necessary analyses to rule out reverse causality, thus providing reliable and rigorous support for the results.

In the next section, we present the theoretical background of the study and develop hypotheses that explain the relationship between home institutional uncertainty, the political and business relationships of returnee entrepreneurs and their business performance. Next, we present the methodology, followed by the data analysis and findings. Implications and future research are then subsequently provided.

2. Returnee Entrepreneurs, Relationship Building, and Institutional Uncertainty

Returnee entrepreneurs are individuals who left their home countries to study and work abroad and then returned to the homeland to start a new business (Drori et al. 2009; Gruenhagen et al., 2020; Liu, 2015). The term predominantly refers to individuals moving from less developed countries to more developed countries and later returning (Drori et al., 2009). After years living abroad, these individuals can gain new experience and knowledge from the host countries that enable them to discover business opportunities when returning to their home country. They are often highly qualified with technical knowledge and business experience and
are identified by many as key agents of economic growth and innovation in their home countries (Kenney et al., 2013; Liu et al., 2010).

Meanwhile, by recognizing the knowledge advantages of returnee entrepreneurs, which are highly valued and in demand in emerging markets, home governments have developed policies and favorable institutional contexts to encourage returnee entrepreneurship (Kenney et al., 2013). For example, both the central and regional governments in China have launched expensive programs aimed at luring returnees in the hope that they will bring about enhanced innovation upgrades and entrepreneurial growth (Wang & Miao, 2013; Zweig, Chung, & Vanhonacker, 2006). Such programs include but are not limited to the establishment of numerous business parks and incubators in high-tech zones that are specifically targeted at returnee entrepreneurs and provide them with physical facilities, intermediate services and access to government subsidies (Armanios et al., 2017). Encouraged by the government’s dedicated efforts, returnee entrepreneurship has boomed in China, generating a number of phenomenal high-tech returnee-founded companies (Wang & Miao, 2013).

Despite the attractions provided by the home government to lure returnee entrepreneurs, it is not always easy for them to go home, set up ventures and be successful. While past studies on returnee entrepreneurs tend to focus on the advantages these individuals gain from living abroad, for instance, their better education levels or skill sets than locals (Piracha & Vadean, 2010), and on how their foreign experience enables them to discover opportunities (Drori et al., 2009), very little research has addressed the challenges these returnee entrepreneurs face when creating ventures back home. Even though returnee entrepreneurs may possess superior knowledge and skills vis-à-vis home entrepreneurs, Li and colleagues (2012) note that returnee entrepreneurs may suffer from “liability of returnee” and encounter disadvantages, especially
due to a lack of local networks and knowledge. Unfortunately, compared to home entrepreneurs, their long tenure overseas makes them outsiders of political and business networks (Johanson & Vahlne, 2009), which can put them in a severe disadvantage in accessing critical information, acquiring valuable resources, and obtaining necessary legitimacy.

Furthermore, returnee entrepreneurs from emerging markets can be particularly impacted by the institutional environment at home (Gruenhagen et al., 2020) and the uncertainty they perceive from it. Emerging markets are characterized by weak or ineffective market-supporting institutions (Johanson & Kao, 2015; Khanna & Palepu, 2010). Additionally, the political, social and economic conditions in emerging markets can change drastically when these entrepreneurs are away (Blankenburg Holm, Johanson, & Kao, 2015; North, 2005). Returnee entrepreneurs have lived and worked in different institutional contexts, and differences between host and home institutional contexts can be drastic and confusing.

Ironically, these returnee entrepreneurs do know something about their home markets; they used to live there, and they may have even visited home periodically during their habitation abroad. However, years of living in an advanced economy and becoming accustomed to how society and business function there may make it difficult for them to understand the changes that occur in policies, rules, norms, and culture in their home countries, as well as how these changes can influence venture creation and business operations. There will be readjustment and, hence, the experience of uncertainty when they return to the home country (Li et al., 2012). Therefore, not only do these returnee entrepreneurs experience reverse-culture shocks, but they can also be overwhelmed and feel uncertainty due to shifts in political, business, and market conditions in their home countries. Perceived uncertainty can be understood as perceptual anxiety that humans possess towards the feasibility of potential opportunity (McMullen &
Shepherd, 2006). Compared to calculable risk, perceived uncertainty is difficult to measure, and appropriate responses are difficult to plan (Knight, 1921). However, it can be reduced by obtaining further information or planning prevention initiatives (March & Shapira, 1987).

The ability of returnee entrepreneurs to cope with uncertainty is closely related to the success of ventures (Alvarez & Barney, 2005; Schendel, 2007), but returnee entrepreneurs may not be able to address their perceived uncertainty until it can be included in daily routines and business operations after the venture has been created (Levinthal & March, 1993; Levitt & March, 1988). Hence, perceived uncertainty is contingent on the knowledge and commitment of an entrepreneur (Figueira-de-Lemos, Johanson, & Vahlne, 2011). The more he/she learns about the surrounding conditions, the better he/she will be able to distinguish a contingency plan or alternative and work through uncertainty.

2.1 Political and Business Relationships and Returnee Entrepreneurs’ Business Performance

As the literature has suggested, returnee entrepreneurs are disadvantaged by their lack of local networks (Dai & Liu 2009; Li et al., 2012). The relationships these returnee entrepreneurs previously possessed may have become inactive or been discontinued during their time living abroad. It is also possible that the home market has changed dramatically, and quickly identifying new key actors with whom to establish relationships can be an overwhelming task for returnee entrepreneurs.

Relationship building is a key activity in emerging markets (Khanna & Palepu, 2010). While some emerging markets may have successfully transitioned to a more market-based economic system, relationships maintain a dominant role in business transactions and are prevalent in practice (Shi, Markóczy, & Stan, 2014). Information spreads through social
interaction and interpersonal relationships (Granovetter, 1973). By building relationships, returnee entrepreneurs can strategically establish their position in the home market to enable important information to pass through (Burt, 1992; Blankenburg Holm & Eriksson, 2000), which can be used to screen and evaluate potential opportunities (Chetty & Blankenburg Holm, 2000; Ellis, 2011). The exchange of information allows returnee entrepreneurs to appropriately strategize for their ventures and to better adapt to the home market.

Relationships in emerging markets are often distinguished into political and business relationships (Chung, 2012; Chung & Kuo, 2018; Chung et al., 2020; Sheng et al., 2011; Wang & Chung, 2013; Wu & Chen, 2012). This distinction is deemed necessary, especially in emerging markets, because political and business relationships play different roles in helping returnee entrepreneurs assess information, obtain resources and acquire legitimacy. Political relationships are connections made with political actors, such as government officials who work in both the administrative and policy-making arms of governmental organizations (Peng & Luo, 2000). As emerging markets are known to be in a state of economic transition, government intervention could dominate economic activities through the control and allocation of strategic resources (Li et al., 2012).

Political relationships have been argued to be a key antecedent for predicting business performance, especially in emerging markets (Peng & Heath, 1996; Peng & Luo, 2000). Political relationships can play a crucial role in accessing political information, e.g., information regarding policymaking, whether through currently implemented policy or the direction of future changes. As information on policymaking in emerging markets is not always publicly available and can be difficult to verify, these connections with political actors may
allow returnee entrepreneurs to understand, anticipate and prepare for potential institutional changes.

Moreover, returnee entrepreneurs can build relationships with political actors to acquire political resources, including preferential support (Kotabe et al., 2011; Li et al., 2012), regulation exemption (Luo, et al., 2012; Tang et al., 2019; Zhang et al., 2019), and bureaucracy facilitation (Luu & Ngo, 2019; Zhou et al., 2014). Strong political relationships can reduce challenges that returnee entrepreneurs encounter when establishing new ventures, as their technology and products may be too advanced for the market and current regulations.

Last, political relationships can help returnee entrepreneurs become recognized and obtain legitimacy. While returnee entrepreneurs must follow national regulations for establishment and operation, with political relationships, they can be considered to have the approval of political actors (Chen et al., 2018). This recognition can send a signal to local actors they should be treated seriously and not be taken advantage of (Yan & Lu, 2019; Zhu et al., 2017). This can be especially beneficial for returnee entrepreneurs in emerging markets where confidence in the implementation of laws and regulations governing market transactions can be low (Child & Möllering, 2003).

It is worth noting that there is a dark side of political relationships that could impede business performance (Chung et al., 2016). For example, the cost of initiating and maintaining political relationships is considered high (Chung & Kuo, 2018). Returnee entrepreneurs and political actors may have conflicting interests in their relationship (Chung et al., 2016), which makes the fulfillment of oriented obligations costly. Political relationships also tend to be established with particular political actors; therefore, returnee entrepreneurs’ efforts may fail
when there is a rotation of political actors (Yeniaras et al., 2020). However, governments in emerging markets are known to cultivate, support and protect strategic industries and companies, and it is unimaginable that returnee entrepreneurs would refuse this support. Accordingly, we posit the following.

Hypothesis 1a. Returnee entrepreneurs who build stronger political relationships are more likely to achieve better business performance.

In contrast, business relationships are connections with business actors, such as buyers, suppliers, distributors and competitors (Peng & Luo, 2000). Business relationships are key for returnee entrepreneurs to access market information and intelligence so that transaction costs can be reduced and harmful opportunistic behavior can be avoided (Williamson, 1985). The “liability of the returnee” (Li et al., 2012; Wu & Ma, 2018), i.e., the combination of advantages (e.g., technological and managerial competence) and disadvantages (e.g., absence from social settings while away and outdated knowledge about local markets), may lead returnee entrepreneurs to experience initial difficulties in venture creation. In particular, returnee entrepreneurs can be seen as outsiders of the local business network (Johanson & Vahlne, 2009) and be shut out and unable to tap into opportunities in the home market (Ellis, 2011). Getting to know business actors in the home market and making frequent business exchanges with them can lead returnee entrepreneurs to establish long-term business relationships with trust (Uzzi, 1996) and gradually shed the outsider label and allow access to sensitive information and experiential knowledge (Hadjikhani & Thilenius, 2009).

In addition to receiving market information, relationships with local business actors also help returnee entrepreneurs acquire valuable resources and knowledge, which can come in the
form of identifying suitable business partners with whom to collaborate. It can be challenging in emerging markets to identify business actors with the appropriate absorptive capacity to establish a good working relationship, as there are still significant technology and business knowledge gaps in these places (Kenney, Breznitz, & Murphree, 2013; Liu et al., 2010). As returnee entrepreneurs are new to the home market, suppliers or subcontractors with technical ability may not be easy for them to identify. As such, establishing relationships with a wider selection of business actors can facilitate information sharing and provide returnee entrepreneurs with possible collaborators beyond their direct contacts (Heirati & O’Cass, 2016). Moreover, well-established business relationships are also shown to be critical for securing critical resources, e.g., quality materials (Chung & Kuo, 2018), as well as valuable knowledge, such as customer trends (Chung et al., 2020).

Furthermore, returnee entrepreneurs can achieve stronger business legitimacy by actively involving business actors. Industry organization in the emerging market can have strong power in determining who can access the market (Chung et al., 2020). While these types of organizations may not completely run independently of the interference of political actors, business relationships with actors that have linkages with industry organizations can demonstrate the commitment of returnee entrepreneurs to following industry norms and developing a common cognitive stance with local actors.

There is also a dark side of business relationships (Chung et al., 2016). For example, being overly embedded in certain business relationships can lead to a lock-in effect for returnee entrepreneurs and limit their opportunities to access heterogeneous resources (Gao et al., 2017). However, overembeddedness in business relationships may not be an issue for returnee
entrepreneurs who just start ventures and are in the early stages of business development. Hence, we can hypothesize the following.

Hypothesis 1b. Returnee entrepreneurs who build stronger business relationships are more likely to achieve better business performance.

2.2. The Moderating Role of Institutional Uncertainty in Relationship Building and Business Performance

Institutional uncertainty refers to how returnee entrepreneurs feel uncertain about home institutions and can amplify the benefits derived from returnee entrepreneurs’ relationship building. These returnee entrepreneurs are characterized by their past experiences living and working in another country where arm’s-length transactions are largely predictable due the existence of well-developed regulatory institutions. However, these past experiences may indeed become a liability when these entrepreneurs move back to the home country to create ventures due to the absence of market-supporting institutions and cause them to feel uncertain. These uncertainties can change the relative cost for returnee entrepreneurs to pursue business opportunities in the home country (Bylund & McCaffrey, 2017). Returnee entrepreneurs are not able to rely on what they used to, have difficulty forgetting what they have learned in the past and have to develop a different mentality to work in the new institutional environment. Hence, this uncertainty may hinder their confidence in the commitment to venture creation and cause difficulty in crafting long-term strategies (De Clercq, Danis, & Dakhli, 2010). We posit that given this uncertainty, the benefits of political and business relationships might be helpful for returnee entrepreneurs to be more productive in pursuing business opportunities.
Specifically, connection with political actors provides returnee entrepreneurs with information along with seasoned interpretations that are essential to clarify vagueness and confusion (Peng & Luo, 2000). Political relationships help reduce risk and uncertainty by enhancing the effectiveness of contractual control (Yan & Lu, 2019), as well as by providing returnee entrepreneurs with critical information on regulations and policies (Zhang, et al., 2019). These connections also help returnee entrepreneurs stay ahead of changing regulations and be ready to make strategic changes. Speedy strategic decision making allows returnee entrepreneurs to pinpoint effective strategic choices (De Clercq, Danis, & Dakhli, 2010) and to pursue promising opportunities despite high uncertainty (Eisenhardt, 1989), which is conducive to superior performance.

Similarly, the business relationships returnee entrepreneurs establish will have a stronger effect on business performance under greater institutional uncertainty. Perceived institutional uncertainty can push returnee entrepreneurs to rely heavily on business relationships to keep them updated about the changes that occur in home institutions and what influence they may have on their ventures (Chung et al., 2020). Insightful information derived from business relationships helps returnee entrepreneurs choose their domains, understand their customers and rivals, identify new niches, and accordingly plan competitive tactics to counter the challenges and unforeseen contingencies that might arise from institutional uncertainty (Zhu et al., 2017). This is normally beneficial to new venture performance (Zahra, Neubaum, & El-Hagrasy, 2000). In addition, returnee entrepreneurs may desire to feel that they are part of the network when they feel uncertain about seeking friendship and mental comfort, which may lead them to have more confidence in their investments (Chetty, Eriksson, & Lindbergh, 2006). The business relationship can bring critical help when the home institution faces turbulence,
which can be crucial for venture survival and success. Last, returnee entrepreneurs perceiving uncertainty in home market institutions may want to closely follow what other local business actors do, and this isomorphic behavior may help them to be seen as “one of us” and allow reciprocated tangible and intangible commitment to take place (Chung et al., 2016).

Hypothesis 2a. Institutional uncertainty moderates the relationship between political relationships and business performance such that the relationship is stronger when institutional uncertainty is higher.

Hypothesis 2b. Institutional uncertainty moderates the relationship between business relationships and business performance such that the relationship is stronger when institutional uncertainty is higher.

2.3. The Mediating Role of Business Relationships in Political Relationships and Business Performance

While political and business relationships are both important to returnee entrepreneurs in facilitating business performance (Peng & Luo, 2000; Wang & Chung, 2013; Yeniaras et al., 2020; Zhu et al., 2017), relationship building with political or business actors may not be exclusive (Sheng et al, 2011; Wu & Ang, 2020). In light of the difficulties that returnee entrepreneurs encounter in establishing business relationships during the start-up process, the favorable institutional incentives and support programs furnished by the home government will not only provide a lifeline for the survival of their ventures (Luu & Ngo, 2019) but also offer them valuable opportunities to connect and align with other local business actors (Zhang et al., 2019).
For example, business parks designated for returnee ventures feature both governmental agencies and industry organizations. Returnee entrepreneurs who operate in these business parks can establish a connection with both political and business actors. However, political relationships can take an antecedent role and legitimate returnee entrepreneurs to other business actors (Wu & Ang, 2020). Strong political relationships provide legitimated recognition (Fernández-Méndez et al., 2018) and send legitimacy signals to local business actors in the home market to encourage business engagement (Hadjikhani & Thilenius, 2009). The processes and the results of political relationship building may help the returnee entrepreneur shed the image of a “returnee” and be recognized again as “one of us”, which will allow these entrepreneurs to reposition themselves as insiders in the home network (Johanson & Vahlne, 2009). In addition, many networking events in emerging markets with political actors may also involve business actors. Relationships with political actors can further serve as a channel through which returnee entrepreneurs identify and connect with potential business actors (Armanios et al., 2017). By participating in these occasions, returnee entrepreneurs may engage in business relationship building. Moreover, strong political relationships can discourage opportunistic behaviors from business actors in home markets, which can be an important source of uncertainty felt by returnee entrepreneurs. Considering the dominant position that political actors play in emerging markets in regulating and enforcing economic activities (Hoskisson et al., 2000), it can be risky to dispute with politically connected returnee entrepreneurs (Yan & Lu, 2019).

Without doubt, business relationships may also benefit political relationship building. However, it is less likely that returnee entrepreneurs can make it, as they have been absent from the home country for a long time and their lack of local business relationships is a disadvantage.
(Li et al., 2012). This is especially true when comparing these entrepreneurs with local entrepreneurs who have operated in the local market since the very beginning and have never been absent from it. Thus, it is more realistic that these entrepreneurs utilize the political preference for them to cultivate relationships with political actors, through which they earn local legitimacy and necessary resources that can be leveraged to further develop business relationships. As such, returnee entrepreneurs leverage political relationships to build up business relationships, which in turn benefit their business performance. Based on the above reasoning, we propose the following.


3. Research Method

3.1. Sample and Data Collection

We conducted a field study based on a face-to-face interview survey administered in the Pearl River Delta Economic Zone (PRDE) of China from September 2013 to January 2014. China is an appropriate research setting because it is the most active country in sending students abroad as well as attracting returnees back with favorable governmental policies (Wang & Miao, 2013). The economic zone is one of the most developed regions in China and one of the top three destinations attracting returnee entrepreneurs (Wang & Miao, 2013). Returnee entrepreneurs in six cities, namely, Shenzhen, Guangzhou, Dongguan, Zhuhai, Zhongshan and Foshan, which comprise the PRDE, are our survey targets.
We developed the sampling frame of a list of returnee firms by contacting the administrative committee of the returnee entrepreneurial business park in each city. This process derived an initial list of returnee entrepreneur firms consisting of 1,915 companies distributed as follows: Shenzhen (738), Guangzhou (726), Dongguan (220), Zhuhai (111), Zhongshan (25) and Foshan (95).

Next, we contacted all 1,915 returnee entrepreneurs, explained the purpose of the study and excluded those who were not qualified based on two sampling criteria. First, to confirm the appropriateness of the sample for our research purpose, we ensured that each venture had in fact been established by the returnee(s). Second, we made certain that each venture had been operating for over three years and that the returnee(s) remained actively in charge of the venture’s business operations. Based on these efforts, we identified a sampling framework of 836 returnee ventures, which were then invited to participate in the study.

To pursue high rates of survey completion and quality, several measures were taken. We created a survey team consisting of one of the authors and five experienced enumerators. The researcher and enumerators had a two-hour training seminar to review each question to ensure that the enumerators thoroughly understood the questionnaire. After the training, the enumerators visited each firm in person, explained the purpose of the study and interviewed the entrepreneurs. The survey questions were originally prepared in English and then translated into Chinese. Two native Chinese scholars conducted back translation to avoid cultural bias and ensure validity. After making some small changes, we conducted a pretest of the questionnaire in China with four returnee entrepreneurs. The feedback was helpful to further improve the readability of the questions and, in turn, enhance the quality of the data. A referral letter from a cooperating Chinese university was used to demonstrate our legitimacy in
administering the survey in China. The respondents were returnee entrepreneurs who had founded their companies and who remained in charge of business operations. After two rounds of repeated visits (some returnee founders were out of office in the first visit), we obtained 201 usable responses, for a response rate of 24%. To assess nonresponse bias, we compared the respondents and nonrespondents in terms of firm age and size and found no significant differences.

The sample, based on the Chinese definition of SMEs, is composed mainly of small firms (165 or 82%), with fewer micro (16), medium (19) and large (1) firms. To maintain relative uniformity in terms of firm size, we excluded a single large firm. Hence, for the 200 returnee ventures used in the analyses, their founders spent an average of 7.82 years abroad. Over 60% of returnee founders obtained both education and business experience abroad, and 20% of returnees had established firms abroad before returning to China. The mean number of employees is 37.35, with a mean turnover of RMB 24.46 million. These ventures are found within different industries, but they occur mostly within high-technology-intensive industries. The sample in this study is distributed over seven industries: five manufacturing industries (chemicals, pharmaceutical products, electronics, electrical equipment, and machinery and equipment) and two service industries (computer programming and information services). According to the Chinese high-tech industry classification, all seven of these industries are considered high-tech industries.

We used several measures to minimize and test for common method bias. During the survey implementation stage, we randomly selected 30 returnee ventures among the response samples and requested that an alternative senior executive at each firm complete the survey. A comparison of these surveys against the original survey completed by the returnee suggested
that the responses of the two executives from the same company are highly consistent (Pearson correlation = .80). In the postsurvey stage, we called back 55 original respondents to check their response accuracy, and the results showed high consistency between the telephone interview reports and the survey answers. We also conducted Harman’s single factor test to check biases not minimized by the research design (Podsakoff et al., 1990). A principal component analysis of the 11 indicators with the unrotated solution yielded 4 factors with eigenvalues over 1 explaining between 34.36% and 10.02% of the variance. Furthermore, following a single-method-factor approach (Podsakoff et al., 2003), we performed a confirmatory factor analysis (CFA), where all manifest indicators load on both a latent CMV factor and their respective theoretical constructs. The results showed that all items’ loadings were still significant after the inclusion of the CMV factor. Drawing on these test results, we conclude that common method bias is less of a concern in this study.

3.2. Constructs and Measurements

We collected the data by using a standardized questionnaire based on a seven-point Likert scale administered through face-to-face interviews with returnee entrepreneurs for each company (e.g., the founders of the returnee venture). An advantage of this approach is that it allows the interviewers to clarify questions if necessary as well as to detect inconsistencies in the respondents’ answers. This method offered the advantage of providing more specific details concerning each of the constructs below; an explanation of institutional uncertainty and political relationships, for example, could be provided on the spot. Moreover, this approach allows for high-quality data by minimizing the missing data for individual questions and ensuring that the objectives of the questions are met (cf. Fowler, 1993). One clear disadvantage
of this approach, however, is that we have information only from key respondents at the returnee firms.

The operationalization of the variables is presented in Table 2. **Institutional uncertainty** is returnee entrepreneurs’ perceived lack of ability to estimate the present and future market under the influence of institutional changes (Miller, 1993). By adapting from previous studies (Hilmersson & Jansson, 2012), we measured this construct to capture the perceived uncertainty induced by the change in the institutional system in the market. Accordingly, we asked returnee entrepreneurs to assess the extent to which they have (1) perceived uncertainty regarding the institutional system in the market and (2) perceived uncertainty due to changes in the government’s influence on business.

We developed the **political relationships** construct by following the notion that the development and utilization of relationships of a political nature benefit firms’ business development in emerging markets (Peng & Luo, 2000). Accordingly, we developed a three-item, seven-point Likert scale construct and asked returnee entrepreneurs about the extent to which the firm (1) has frequent contact with different levels of governments; (2) communicates with governments and related regulators for information exchange; and (3) receives help from the government and related regulators to solve problems. The first item captures the extent of social interactions between returnee entrepreneurs and government officials (c.f. Peng & Luo, 2000). The other two items capture how political relationships benefit respondents and reflect the strength of political relationships. Measures based on similar ideas have appeared in most recent publications (e.g. Chung & Kuo, 2018; Luu & Ngo, 2019; Zhang et al., 2019).
The measurement of *business relationships* was adapted from the extant literature (Zhou, Barnes, & Lu, 2010) and based on three indicators. The first two reflect the extent to which the firm has established and developed business ties with other business actors in the market by asking about the extent to which the firm (1) has established new ties and (2) has developed cooperative ties with business partners. With the help of the third indicator, we aimed to capture Uzzi’s (1996) idea that close business relationships with clients turn into business friends, and managers having “an interest in what they (clients) [are] doing outside of business” (Uzzi, 1996: 677). Accordingly, we asked to what extent (3) the top managers have social interactions with clients. Similar measurement has been used in previous returnee entrepreneurship studies to capture the extent to which top managers have utilized personal ties and connections with suppliers, distributors or customers in the venturing process (for example, Bai, Johanson & Martín Martín, 2019).

To capture *business performance*, given that growth and profitability are the most relevant outcomes that capture a new venture’s performance (Sapienza et al., 2006), we follow the literature and employ three performance measures: sales growth, return on sales (ROS) and return on assets (ROA). These three measures, though they have been criticized, are widely used to evaluate new ventures’ performance in terms of growth and profitability (Chandler & Hanks, 1993; Zahra et al., 2000). Since objective data for new ventures are normally unavailable or difficult to obtain in China, we adopt perceptual measures of firm performance, which are recommended when facing this difficulty (Brouthers et al., 2003; Brouthers & Xu, 2002). Accordingly, respondents were asked to rate their firm performance in terms of sales growth, ROS and ROA compared to their industry competitors in the last three years (1 = much worse than average, 7 = much better than average).
We also added eight control variables: *firm age, firm size, R&D investment, ownership, firm location, industry, level of internationalization,* and *international experiences of returnee entrepreneurs.* Firm age and size are important indicators that differentiate entrepreneurial firms’ business activities and performance (Autio et al., 2000). We measured firm age by subtracting firms’ founding year from 2013. Firm size is calculated as the number of employees at the end of 2013. R&D is the main business activity of entrepreneurial firms at their early stage. Investment in R&D could enhance firms’ new product development, giving rise to new sales opportunities; however, the cost of R&D could damage firms’ international market commitment if R&D activities involve a large amount of effort. Therefore, we measured R&D investment as the R&D budget in relation to total sales in 2012.

The firms in the sample are either solely owned by returnee entrepreneurs or shared with others (e.g., venture capital or other firms) that may provide additional support. Therefore, we controlled for ownership, with 1 for sole ownership and 0 otherwise. We also controlled for firm location in either large or small cities (1 for large cities and 0 otherwise) because large cities provide better business ecosystems and supporting resources. To control for industry-specific effects, we introduced dummy variables for firms from electronics (66, or 33%), information technology (54, or 27%), biotech and medical (35, or 17.5%), new energy (29, or 14.5%), and new materials (16, or 8%) industries.

Moreover, we controlled for the level of internationalization with firms’ share of sales from international markets, as returnee ventures are more likely than other ventures to show international proclivity (Liu et al., 2010). Last, considering that the number of years returnee entrepreneurs spent abroad may determine the extent to which they experience difficulty
running business after their return, we controlled for the variance in international experience of returnee entrepreneurs according to the number of years they spent abroad.

3.3. Analysis

We tested the proposed model (see Figure 1) by applying structural equation modeling (SEM) with the Mplus 8.3 technique (Muthén & Muthén, 2012). Given that our structural model incorporates latent interaction effects and may also present moderated mediation effects, we applied the latent moderated structural equations (LMS) method and followed the three-step procedure recommended by Cheung and Lau (2017) to estimate these effects. Specifically, the first step was to run a structural model without the interaction term to determine construct validity, discriminant validity, and the overall goodness of fit of the model. The second step was to run a structural model incorporating the interaction term and compare its fit index value (AIC value) with the AIC value derived from the model estimation in the first step. If the AIC value decreases or does not increase, it implies that it is appropriate to incorporate the interaction term into the structural model. On this basis, we present the resulting structural model. The significance of the resulting model is evaluated and used for possible verification of the relationships between the four constructs, thereby testing the hypotheses. The third step was to probe the potential moderated mediation effect with the bootstrapping technique (Hayes, 2015).

----Figure 1 to be inserted here----
4. Results

We present the means and standard deviations of the examined variables and their correlations in Table 1. To run the structural model without the interaction term, we first conducted a confirmatory factor analysis to assess the convergent and discriminant validity (Jöreskog & Sörbom, 1993). Table 2 lists the measurement items of the construct scales, the standardized coefficient loadings, the construct CRs, and the AVEs for each construct. First, all indicators have significant loadings ($t$-values ranging from 8.50 to 42.81), and in all cases, the items’ reliability is over the suggested .70 cutoff value. Second, the constructs present high construct reliability, where the reliability of the constructs operationalized with multi-item indicators ranges from .75 to .88 (Werts et al., 1974). Third, the AVE values are over the threshold point of .50 for convergent validity (Fornell & Larcker, 1981) and are larger than the squared multiple correlation coefficients of all pairs of constructs, which satisfies the criterion of discriminant validity (Fornell & Larcker, 1981). Finally, the measurement model obtained a good measurement fit (Chi-square=53.43; d.f=38; CFI=.98; TLI=.98; RMSEA=.045) (Bentler, 1990; Jöreskog & Sörbom, 1993). The structural model without the interaction term also fits the data well (Chi-square=54.72; d.f=40; CFI=.99; TLI=.98; RMSEA=.043).

---Table 1 to be inserted here---

---Table 2 to be inserted here---

In the second step, we ran the structural model with the interaction terms and compared the AIC value derived from this step (6899.58) and from the first step (6904.70). The results show
that the AIC value from the second step is lower, which supports the incorporation of the interaction term into the structural model (Cheung & Lau, 2017). Then, we tested the relationships in the structural model according to the hypotheses. As shown in Table 3, the model supports hypotheses H1b ($\gamma = .25$, $p<0.01$) and H2b ($\gamma = .25$, $p<0.05$) but rejects H1a ($\gamma = .17$, $p=0.064$) and H2a ($\gamma = .03$, $p=0.808$). Thus, there is a positive relationship between REs’ business relationships and business performance (H1b). This relationship is positively moderated by institutional uncertainty (H2b). In addition, the direct relationship between institutional uncertainty (the moderating variable) and business performance is not significant ($\gamma = .038$, $p=0.69$).

To test the mediating effect of H3, we followed Cheung and Lau (2017) to apply the bootstrapping technique. Specifically, based on the significant coefficients of the direct paths ($a_1$ and $b_1$) (see Figure 1), we calculated the product of the direct paths that form the indirect path between political relationships and business performance ($a_1b_1$). We then assessed the significance of indirect effects with a bias-corrected bootstrap (Hayes, 2015), which provided a 95% confidence interval (CI) for $a_1b_1$. If the interval for an indirect effect does not include zero, it supports that the indirect effect is significantly different from zero with 95% confidence. The results (see Table 4) show that the mediating pathway of RPR$\rightarrow$RBR$\rightarrow$RBP is significant, thus supporting H3. In addition, the moderating effect of the level of institutional uncertainty on the pathway between business relationships and business performance implies a moderated mediating effect. Therefore, we further tested the moderated mediating pathway of RPR$\rightarrow$RBR$\times$IU$\rightarrow$RBP, which is significant as well. Figure 2 illustrates the positive moderating effect, which shows that the marginal effect of business relationships is significant
only after the value of institutional uncertainty reaches 3.12 (Meyer, van Witteloostuijn, & Beugelsdijk, 2017).

For the control variables, none of the controls is significant, except firm ownership. The significance of relationships between all examined variables remains the same after the inclusion of the control variables. Based on these results, we conclude that the structural equation modeling analysis generally supports our hypothesized model.

To rule out alternative explanations such as reverse causality, we further tested a rival model and compared its goodness of fit indices with that of our hypothesized model (see Model 1 in Table 5). In Model 2, we posited that political relationships mediate the path between business relationships and business performance, as business relationships may facilitate political business building as well. The overall goodness-of-fit indices show that the alternative model performs worse than Model 1. More specifically, the P-value and CFI of Model 1 are 0.0605 and 0.985, respectively, which are higher than those of the alternative model, while its RMSEA is 0.043, which is lower than that of the alternative model. Overall, the comparison results suggest that Model 1 fits the data better. We discuss these findings in the following section.
5. Discussion

Our study offers a compelling case to rethink how returnee entrepreneurs’ business performance relates to their political/business relationship building under the condition of institutional uncertainty. We find that it is not political relationships per se that matter for business performance but instead a requisite mediation of its effect via business relationships. In contrast, business relationships are directly associated with business performance. Furthermore, the positive relationship between business relationships and business performance is stronger when perceived institutional uncertainty is higher, while the positive moderating effect of institutional uncertainty on the relationship between political relationships and business performance is not supported. The above results seem to emphasize the critical role of business relationship building in supporting returnee entrepreneurs’ business performance, particularly in markets characterized by weak institutions. In other words, when returnee entrepreneurs perceive strong uncertainty with regard to the home market, they are more likely to benefit from building business relationships than from building political relationships. However, H3 also suggests that there is a leveraging effect of political relationships on returnee entrepreneurs’ business relationship building, which highlights the interplay between political and business relationships. Altogether, these results seem to provide a nuanced understanding of the distinct roles of political and business relationships in returnee entrepreneurs’ venture performance in emerging markets.
Specifically, it is not entirely surprising that business relationships play a more important role than political relationships in driving returnee entrepreneurs’ performance (Hsu et al., 2012). Considering that returnee entrepreneurs often prefer to adapt their foreign business knowledge and advanced technology to the home market, the benefits of business relationship building in terms of helping returnee entrepreneurs choose their domains, understand their customers and rivals, identify new niches and develop collaborative relationships with locals are likely to directly impact business performance. In comparison, the benefits of political relationships in terms of providing insights and interpreting policy changes and directions are less likely to directly impact business performance than those of business relationships. Improved business environments with better regulatory transparency have emerged in emerging economies such as China, making such impact less important. The market intelligence and trend information derived from business relationships alone could be helpful enough.

Nevertheless, this does not mean that political relationships no longer matter for business performance in the emerging market context of China. The literature suggests that the beneficial effects of political relationships entail providing policy information and interpretation, political resources, and political legitimacy (Chung, 2012; Chung & Kuo, 2018; Chung et al., 2020; Lin et al., 2019; Sheng et al., 2011; Wang & Chung, 2013; Wu & Chen, 2012). The results for H3 indicate that political relationships will not have an impact on business performance unless successful business relationships have been established. Returnee entrepreneurs possess the advantages of foreign experiences and advanced technology, which fall short of the disadvantages resulting from the long absence and outdated knowledge of the home market. Therefore, the uncertainty returnee entrepreneurs face is due mainly to “liability
of the returnee”, and returnees need to cope with challenges in being accepted as “one of us” by business actors in the home markets. This barrier can be overcome by the presence of political relationships. Strong political relationships provide legitimate recognition (Fernández-Méndez et al., 2018) and send legitimacy signals to local business actors in the home market to encourage business engagement (Hadjikhani & Thilenius, 2009). Business relationships appear to be useful for pursuing business opportunities when political relationships have been built and developed.

Furthermore, the disadvantages of returnee entrepreneurs, as well as the preferential treatment and support from the government towards returnee entrepreneurs, could also be a strong incentive for returnee entrepreneurs to prioritize political relationships when creating ventures. The Chinese government perceives returnee entrepreneurship as an important contributor to the development of innovation and entrepreneurship in emerging economies (Kenney, Breznitz, & Murphree, 2013; Liu et al., 2010) and therefore has supported returnee entrepreneurship with special treatment (Armanios et al., 2017) in the early stages of development. As returnee ventures may only have limited time and resources to build relationships and returnee entrepreneurs’ disadvantages may deter their attempts to build business relationships, prioritizing the establishment of connections political actors may be cognitively natural when he or she perceives uncertainty in the market.

The result for the leveraging effect of political relationships also highlights the wide and deep involvement of the Chinese government in economic exchange (Shi, Markóczy, & Stan, 2014). The government’s active involvement in economic exchange engages many firms and provides a platform that facilitates interaction, collaboration and relationship building among firms, whereby returnee entrepreneurs may identify and connect potential business partners via
their political relationships. However, our findings show that reliance on political relationships in itself is insufficient to deliver business performance. While the government may determine the policy direction, the key to superior performance is still business relationship building. It is also possible that the benefit of political relationships has gradually worn off, as China has become an economy with stronger institutions and a market-oriented system (Peng & Heath, 1996; Peng & Luo, 2000). As a result, the traditional view on political relationships may play a subtler role in returnee entrepreneurs and their venture creation.

Our study complements the current returnee entrepreneurship literature by addressing the question of how returnee entrepreneurs employ relationships to readapt to the emerging home market context marked by institutional uncertainty (Gruenhagen, Davidsson, & Sawang, 2020). Specifically, we untangle the differential roles of political and business relationship building in contributing to returnee entrepreneurs’ performance, where the former is a key strategic activity that provides legitimacy and preferential support and drives successful business collaboration (Lin et al., 2019), while the latter fosters business performance directly. More importantly, we offer a critical contextual element that conditions these two relationships: the institutional uncertainty of the home market. In doing so, we integrate research on entrepreneurship with insights from the literature on emerging economies to allow for a more refined understanding of how entrepreneurs succeed in these economies.

Our study also contributes to the literature on political and business relationships by revealing the interplay of these two types of relationships in the research setting of returnee entrepreneurship. The previous literature started with the idea that political and business relationships have the same effect on firm performance (e.g., Peng & Luo, 2000) and later observed their differential effects (e.g., Sheng et al., 2011; Wang & Chung, 2013). However,
only recently has the interplay between political and business relationships come into sight of the literature (Wu & Ang, 2020). Our study joins this stream of literature and provides theoretical and empirical evidence that political relationships serve as an important antecedent to the formation of business relationships, which leads to a nuanced understanding of how and where entrepreneurs may seek support for business relationship formation in emerging market contexts in general and for returnee entrepreneurship in particular (Armanios et al., 2017).

6. Conclusion

Our study examines the adaptation of returnee entrepreneurs in the home country context from a relationship perspective. Specifically, our findings show that returnee entrepreneurs’ relationship building with business actors influences business performance and is positively moderated by institutional uncertainty. Political relationships, via the mediation of business relationships, indirectly benefit business performance. Our study indicates that political and business relationships serve different functions for returnee entrepreneurs.

6.1. Practical Implications

The research suggests that returnee entrepreneurs from emerging economies need to balance relationship-building activities to reduce the institutional uncertainty they experience and deliver better performance for their new ventures. Our findings offer suggestions to returnee entrepreneurs with regard to how to strategically focus on building relationships with business actors and to simultaneously keep certain connections with political actors as well. First, returnee entrepreneurs should understand the differential roles of political and business relationships and employ their respective functions properly when addressing home market uncertainties and pursuing business opportunities. Second, our study indicates that returnee entrepreneurs should prioritize political relationship building, as these relationships could be
an antecedent to the formation of business relationships. This is due to the advantages and disadvantages of returnee entrepreneurs under the specific institutional environment in emerging markets, including China, and it suggests that returnee entrepreneurs should position themselves well to access and receive as much support from the government as possible. It also suggests that returnee entrepreneurs should exploit their connection with political actors to identify opportunities for business collaboration.

Conventional wisdom states that high-tech firms such as those of returnee entrepreneurs have less demand for political relationships than other firms since their highly advanced technology is a key determinant of competitiveness (Li et al., 2012; Zhou et al., 2014). This notion is partially true because political relationships do not directly contribute to returnee entrepreneurs’ business performance. However, our findings also show the utility of political relationships in facilitating business relationships, which in turn drive business performance. This effect indicates the relevance of political relationships to returnee entrepreneurs. Accordingly, returnee entrepreneurs should understand that their firms’ high-tech feature is not just a key factor that supports market competition but also is highly appealing to government and other regulators, which can bestow preferential treatment. Therefore, potential returnees who plan to move back to their home countries should purposely accumulate technological capability and knowledge. Returnee entrepreneurs who have already engaged in business activities in the home country should strategically market their technological background and strengths to gain political support and preferential treatment (Wu & Ma, 2018).

Moreover, the relevance of political relationships also suggests that the government and regulators are more likely to provide support and preferential treatment to returnee entrepreneurs than to local entrepreneurs, which also reflects the changing nature of political
relationships and the improvement of the business environment in China. Previous literature asserts that political relationships are less reciprocal than business relationships in nature because firms are subject to the control of critical resources by the government and thus are often at a disadvantage in interactions with the government. However, China has recently set the goal of becoming a powerful country in science and technological innovation, and officials are now being held administratively and politically accountable for the success of innovation and entrepreneurship in their jurisdictions (Shi, Markóczy, & Stan, 2014). As a result, government and officials also rely on the success of firms to fulfill both financial and political goals and have strong incentives to serve and support high-potential firms such as returnee ventures with high-tech features. This step increases the government’s dependence on high-tech entrepreneurial firms and changes the nature of political relations from an asymmetrically obligated, one-way relationship to a more mutually reciprocal, two-way relationship. Accordingly, both firm managers and government officials need to rethink the nature of their relationship and to re-evaluate its value.

Although our study highlights the importance of political relationships in general, returnee entrepreneurs should also be cautious of the dark side of relationship building (Chung et al., 2016). For example, if a returnee entrepreneur excessively relies on political relationships to acquire support and business opportunities, he/she may lose the motivation to maintain and upgrade the firm’s technological and managerial capabilities and eventually lose competitiveness when its existing capabilities decay. Political relationships could also become toxic when a returnee entrepreneur works too closely with political actors to distinguish the legal and illegal reciprocity between them.
6.2. Limitations and Future Research

Our study has some limitations that offer opportunities for future research. First, a major limitation of our study may be the context chosen, i.e., emerging markets (China) and are young and small firms founded by returnee entrepreneurs. Returnee entrepreneurs from developed markets or other emerging markets in which governments do not dominate may behave differently than their counterparts in other studies. This provides an opportunity for future studies to address returnee entrepreneurs in different contexts and in different stages of venture formation to investigate their relationship-building activities during new venture creation. In addition, our study relies on a sample from the Pearl River Delta region, which is one of the most developed regions in China. Although this region has demonstrated its validity for studying returnee entrepreneurship in previous studies, the relatively small sample size of this study may reduce the generalizability and representativeness of the results. Future studies could build a large sample that covers different regions of China to verify our findings. Moreover, our research design focuses on returnee entrepreneur firms based in returnee business parks, which is a common approach in returnee entrepreneurship studies but also brings up the generalizability question. Future studies could develop more general samples that cover returnee entrepreneurs based both inside and outside of returnee business parks to verify our findings.

Second, due to the lack of availability of a longitudinal archival dataset on returnee entrepreneurship, we used cross-sectional survey data to study the relationship building of returnee entrepreneurs with political and business actors. This approach constrains our ability to make strong causal claims. Future research should develop and apply longitudinal data or other research methods, such as a quasi-experimental design, to account for the causality of the
examined relationships. Third, although recent literature has called for attention to the dark side of relationship building (Chung et al., 2016), our study did not specifically address this issue with regard to returnee entrepreneurship. Future research could develop relevant constructs and examine whether and how the dark side of business relationships influences returnee entrepreneurs and their ventures over time.

7. References


Table 1. Discriminant validity*: correlationsb and square root of the average variances extracted (AVE) (N=200)

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>s.d.</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Institutional Uncertainty (IU)</td>
<td>3.61</td>
<td>1.73</td>
<td>.77</td>
<td>.34**</td>
<td>.85</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) RE’s Political Relationships (RPR)</td>
<td>4.33</td>
<td>1.68</td>
<td>.34**</td>
<td>.85</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>(3) RE’s Business Relationships (RBR)</td>
<td>5.52</td>
<td>0.89</td>
<td>.05</td>
<td>.35**</td>
<td>.77</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(4) RE’s Business Performance (RBP)</td>
<td>5.03</td>
<td>1.10</td>
<td>.10</td>
<td>.22**</td>
<td>.83</td>
<td></td>
<td></td>
<td></td>
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<td>(5) Firm Age</td>
<td>5.41</td>
<td>3.17</td>
<td>-0.06</td>
<td>-0.13</td>
<td>0.01</td>
<td>0.06</td>
<td>1.00</td>
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<tr>
<td>(6) Firm Size</td>
<td>37.35</td>
<td>38.62</td>
<td>-0.02</td>
<td>-0.05</td>
<td>0.03</td>
<td>0.04</td>
<td>0.45**</td>
<td>1.00</td>
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<td>(7) R&amp;D Investment</td>
<td>0.58</td>
<td>0.39</td>
<td>-0.03</td>
<td>-0.06</td>
<td>0.02</td>
<td>0.01</td>
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<td>-0.08</td>
<td>1.00</td>
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<td>(8) Level of internationalization</td>
<td>0.24</td>
<td>0.23</td>
<td>-0.05</td>
<td>-0.12</td>
<td>-0.26</td>
<td>-0.00</td>
<td>0.15*</td>
<td>0.20**</td>
<td>-0.02</td>
<td>1.00</td>
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<tr>
<td>(9) Location</td>
<td>0.64</td>
<td>0.48</td>
<td>-0.13</td>
<td>-0.15*</td>
<td>-0.07</td>
<td>0.00</td>
<td>0.16*</td>
<td>0.19**</td>
<td>-0.00</td>
<td>-0.07</td>
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<tr>
<td>(10) Ownership</td>
<td>0.84</td>
<td>0.37</td>
<td>0.01</td>
<td>-0.03</td>
<td>-0.07</td>
<td>0.14</td>
<td>-0.02</td>
<td>-0.15*</td>
<td>0.01</td>
<td>-0.00</td>
<td>0.03</td>
<td>1.00</td>
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<tr>
<td>(11) Returnee experience</td>
<td>7.82</td>
<td>5.58</td>
<td>0.09</td>
<td>0.00</td>
<td>0.12</td>
<td>0.00</td>
<td>-0.04</td>
<td>-0.06</td>
<td>0.04</td>
<td>0.08</td>
<td>-0.05</td>
<td>1.00</td>
</tr>
</tbody>
</table>

*a Diagonal values in bold are the square roots of the variance shared between the reflective constructs and their measures. For discriminant validity to be established, the diagonal elements must be greater than the off-diagonal elements in the corresponding rows and columns.

*p<.05; **p<.00 (level of confidence, two-tailed tests)
Table 2. Operationalization of the construct

<table>
<thead>
<tr>
<th>Construct/ Items</th>
<th>Standardized loadings</th>
<th>Composite reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional Uncertainty</strong></td>
<td></td>
<td></td>
<td>.75</td>
</tr>
<tr>
<td>We perceive great uncertainty regarding the institutional system in the market</td>
<td>.72</td>
<td></td>
<td>.60</td>
</tr>
<tr>
<td>The changes of the government’s influence on business cause us great uncertainty</td>
<td>.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RE’s Political Relationships</strong></td>
<td></td>
<td></td>
<td>.88</td>
</tr>
<tr>
<td>We have frequent contacts with different level of governments</td>
<td>.76</td>
<td></td>
<td>.72</td>
</tr>
<tr>
<td>The information exchange between firms and governments, related regulators is easy</td>
<td>.92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government, related regulators help firm solve problems</td>
<td>.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RE’s Business Relationships</strong></td>
<td></td>
<td></td>
<td>.81</td>
</tr>
<tr>
<td>Our firm has established new relationships</td>
<td>.83</td>
<td></td>
<td>.60</td>
</tr>
<tr>
<td>Our firm has developed cooperative relationship with business partners</td>
<td>.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our top managers have social interactions with clients</td>
<td>.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RE’s Business Performance</strong></td>
<td></td>
<td></td>
<td>.87</td>
</tr>
<tr>
<td>Sales growth</td>
<td>.79</td>
<td></td>
<td>.69</td>
</tr>
<tr>
<td>ROS</td>
<td>.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>.84</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Firm Age</strong></td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Firm Size</strong></td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>R&amp;D Investment</strong></td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Level of Internationalization</strong></td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Returnee experience</strong></td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>
Table 3. Model’s paths, significances and results

<table>
<thead>
<tr>
<th>Path</th>
<th>Standardized Estimate</th>
<th>t-value (P-value)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1a RPR → RBP</td>
<td>0.17</td>
<td>1.85 (0.064)</td>
<td>Rejected</td>
</tr>
<tr>
<td>H1b RBR → RBP</td>
<td>0.25</td>
<td>2.71 (0.007)</td>
<td>Supported</td>
</tr>
<tr>
<td>H2a RPR×IU→RBP</td>
<td>0.03</td>
<td>0.24 (0.808)</td>
<td>Rejected</td>
</tr>
<tr>
<td>H2b RBR×IU→RBP</td>
<td>0.25</td>
<td>2.49 (0.013)</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Institutional uncertainty: \( \gamma = .038, P = .69 \). Controls: Ownership \( (\gamma = .16, P = .02) \); Age \( (\gamma = .03, P = .71) \); Size \( (\gamma = .04, P = .64) \); R&D \( (\gamma = .05, P = .48) \); Level of Internationalization \( (\gamma = .08, P = .27) \); Location \( (\gamma = -.01, P = .92) \); Returnee experience \( (\gamma = .12, P = .10) \); Industry \( (\gamma = -.03, P = .66) \).
Table 4. Summary of mediation test

<table>
<thead>
<tr>
<th>Indirect effect of RPR on RBP</th>
<th>Point estimate (Unstandardized)</th>
<th>Bias-corrected bootstrap 95% confidence interval¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lower</td>
<td>Upper</td>
</tr>
<tr>
<td>H3: $a_1b_1$ (via RBR)</td>
<td>0.046</td>
<td>0.006</td>
</tr>
<tr>
<td>$a_1c_1$ (via RBR×IU)</td>
<td>0.055</td>
<td>0.007</td>
</tr>
</tbody>
</table>

1. The number of bootstrap samples is 1000.
Table 5. Results of alternative model comparison

<table>
<thead>
<tr>
<th>Model</th>
<th>$\chi^2$</th>
<th>$df$</th>
<th>$\Delta \chi^2$</th>
<th>$\Delta df$</th>
<th>P-value</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1: Hypothesized model</td>
<td>54.72</td>
<td>40</td>
<td>—</td>
<td>—</td>
<td>0.0605</td>
<td>0.985</td>
<td>0.043</td>
</tr>
<tr>
<td>Reverse causality model</td>
<td>74.65</td>
<td>40</td>
<td>$\Delta \chi^2_{(M1,M2)} = -19.93$</td>
<td>0</td>
<td>0.0007</td>
<td>0.965</td>
<td>0.066</td>
</tr>
</tbody>
</table>

M1 Hypothesized model.

M2: Reverse causality model (RBR $\rightarrow$ RPR $\rightarrow$ RBP+ RBR $\rightarrow$ PBP).
Figure 1 The hypothesized structural model
Figure 2 The marginal effect of Business relationships on Business performance
Highlights