

# *Contextualizing risk and building resilience: returnee versus local entrepreneurs in China*

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## **Contextualizing risk and building resilience: returnees versus local entrepreneurs in China**

### **Abstract**

Risk is a pivotal concept in entrepreneurship research, as entrepreneurs constantly face uncertainty, ambiguity, setbacks, and stressful situations. Attitudes toward risk vary contingent upon individual risk preferences and cultural influences. Building resilience is critical for entrepreneurs to overcome obstacles, deal with risk, and grow their ventures. By juxtaposing effectuation theory and resilience literature, we compare the perceptions of risk held by Chinese returnees and local entrepreneurs and their coping strategies in building resilience. Our research reveals two types of coping approaches, namely *effectual coping* and *causal coping*. This study contributes to the comparative international entrepreneurship literature by contextualizing the notion of risk held by entrepreneurs influenced by Eastern and Western cultures. Our study further contributes to the nascent literature on resilience in organizations by specifying the entrepreneurial occupational context and exploring the influence of cultures on resilience, and by identifying distinctive resilience-building coping strategies based upon cultural influences and interpretations of risk. Furthermore, we suggest that resilience can constitute one micro-foundation of effectuation theory in the context of entrepreneurship dealing with risk.

**Keywords:** risk, resilience, returnee entrepreneurs, local entrepreneurs, China, effectuation theory, micro-foundations, culture

## **Introduction**

Resilience constitutes an important concept in organizational psychology research, and its time is arguably coming as the contemporary society in which we are living faces enormous risk, uncertainty, and ambiguity (Cooper, Liu, & Tarba, 2014). Within that field of research, we consider positive psychology (Fredrickson, 2001; Seligman & Csikszentmihalyi, 2000), the purpose of which “. . . is to begin to catalyze a change in the focus of psychology from pre-occupation only with repairing the worst things in life to also building positive qualities” (Seligman & Csikszentmihalyi, 2000, p. 5). Thus, positive psychology studies the strengths and virtues that enable individuals and their organizations to thrive. Among these, resilience has emerged as an important concept for individuals and organizations dealing with pressing and difficult situations. Specifically, global risk requires an enhanced understanding of how individuals and organizations can better manage risk and effectively build resilience (Van Der Vegt, Essens, Wahlström, & George, 2015).

However, the vibrant research on resilience in organizations still lacks a coherent understanding of it as resilience is, arguably, a multifaceted concept (Kossek & Perrigino, 2016). In particular, various organizational settings and occupational contexts can bring significant varying meanings and treatments to resilience research. This pluralism and these diverging views resonate with the conclusions drawn by a recent systematic review on resilience training in workplace: that a lack of clarity in the concept of resilience obscures the effectiveness of resilience training beyond physical and mental well-being (Robertson, Cooper, Sarkar, & Curran, 2015). Furthermore, the interactions between culture, risk, and resilience tend to be complex (Eggerman & Panter-Brick, 2010; Ungar, 2008). Therefore, we argue that a careful treatment of the concept of resilience and the examination of the relationship between resilience and culture may significantly advance this scholarly inquiry. In this study, we

subscribe to the notion of resilience as a process when risk is involved and individuals and/or organizations need to deal with it while building resilience.

The research on risk has a long history with important work, such as the notion of the risk society (Beck, 1992). The meanings of risk are neither static nor objective; they are socially constructed by organizations and individuals (Gephart, Van Maanen, & Oberlechner, 2009). For instance, the dominant discourse on risk changes over time in organizations (Hardy & Maguire, 2016). Risk is a pivotal concept in entrepreneurship research (Wennberg, Delmar, & McKelvie, 2016). One study that examined entrepreneurs in the context of China found that entrepreneurs are more willing to take on strategic risk, but not where there is a lack of a strategic, interactive character (Holm, Opper, & Nee, 2013), and that Guanxi networks can influence the appetite for risk of Chinese entrepreneurs and their subsequent behavioural activities (Opper, Nee, & Holm, 2016). By connecting risk and resilience, our research aims to facilitate cross-fertilization by bridging two important literature streams in entrepreneurship research.

The psychological aspects of entrepreneurship carry great promise to significantly advance entrepreneurship research (Davidsson, 2016; Gorgievski & Stephan, 2016). For instance, by using deliberate practices—a construct, taken from cognitive-psychological expertise research, which denotes practices specifically designed to improve performance—one longitudinal study of small business owners in Germany revealed that entrepreneurial success is increased when entrepreneurs engage in self-regulated deliberate practices (Keith, Unger, Rauch, & Frese, 2016). Cognitive effects can strongly influence individuals' entrepreneurial intention (Jensen, Rezaei, & Wherry, 2014). Furthermore, as an important theoretical perspective in entrepreneurship research, effectuation theory has recently been subjected to several critiques (Read, Sarasvathy, Dew, & Wiltbank, 2016). One promising venue for scholarly endeavour in effectuation research involved leveraging the power of psychological concepts and the

pertinent literature. By building upon the recent psychological micro-foundations movement (Liu, Sarala, Xing, & Cooper, 2017), we argue that resilience may offer revealing insights into theoretically advancing effectuation research, especially when entrepreneurs deal with risk.

This qualitative research draws from eight case studies of local and returnee entrepreneurs in China. By contrasting local and returnee entrepreneurs, our comparative approach attempts to join the comparative international entrepreneurship conversation (Terjesen, Hessels, & Li, 2016), in which cultural differences can have an important bearing on entrepreneurial behaviours (Li, Zhang, Li, Zhou, & Zhang, 2012; Liu & Almor, 2016). In this paper, we view returnees as proxies of Western culture and locals as proxies of Eastern culture, as the previous research assumed (Liu & Almor, 2016). In so doing, we aim to discern the nuanced interactions that take place between culture, risk, and resilience, and explore how cultures may underpin the processes of risk and resilience (Panter-Brick, 2015). Our study contributes to the nascent literature on resilience in organizations by specifying the entrepreneurial occupational contexts. Furthermore, we identified two distinctive coping strategies in building resilience based upon cultural influences and on the interpretations of risk by connecting with the discourse of effectuation and causation in entrepreneurship research (Reymen et al., 2015). Importantly, we suggest that resilience can constitute a micro-foundation for effectuation theory in the context of entrepreneurs dealing with risk.

This paper is organized as follows. We first review the theoretical underpinnings on risk, resilience, entrepreneurship, and effectuation theory. We then present our research methodology and findings. Subsequently, we propose a conceptual framework linking the different building blocks to elucidate the connections among risk, resilience, cultural influences, and coping strategies. We conclude by discussing the implications this paper provides for theory and managerial practice, and suggest future research directions.

## **Theoretical background**

### *Risk and entrepreneurship*

Building upon the theory of risk society (Beck, 1992), risk can be defined according to the interests of the actors involved in managing risk, whereas the interplay between scientific rationality and social rationality tends to be complex (Malenfant, 2009). In addition, it is suggested that a systemic approach may assist in understanding why and to what extent our society faces increasingly large-scale accidents and risks (Leveson, Dulac, Marais, & Carroll, 2009). This multiple actor evaluative approach resonates with a similar one found in the crisis management literature (Bundy, Pfarrer, Short, & Coombs, 2016), whereas crisis and crisis management are closely linked to risk and resilience (Williams, Gruber, Sutcliffe, Shepherd, & Zhao, 2017).

Furthermore, scholars have argued that the meanings of risk are neither static nor objective; they are socially constructed by organizations and individuals (Gephart et al., 2009). For instance, a case study of chemical risk assessment and management processes that compared two Canadian chemical companies found that the social ordering structure affects the discursive work of actors to change the meanings of risk objects (Maguire & Hardy, 2013). This social construction process of risk echoes the dynamic view whereby the dominant discourse on risk changes over time (Hardy & Maguire, 2016). Hence, departing from the modernist assumptions of risk being exogenous and quantifiable, social constructionism views risk as being a subjectively perceived and socially constructed system (Miller, 2009).

Risk is a fundamental concept in entrepreneurship (Wennberg et al., 2016). Entrepreneurship processes are embedded with uncertainties and risk, which are dealt with differently by different types of entrepreneurs (Liu & Almor, 2016). The ways in which uncertainties are perceived, handled, and responded to are closely associated with individual risk preferences

(March & Shapira, 1987, 1992). Recent entrepreneurship research has begun to bring more clarity to the notion of risk. For instance, a study that conducted a lab-in-the-field experiment called for a refined definition of risk (Koudstaal, Sloof, & Van Praag, 2015), and found that its subjects' views of risk aversion were in fact a mixture of what economists call risk, loss, and ambiguity aversion. Another study examined entrepreneurs under conditions of uncertainty in the context of China (Holm et al., 2013), and suggested a distinction between strategic and non-strategic risk. Strategic risk involves measures of trust and competition, whereas non-strategic risk is measured in terms of risk- and ambiguity-aversion. The authors found that entrepreneurs are more willing to assume strategic risk, but not in cases in which there is a lack of strategic, interactive character. Therefore, a nuanced and contextualized understanding of risk can assist entrepreneurs in developing appropriate coping strategies to deal with focal risk. Thus, in relation to those entrepreneurs who have to respond to adversity, ambiguity, and uncertainty, what types of risk are salient for them in the founding, development and growth of their ventures?

#### *Resilience and entrepreneurship context*

The notion of resilience is closely related to the management of risk (Van Der Vegt et al., 2015). Despite the vibrant research on resilience, multiple definitions exist, rooted in diverse theoretical underpinnings. From the social psychological perspective, resilience-related traits can be identified, such as personality hardiness. From a dynamic process perspective, resilience can be viewed in terms of capacities that can be enhanced, for instance, through resilience training and intervention in the workplace (Robertson et al., 2015). Another recent review on the strategic and operational management of resilience revealed a vibrant development in the subfield of research on supply chain resilience (Annarelli & Nonino, 2016). These diverse views on resilience are not mutually exclusive, but complementary, as resilience is multifaceted;



future research could advance the resilience literature by incorporating the occupational context while articulating the clarity of the concept (Kossek & Perrigino, 2016).

Furthermore, previous research has highlighted the importance of high quality relationships in building resilience. For instance, relational coordination—consisting of shared goals, shared knowledge, and mutual respect—can foster psychological safety and enable organizational members to engage in learning from failures (Carmeli & Gittell, 2009). In addition, relational connections facilitate strategic decision comprehensiveness and cultivate resilience-building for top management teams (Carmeli, Friedman, & Tishler, 2013). An increased constructive expression of both positive and negative emotions by partners in relationships constitutes a source of resilience for both individuals and teams (Stephens, Heaphy, Carmeli, Spreitzer, & Dutton, 2013).

Entrepreneurs face constant pressure and unavoidable uncertainty throughout their entrepreneurial journeys, with their initial enthusiasm and passion often wearing off over time. Resilience-building may help entrepreneurs and team members to cope with the pressure, setbacks, and disappointments encountered along the journey (Jenkins, Wiklund, & Brundin, 2014). Hence, a nuanced understanding of entrepreneurial resilience can advance the psychology of entrepreneurship literature (Gorgievski & Stephan, 2016). In addition, entrepreneurial failure is a common occurrence, as entrepreneurs act in environments of great risk and high uncertainty (Shepherd, 2003). Navigating and balancing the financial and emotional costs is conducive for entrepreneurs to move on in the wake of business failures (Shepherd, Wiklund, & Haynie, 2009).

Based upon the ‘broaden-and-build’ theory of positive emotions (Fredrickson, 2001), founders can develop emotional, cognitive, social and financial resilience; hence becoming better equipped to start new ventures after failure (Hayward, Forster, Sarasvathy, & Fredrickson,

2010). By viewing resilience as a process, one recent study identified resilient mentors, commitment to action, and interim victories as the resilient dynamics that affect individual decisions to become entrepreneurs (Bernard & Barbosa, 2016). Another recent study investigating six emergent ventures in the aftermath of the 2010 Haiti earthquake found that their access to and use of key resources and the actions they took could have improved their effectiveness in facilitating resilience (Williams & Shepherd, 2016).

Furthermore, the emerging research on resilience and culture offers some revealing and interesting insights (Ungar, 2005, 2008), with the aim to move “the discourse of resilience beyond conventional interpretations” (Ungar, 2008: p. 233). For instance, one study found a complicated set of interactions occurring between culture, risks, resilience, and different types of outcomes in the vulnerable youth of New Zealand. Specifically, cultural identity can serve as a key source of resilience (Sanders & Munford, 2015). In order to further advance this research stream, scholars are urged to develop a more thorough appreciation of cultures and to examine how these underpin the processes of risk and resilience (Panter-Brick, 2015).

Based on the view of culture as a resource and a toolkit (Swidler, 1986), cultural differences can affect entrepreneurial behaviours and entrepreneurial actions. For instance, entrepreneurs influenced by Western cultures tend to respond to perceived uncertainty with analytical-strategic thinking, whereas entrepreneurs from Eastern cultures are more likely to connect multiple factors holistically and to react to uncertainty by engaging with the wider community (Liu & Almor, 2016). Thus, how can cultural differences affect an entrepreneur’s approach to building resilience?

*Effectuation theory and a micro-foundational perspective*

Effectuation theory has emerged as a vibrant and important theoretical perspective for entrepreneurship research (Perry, Chandler, & Markova, 2012). In contrast to the causation approach, effectual entrepreneurs are inclined to involve stakeholders in the development of multiple goals (Sarasvathy, 2001). Because of increased cross-border uncertainty and complexity, effectuation theory is particularly pertinent to international entrepreneurship research (Sarasvathy, Kumar, York, & Bhagavatula, 2014). However, there is still lack of research aimed at investigating the micro-foundation of effectuation theory, especially in the context of international entrepreneurship (Felin, Foss, & Ployhart, 2015; Reymen et al., 2015). By comparing domestic and returnee entrepreneurs, one recent study uncovered the influence of culture on domain-specific expertise, which, in turn, leads to effectual or causal approaches taken by entrepreneurs in dealing with perceived ambiguity (Liu & Isaak, 2016). The behavioural approaches adopted by entrepreneurs to interpret, enact, and respond to risk may offer nuanced understandings of effectuation theory, especially through the lens of resilience and coping strategies development.

Most recent debates suggest that effectuation theory is a process theory (Read et al., 2016). Thus, arguably, the 3-E assessment framework is not applicable to the evaluation of effectuation theory (Arend, Sarooghi, & Burkemper, 2015), as it ignores the process-theoretic roots of effectual logic (Garud & Gehman, 2016). Building upon this process perspective on entrepreneurship, the extant research has suggested that entrepreneurial judgment involves a sequential decision-making approach (McMullen, 2015). This perspective also resonates with the Austrian approach to entrepreneurship (Chiles, Bluedorn, & Gupta, 2007). Thus, in conjunction with the view of resilience as a process when external risk needs to be interpreted and enacted, effectuation theory can provide a salient theoretical underpinning suited to investigate the process of building entrepreneurial resilience.

Furthermore, effectuation research needs to be further advanced by going beyond the five principles on multiple levels. We argue that the microfoundations movement in management and organization studies (Felin et al., 2015) may serve as a valuable springboard to advance effectuation theory. A nuanced and micro-level understanding of individuals, and of their behaviours and social interactions in entrepreneurial ventures, is instrumental to explain processes and macro-level outcomes (Liu & Huang, 2018; Liu et al., 2017). Thereby, it can play an important role for scholars, managers and policymakers to tackle the grand societal and economic challenges facing the global economy today, such as risk, resilience (Van Der Vegt et al., 2015), and sustainability (Cooper, Stokes, Liu, & Tarba, 2017). Hence, our research questions include:

1. When comparing returnees and local entrepreneurs, what are the resilience-building coping strategies deployed by entrepreneurs in dealing with risk?
2. What may constitute the micro-foundation of effectuation theory when entrepreneurs deal with risk?

## **Method and data**

### *Qualitative research method for resilience research*

To answer our research questions, we adopted a qualitative case studies research method (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 2009). Three reasons stand out to justify why we did so. First, resilience research appears to involve a wide range of definitions, some of which are overlapping or sometimes even contradictory. Hence, a recent systematic review on the effectiveness of resilience training in the workplace suggested that future research needs to pay more attention to clearly spelling out the concept of resilience (Robertson et al., 2015). In a similar vein, the notion of risk tends to be multi-faceted, ranging from Beck's influential work on risk society (Beck, 1992) to individual risk preferences and risk taking behaviours

(March & Shapira, 1987). A qualitative research method may facilitate obtaining a nuanced understanding of risk as a social constructed phenomenon (Gephart et al., 2009). Also, resilience research needs an innovative qualitative method to explore the interactions between culture, resilience, and risks (Liebenberg & Theron, 2015).

Second, in conducting qualitative research, we embrace the notion of pluralism (Cornelissen, 2016). Qualitative research appears to follow the quantitative style in presenting its data and findings; yet, it lacks the power and beauty of qualitative research in generating novel theoretical insights. We suggest that adopting novel qualitative research methods may help to advance theoretical development, especially when the theoretical concepts, such as resilience, are still in their nascent stages. Combining case studies with a storytelling method may capture the nuances and complexity of resilience in different occupational settings. Third, social scientists can and should address societal grand challenges (George, Howard-Grenville, Joshi, & Tihanyi, 2016). A qualitative method can be an important research technique offering additional insights in tackling societal challenges (Liu & Vrontis, 2017). For instance, one recent inductive case study explored venture creation initiated by locals in response to the 2010 Haiti earthquake and found that emergent ventures identified potential opportunities to alleviate suffering, and to access and use key resources to build resilience (Williams & Shepherd, 2016).

#### *The storytelling method for entrepreneurship research*

Qualitative in-depth interviews can provide insightful information in entrepreneurship research (Suddaby, Bruton, & Si, 2015). In particular, we used the storytelling method while conducting our in-depth interviews. Scholars have shown a growing interest in the applicability of storytelling as a research method in organizational and management research (Liu, Xing, & Starik, 2012; Vaara, Sonenshein, & Boje, 2016). In the domain of entrepreneurship research, storytelling has been used to study entrepreneurship in the form of narratives (Gartner, 2007;

Martens, Jennings, & Jennings, 2007), metaphors (Nicholson & Anderson, 2005), narrative identity work (Phillips, Tracey, & Karra, 2013), entrepreneurial legacy in family firms (Jaskiewicz, Combs, & Rau, 2015), and entrepreneurship as a process (Garud & Giuliani, 2013). The role and usage of stories can be examined in the dynamics of change (Waldron, Fisher, & Navis, 2015). Thus, we suggest that the storytelling method is appropriate to answer our research questions.

#### *Data collection and samples*

We used a purposeful sampling technique to collect our primary data (Pratt, 2009). The data was collected through in-depth semi-structured interviews with returnee and local entrepreneurs in high-tech sectors with high-growth potential. We distinguished between small businesses and high-growth ventures (Henrekson & Sanandaji, 2014), as the latter tend to be innovation-driven while possessing a high likelihood to be exposed to risk. The data collection yielded eight case studies that were sufficiently fine-grained to provide insightful information. An overview of the sample cases in this study is shown in Table 1. Our study is mainly focussed on the IT sector, and we acknowledge that it may yield significantly different results from other sectors such as manufacturing. In addition, our samples were collected in the Beijing and Jiangsu provinces. Although the regions of China vary with regard to the geographical location of the companies, our comparative analysis largely focussed on returnee and local entrepreneurs. This comparative approach is in line with previous studies that considered returnee entrepreneurs as proxies of Western culture and local entrepreneurs to represent Eastern culture (Liu & Almor, 2016).

----- Insert Table 1 about here -----

In order to understand the meanings of risk and of resilience-building processes, our interview questions were explorative in nature. At the beginning of the interviews, we presented entrepreneurs with the organizational development framework (Greiner, 1972). This framework identified the different crises that organizations may encounter during their developmental trajectories. Only when a firm is able to overcome crises and handle them successfully, can it move on to its next developmental stage. Although the original framework was developed based upon organizational size, we believed that the presence of a framework would assist the informants in organizing their thoughts. We were aware of the potential suitability and applicability of this framework when applied to small businesses (Gilbert, McDougall, & Audretsch, 2006; Kazanjian & Drazin, 1990; Scott & Bruce, 1987). However, we argue that, compared to small businesses, high-growth firms can experience the different stages within a relatively shorter timeframe. There is a sharp distinction between small businesses and high-growth entrepreneurial firms (Henrekson & Sanandaji, 2014). For instance, technology-oriented born-global ventures grow quickly to maturity, yet still retain the entrepreneurial characteristics of born-global firms (Glaister, Liu, Sahadev, & Gomes, 2014).

As a socially constructed concept, risk can be understood differently by different individuals and organizations. Often, crisis events can present risky situations to individuals and organizations. Therefore, our use of the organizational development framework to prompt responses and to orient the interview discussions was conducive to addressing our research questions. During the in-depth interviews, we focussed on the founding, developmental and growth aspects of entrepreneurial ventures. Illustrative interview questions included: (1) Which types of risk are salient in founding, developing and growing your ventures? (2) Is risk associated with crisis situations? What happened to you and your venture? (3) Are there different types of risk? If so, what are they? (4) How do you interpret risk and what factors affect your understandings of focal risk? (5) How do you respond to and handle focal risk? (6)

What are the consequences for you, as an individual entrepreneur, and for your entrepreneurial venture after you deal with risk?

The interviews lasted 60-120 minutes and were tape-recorded and transcribed. In collecting the primary data, we interviewed on average four persons per case; these included CEOs, marketing directors, CFOs, human resource managers, and operational managers. We adopted a storytelling technique to encourage our informants to report real life stories pertaining to the founding, development, and growth of their ventures. In total, 33 in-depth interviews were conducted. This rich dataset enabled us to triangulate the information within each case from different informant perspectives and to perform a cross-case analysis to generate theoretical insights.

## **Findings**

Three types of risk were identified as being salient in the entrepreneurs' narratives: (1) talent risk, (2) financial risk, and (3) market risk. Risk was understood and interpreted differently by returnee and local entrepreneurs. The variations found in the meanings of risk reflected that culture had an important bearing on the entrepreneurs' interpretations of risk, thus affecting their development of coping strategies in the process of building resilience. Our analysis revealed two distinctive types of strategic coping approaches adopted in dealing with risk while building resilience, namely *effectual coping* and *causal coping*. From a comparative perspective, the local entrepreneurs tended to adopt an effectual approach, whereas their returnee counterparts preferred to deploy a causal one. The coping strategies adopted in dealing with risk manifested the variations in returnee and local entrepreneur resilience-building, as illustrated in the following entrepreneurial narratives and analysis.



### *Talent risk for entrepreneurs*

For entrepreneurs, talent is perceived as salient risk that encompasses two main aspects with regard to its management—namely, the access to qualified talent and the retention of talent. Although the prevalence of the talent risk is experienced by both local and returnee entrepreneurs operating in the Chinese business environment, their interpretations of it vary, with sharp distinctions on the *why* and *how* to deal with it. Local entrepreneurs tend to view talent risk as inherent to the nature of emerging economies, whereas returnee entrepreneurs tend to attribute talent risk to the imperfections of emerging market institutions, compared to those of advanced economies. The local entrepreneurs' accepting attitudes echo their embeddedness in China's rapidly changing business environment. By contrast, returnee entrepreneurs were accustomed to the relatively highly qualified education and training systems found in advanced economies.

The CEO of Case H said,

*“I'm afraid the Chinese education system has produced too many graduates with homogenously little experience. If you look at Germany, not everyone should go to university. They have the apprenticeship or Duale Hochschule. This type of applied education trains students with high level of skills to design things and implement them. But Chinese graduates seem to emphasise theory too much. They are unfortunately not really prepared for the jobs we could offer.”*

In order to deal with talent risk, returnee entrepreneurs prefer to hire people with overseas experience with the assistance of HR recruiting agents. The HR manager of Case F shared,

*“We spend quite a lot of money on agents to look for the best people for us. As our founding team has vast overseas experience, we sometimes prefer to recruit overseas graduates. At least, it is much easier for them to understand the team work environment and communicate directly. We think that the market offers the best channel to find the right talent. Although it is difficult to find, we need to do good homework by analysing the trends of where talent is going and why.”*

The returnee entrepreneurs' narratives illustrate their coping approach to talent risk by following a causal logic, which emphasises the analysis and forecasting of the market and

makes deliberate efforts to find the existing talent in the marketplace. By contrast, local entrepreneurs appear to capitalize talent risk while cultivating their own talent for future opportunities. A sales director of firm A shared,

*“We faced a high risk or crisis situation. Once, a key account client suddenly left us. This client contributed almost 80% of our revenues. We reflected that, at that time, we could only handle service type projects because we lacked the capabilities needed to design complex solutions. We had to hire a competent technical expert to change our product offerings. By using the networks, friends, and resources we had at hand, we were able to meet one talent with a high potential. We trained him to become a real expert in complex design. Nowadays, because we can design complex solutions, it broadens our customer base and market reach. That risk linked to a lack of talent became the driver for our firm to grow and expand rapidly.”*

This effectual coping strategy, adopted in dealing with talent-related risk, helped the local entrepreneurs to navigate through a risky situation and foster growth by leveraging their stakeholder networks to recruit and train new talent (Jensen, Rezaei, Schøtt, Ashourizadeh, & Li, 2016).

Although talent retention is a prevailing risk factor for firms operating in emerging economies (Stokes et al., 2016), this type of risk is more pertinent during the early stages of technology-oriented ventures. However, our analysis reveals that local and returnee entrepreneurs tend to adopt different coping strategies in dealing with talent retention risk. Local entrepreneurs are inclined to take a relational approach aimed at developing and training their own employees, whereas returnee entrepreneurs prefer to utilise a market-oriented logic to find and/or replace talent. The HR manager from Case C shared,

*“We offer multiple training courses to our employees, including both technical aspect and soft-skills training. It is important to build a living and shared culture among our employees. When we face difficulties, we always motivate ourselves with why we decided to pursue this venture at the very beginning. Our employees share the same slogan ‘Do not forget our original dream (不忘初心)!’ We build a high team morale to overcome crises when we face difficulties and challenges.”*

This relational approach resonates with the importance of high-quality relationships in building resilience identified in previous research (Carmeli et al., 2013; Carmeli & Gittell, 2009). While local entrepreneurs are willing to spend time and resources to train their employees, returnee ones tend to keep an eye open on the marketplace. The CEO of Case F shared,

*“We do not really train our employees because, if we trained them, they could leave us to join our competitors. The time and energy we spent would not be paid back if the employees left too soon. Thus, we actively watch out for talent in the market and find available persons in the marketplace if someone is leaving. We offer good and competitive compensation packages to lure talent from the market to fill any empty spot.”*

With regard to dealing with talent risk, local entrepreneurs tend to control and create the talent resources needed for future usage by following an effectual coping approach. By contrast, returnee entrepreneurs are inclined to forecast the marketplace and find the talent resources they need by adopting a causal coping approach. These diverging coping approaches to building resilience resonate with the influence of cultural differences on entrepreneurial behaviours (Liu & Almor, 2016).

### *Financial risk for entrepreneurs*

Finance is another significantly salient risk factor for entrepreneurs, especially access to financial resources. For early stage ventures, obtaining financial resources is difficult because the venture’s technology might not be mature and its business model might not be viable. In addition, the business environment may represent an additional hurdle to obtain funding for early stage ventures, especially as emerging economy financial markets appear to be less developed. Our research is focussed upon how entrepreneurs interpret financial risk and how they address it while building resilience.

Local entrepreneurs perceive financial risk as the norm in emerging economies; yet, State-Owned Enterprises (SOEs) and private entrepreneurs do not share the same standing in regard

to accessing bank loans. Thus, local entrepreneurs tend to seek financial resources within their existing networks and circles of friends, involving other stakeholders while addressing financial risk. The CFO of Case B claimed,

*“My experience in getting financial resources from banks is extremely difficult. As you know, many banks, especially state-owned commercial banks, prefer to give loans to SOEs, not private enterprises. Even in those cases in which they do give loans to private enterprises, they prefer established family businesses, not early stage technology ventures. Therefore, we have to use all sorts of networks to get financial resources. Besides personal savings, family, and friends, we try to reach out to potential investors through our existing and newly built networks.”*

The usage by local entrepreneurs of networks in obtaining financial resources resonates with an effectual logic that emphasises not the predicted outcome, but tries to bring other stakeholders on board in mobilizing resources. Furthermore, because of the dynamics of technological advancement and its influence on the financial industry in emerging economies, some local entrepreneurs have begun to use alternative financing methods, such as peer to peer lending, platform financing, and crowd funding. CEO of Case D shared,

*“As an early stage technology venture in China, we try to seek financing through other options, not bank loans or traditional venture capital financing. We are glad to see established firms, like the Alibaba Group who offers Ant Financial Service that particularly helps early stage small businesses in dealing with financial risk.”*

Conversely, returnee entrepreneurs tend to adopt a causal coping strategy in dealing with financial risk. With respect to access to finance, returnee entrepreneurs adopt an analytical approach.

One co-founder of firm D explained,

*“One central risk for high-tech start-ups is finance and fund raising. We have to pay particular attention to financial risk. Once, we had devoted a lot of resources to develop a product; however, there was a fatal element in the prototype, so our product could not be launched, eventually. We were running out of money as our burn rate was very high in the early stages. We needed to raise funds quickly. We used a post-hoc analytical tool to identify the issues and explain them to VCs [Venture Capitalists]. VCs need to know the reasons for and how our venture can overcome the crisis period.”*

Another narrative example illustrates the effectual coping approach adopted by local entrepreneurs in dealing with financial risk while building resilience. The CEO of Case B shared,

*“We built an online social community that offers temporary job opportunities to software developers. It is like a marketplace in which job seekers and job providers can meet virtually, and a job or task can be accomplished through temporary employment. Once, our company did not have sufficient financial resources and fund raising would have cost too much time and energy. We decided that our key software developers would take on some part-time jobs through this virtual platform to generate revenues for our firm. We did it together and collected funding in order to support our core development.”*

This narrative illuminates the benefits associated with the resilience, agility, and flexibility shown by local entrepreneurs in dealing with financial risk. This case also resonates with the rise and influence of gig economy and how this new organizational form might be used by entrepreneurs in dealing with financial risk. In doing so, an effectual coping approach, agility, and flexibility are needed in building entrepreneurial resilience.

#### *Market risk for entrepreneurs*

Market risk significantly affects both local and returnee entrepreneurs, especially as the emerging economy notion is associated with turbulent and dynamic business environments. The local entrepreneurs’ interpretations of market risk are largely attributed to the nature of market dynamics and changes, whereas returnee entrepreneurs tend to pay particular attention to market trend developments and industry life cycles. From a comparative perspective, these diverging interpretations of market risk also reflect the ways in which entrepreneurs build resilience while dealing with focal risks and with the influences of culture on resilience.

Local entrepreneurs are accustomed to local market dynamics and develop their resilience in confronting the rapid changes driven by customers or end-users. Loss of customers is perceived

as normal practice by local entrepreneurs; they are adept at dealing with market risk by means of an effectual logic. The CTO of Case A explained,

*“We are an IT infrastructure provider that fits with the current buzzwords of big data and cloud computing. Our customers might easily shift to our competitors if we could not satisfy their needs. In such a highly competitive environment, we have to get used to market risk and be flexible according to market situations. I think that market risk forces us to develop our products and services, and the industry as a whole to aspire to high quality.”*

By contrast, returnee entrepreneurs interpret market risk largely in terms of market development trends, such as industry life cycles and maturity. Predicting market changes and developing corresponding approaches is viewed as an important strategy for building resilience.

The founder of Case G shared,

*“The solar energy industry in China has experienced very high peaks and deep valleys. We provide the testing equipment for manufacturers who assemble the solar panels. If there is no market, the manufacturers will not install new production lines and we could not sell the testing equipment. Therefore, we have to closely monitor the market development and industry life cycles!”*

The above narrative suggests that returnee entrepreneurs tend to follow a causal logic by predicting market trends in dealing with market risk. Furthermore, our narrative data indicates that, although they build resilience differently, both returnee and local entrepreneurs carefully consider government industrial policies when interpreting market risk. The CEO of Case C articulated,

*“As a robotic automation firm, this industry goes along with the government call for Industry 4.0 to offer competitive advantages through advanced and smart manufacturing. Our industrial customers might be a bit slow or even reluctant, because automation means that they need to replace their simple labour-intensive repetitive work. However, we believe that this will be the future and we try to convince our customers by creating a new market.”*

This local entrepreneurial narrative suggests that an effectual logic of creation is adopted by local entrepreneurs in dealing with market risk. Conversely, returnee entrepreneurs still place

a high emphasis on customer and market segmentations when responding to government policies. The CEO of Case F shared,

*“The Chinese government has recently launched its Internet Plus strategy, and a huge number of mobile internet (Apps) companies have emerged. However, if you do not understand who the customers will be and how to target the right customers, it will be an extremely fierce competition and you can lose badly. We carefully analyse the markets and segment our potential customers in order to make the right decisions.”*

Although they have divergent interpretations of market risk, both returnees and local entrepreneurs mentioned the importance of government industrial policies in steering and affecting market risk. This highlights the unique nature of emerging economies, wherein governments play a significant role in affecting business operations and entrepreneurial activities.

To summarize, in Table 2, we juxtapose the different coping approaches alongside the salient risks for entrepreneurs. As shown in our analysis, talent, finance, and market constitutes salient risks for both local and returnee entrepreneurs. From a comparative lens, the interpretations of risk and resilience-building approaches vary between local and returnee entrepreneurs. In a nutshell, local entrepreneurs tend to train their own talent, to use social networks and flexible strategies to access finance, and to create new market opportunities and customers. Returnee entrepreneurs, by contrast, tend to follow a market-oriented logic to find talent in the market by using recruiting agents, to prepare business plans to obtain VC financing, and to follow market trends to predict and segment customer groups. Therefore, we conclude that there are two different coping approaches—namely, effectual and causal—and that a sharp distinction can be discerned between types of entrepreneurs in the way they deal with risk while building resilience.

----- Insert Table 2 about here -----

*A conceptual framework of risk, cultural influence and the resilience-building process*

To theorize our findings, we propose a conceptual framework to connect the theoretical building blocks and articulate the relationships that exist among risk, cultural influence, and resilience-building processes.

----- Insert Figure 1 about here -----

As shown in Figure 1, the meanings of risk lead to entrepreneurs giving it different interpretations. Risk is a socially constructed and cognitively situated construct, and its meanings can be influenced by cultural differences. To lend support to the research on culture and resilience, our study suggests that entrepreneurs may adopt different coping strategies depending upon their perceptions of risk while building resilience, and that cultural identity is a key available resilience resource (Sanders & Munford, 2015). There are similarities between returnee and local entrepreneurs as to what constitute salient risks—namely, talent, financial, and market risks. In dealing with these salient risks, entrepreneurs need to develop and build resilience. In our conceptualization, resilience is regarded as a process, as it relates to the process of responding to focal risks (Kossek & Perrigino, 2016). This differs from resilience as viewed from the personal trait or capability perspectives. We argue that this framework can shed light on the multifaceted concept of resilience, especially in the comparative international entrepreneurship context (Terjesen et al., 2016).

However, the differences found between returnee and local entrepreneurs pertain to the variations in coping approaches and resilience-building processes, in which cultural differences have an important bearing. In this paper, we considered returnee entrepreneurs as proxies of Western culture, and local entrepreneurs as proxies of Eastern culture. An effectual coping



approach—which emphasizes ‘control’, ‘create’, and ‘make’—is tendentially adopted by local entrepreneurs, whereas returnee entrepreneurs are inclined to deploy a causal coping approach, which stresses ‘predict’, ‘prepare’, and ‘find’. This sharp distinction in resilience-building processes resonates with and lends support to the argument that cultural differences can affect entrepreneurial behaviours (Liu & Almor, 2016). Importantly, by comparing returnee and local entrepreneurs, we offer some interesting insights into the interactions between resilience, culture, and risk in the context of Chinese entrepreneurship. Thus, we argue that a comparative and cross-cultural perspective may generate a nuanced and contextualized understanding of resilience in organizations.

## **Discussion**

### *Theoretical contribution*

This study makes three theoretical contributions by: (1) identifying effectual and causal coping strategies in dealing with risk, which are influenced by culture; (2) exploring ways of building resilience in entrepreneurial contexts by contrasting returnee and local entrepreneurs; (3) suggesting resilience as a micro-foundation of effectuation theory in the context of dealing with risk. First, our research contributes to gaining a nuanced understanding of risk from a social constructionist perspective. The prevalence of risk in entrepreneurship and the rather less contextualized understanding of risk found in the extant literature (Miller, 2009) invites an in-depth qualitative investigation from a cross-cultural and comparative perspective. Our findings reveal three salient aspects of risk for both returnee and local entrepreneurs. Furthermore, our study extends the recent discussion on strategic vs. non-strategic risk (Holm et al., 2013) by articulating the importance for local entrepreneurs of social networks in coping with risk (Opper et al., 2016). By contrast, our findings offer additional insights into returnee entrepreneurs, who tend to place less emphasis on social networks in dealing with risk. In brief,

the two distinctive coping strategies adopted in dealing with risk while building resilience—effectual and causal—are influenced by cultural differences (Liu & Almor, 2016).

Second, our findings shed revealing light on the understanding of resilience in organizations, especially in entrepreneurial occupational settings (Kossek & Perrigino, 2016). By juxtaposing the concepts of risk and resilience, the latter can be regarded as a process. By identifying salient risks for entrepreneurs and their resilience-building processes, our findings suggest two different pathways in building entrepreneurial resilience. In so doing, our research contributes to advancing the understanding of resilience in organizations that fall beyond the commonly studied ones, such as high reliability organizations. Entrepreneurship, as an occupation, is associated with risk, and thus requires appropriate strategies in dealing with risk while building resilience. Our study also lends further support to a recent inductive study that highlighted the importance of entrepreneurial resilience in new venture emergence in the presence of natural disasters and crises (Williams & Shepherd, 2016). Through a comparative lens, our study also generates some interesting findings on the complex interactions between risk, resilience, and culture (Panter-Brick, 2015) by means of a qualitative research method (Liebenberg & Theron, 2015; Ungar, 2008).

Third, our study contributes to the entrepreneurship literature on effectuation from a psychological perspective (Gorgievski & Stephan, 2016). Specifically, our study joins the recent psychological micro-foundational movements on organization and management studies (Liu et al., 2017) by suggesting resilience as a micro-foundation for effectuation theory in the context of entrepreneurs dealing with risk. Furthermore, the conceptual framework derived from our study points to the distinctive characteristics of effectual and causal coping approaches in building resilience. This finding also lends support to the recent debate on the dynamics between effectuation and causation (Reymen et al., 2015). Our findings stem from a comparative and cross-cultural approach that compared local and returnee entrepreneurs while

highlighting the cultural influences on the meanings and interpretations of risk and variations in resilience-building processes for entrepreneurs. The comparative approach adopted by our study may also shed some revealing light on indigenous entrepreneurship research in China (Bruton, Zahra, & Cai, 2017).

### *Managerial implications*

Our research may provide managerial implications for existing and aspiring entrepreneurs and policymakers. First, talent risk is salient not only for entrepreneurs, but also for SMEs from advanced economies entering Chinese market (Stokes et al., 2016). A better understanding of the culture, institution, and business environment is conducive to develop the talent strategies appropriate to dealing with talent risk. Furthermore, the various new organizational forms stemming from new economic models, such as the gig and sharing economies, require entrepreneurs and organizations to take proactive approaches in developing talent, either internally or externally (Gardiner, 2015).

For entrepreneurs, financial risk and resilience-building imply alternative funding approaches, especially in relation to the technology advancement and ‘FinTech’ revolution (Economist, 2017). Traditional Venture Capital models may be challenged by the rise of new approaches. Returnee entrepreneurs need to be more flexible and agile while building resilience in dealing with risk. We argue that there are ample opportunities for returnee entrepreneurs to learn from their local counterparts. Western models may not be applicable when the global economy centre of gravity shifts from “West-Leads-East” to “West-Meets-East” (Xing & Liu, 2015, 2017). Leveraging the synergies between local and returnee entrepreneurs and their business ventures could provide generative benefits for all stakeholders involved.

Interestingly, both local and returnee entrepreneurs pay close attention to government policies in dealing with risk while building resilience. This suggests that, in emerging economies, government policies can significantly affect entrepreneurial ventures and their developmental trajectories. Against the Chinese government's mass entrepreneurship and innovation policy, an increasing number of enterprise ventures are founded by locals and returnees alongside the vast emergence of business incubation platforms throughout China (Xing, Liu, & Cooper, 2018). As entrepreneurs are inevitably likely to face various failures, setbacks, and obstacles along their entrepreneurial journeys, our research may offer some useful implications for both existing and aspiring entrepreneurs to deal with risk while building resilience and cultivating resilient organizations (Stephan, 2018).

#### *Limitations and future research directions*

Our qualitative method attempted to generate theoretical generalizability beyond the empirical settings of this study (Tsang, 2014). Our study points at several promising future research directions. First, we suggest resilience as a micro-foundation of effectuation theory from the psychological perspective. Other micro-foundations of effectuation theory could be identified, with the psychology literature holding great promise to further advance effectuation research (Read et al., 2016). Second, our study adopts a comparative international entrepreneurship approach by contrasting returnee and local entrepreneurs, and highlights the cultural influences on the meanings of risk and resilience-building processes. A comparative research methodology could facilitate the identification of commonalities and distinctive characteristics across different population samples (Terjesen et al., 2016). For instance, the vibrant and nascent research stream on innovation and entrepreneurship ecosystems could benefit from a comparative approach, especially by contrasting emerging and advanced economies (Wang & Liu, 2016). Relatedly, against the backdrop of global talent mobility movement, the increasing

supply of multi-cultural talent could be considered, with bi-cultural individuals able to internalize two or more cultural schemas while navigating through cultural complexities across geographical boundaries (Liu, 2017). This study treated returnee entrepreneurs as proxies influenced by Western cultures, and local entrepreneurs as proxies influenced by Eastern ones. We encourage future research to explore how bi-cultural individuals may interpret risk and build resilience in dealing with risk (Stephan & Pathak, 2016). In so doing, it may generate an enhanced understanding of the complex interactions between risk, resilience, and culture. This approach may contribute to the scholarly conversation on entrepreneur's mental health and well-being (Stephan, 2018) and occupational and organizational health in entrepreneurial settings (Stephan & Roesler, 2010). Furthermore, the vibrant research stream on transnational entrepreneurship may offer important insights suited to investigate cultural complexity and resilience in the pursuit of this scholarly inquiry (Light, Rezaei, & Dana, 2013; Rezaei, Light, & Telles, 2016).

## **Conclusion**

This study explored how cultural differences can affect the meanings and interpretations of risk and how entrepreneurs may build resilience differently in dealing with risk. By comparing local and returnee entrepreneurs in China, our study revealed two plausible pathways to building entrepreneurial resilience; whereas returnee entrepreneurs tend to adopt a causal coping approach, local entrepreneurs are inclined to employ an effectual one. As risk is prevalent and salient for entrepreneurs, a nuanced and contextualized understanding of risk and of the resilience-building processes in dealing with risk are pertinent for both existing and aspiring entrepreneurs in emerging economies and beyond. We argue for resilience as a micro-foundation of effectuation theory in the context of entrepreneurs dealing with risk and invite

other scholars to investigate other micro-foundations of it, especially from the organizational psychology and organizational behaviour perspectives.

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**Table 1. An overview of the eight cases in this study**

	Industry	Founding year	Returnee or local
Case A	IT infrastructure provider	2014	local
Case B	Online social community	2014	local
Case C	Robotic automation firm	2011	local
Case D	Intelligent security lock	2013	local
Case E	Software developer	2011	Returnee
Case F	Wireless network application provider	2011	Returnee
Case G	Solar energy equipment provider	2010	Returnee
Case H	Microchip design for wireless firm	2010	Returnee

**Table 2. A comparative analysis of salient risks for entrepreneurs between effectual and causal coping approaches**

<i>Salient risks for returnee and local</i>	<i>Effectual coping approach (Local)</i>		<i>Causal coping approach (Returnee)</i>	
	<i>Interpretations of risk</i>	<i>Resilience-building</i>	<i>Interpretations of risk</i>	<i>Resilience-building</i>
<b>Talent</b>	- lack of talent supply - employee fluctuation as the nature of emerging economy	- train own talent - make cultural fit	- mass graduates with limited experience and capabilities - imperfect institutions	- hire recruiting agent - bring from overseas - find people in the market
<b>Finance</b>	- liquidity surplus - difficulty to receive bank loans	- control social networks - early revenue generation for future use	- less developed VC market - institutional voids - governmental funding	- prepare and develop business plan - connect with intermediaries (local business) to obtain government fund
<b>Market</b>	- market crisis - loss of customer as normal	- create new markets opportunity - create new customers	- market trends development - industry life cycles	- prepare aligned with market trends - predict and segment customer groups

**Figure 1. A conceptual framework on risk, cultural influence and resilience-building process**

