Bridging Cultural Distance: A Multi-level Model of Diaspora Homeland Investment

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ABSTRACT
Little is known about why diaspora members invest in their homelands or why investment intensity varies among diaspora communities. Employing an interdisciplinary approach, we generate a multi-level, conceptual model of diaspora homeland investment. Our model examines the effects of inter-diaspora cultural differences, support from diaspora organizations, and three types of investment expectations—financial, social, and emotional—to better understand this phenomenon.

KEYWORDS
Diaspora, Foreign Investment, Cultural Distance, Social Embeddedness, Subculture
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Immigrant communities in the global 21st century leverage developments in transportation and communication technologies to connect with their homelands in ways that were unimaginable in the past. An ever-present global media provides immigrants with a constant stream of information about their homeland and the ability to communicate easily with individuals in their home countries. Transnational political, business, and cultural organizations link immigrants and their descendants to their ancestral homes both physically and psychologically (Moya, 2005).

These linkages can give rise to “diaspora communities,” emigrant subcultures whose members “demonstrate a strong link with their migration history and a sense of co-ethnicity with others of a similar background” (Cohen, 1997: p. IX). Diaspora communities are “social fields that link together the country of origin and the country of settlement” (Laurence, Ma and Cartier, 2003: 4). The psychological commitment maintained by diasporas toward their homelands distinguishes them from other expatriate communities. Non-diaspora communities often work to “fit-in” with the new culture and its behavioral norms, decreasing their propensity for homeland investment. To the contrary, the psychological connection diaspora members have to their homelands makes them more likely to engage in cross-border economic transactions between their homeland and their country-of-residence. In fact, members of the research community have credited diasporas with facilitating international commerce (Cohen, 1997).

Cross-border economic interactions between diaspora communities and their homelands have attracted scholarly attention in the social sciences. For example, research in anthropology, economics, and sociology has investigated the magnitude and impact of remittances sent from diaspora members to their families in the homeland (Cohen, 2005). The relationship between
diaspora networks and international trade has been explored extensively in economics (e.g., Gould, 1994; Mundra, 2005) and diaspora involvement in homeland philanthropy has also been examined (e.g., Freeman, 2006).

As Ramamurti (2004) and others (e.g., Buckley, Clegg and Wang, 2002; Huang and Khanna, 2003) have noted, diasporas are an important subset of foreign investors in many developing countries, such as in the emerging markets of China and India. They also often play “catalytic roles in creating home-grown MNEs” (Ramamurti, 2004: 280). A recent World Bank study of US foreign direct investment (FDI) abroad finds empirical evidence to support the proposition that diasporas’ ethnic networks affect foreign direct investment by promoting information flows across international borders and serve as contract-enforcement mechanisms (Javorcik, Özden, Spatareanu, and Neagu, 2006).

Developing a better understanding of the dynamics involved in the diaspora investment process is crucial due to the increasing role diaspora investment plays in the global economy, particularly for developing and transition countries with large emigrant communities (United Nations, 2006). For example, between 1979 and 1995, investment by the Chinese diaspora accounted for 80 percent of total foreign direct investment (FDI) in China. The Indian diaspora is estimated to have invested $2.6 billion out of $10 billion of FDI in India between 1991 and 2001 (Wei and Balasubramanyam, 2006). Between 1998 and 2004, diaspora investment accounted for 25 percent of total foreign direct investment flows into Armenia (Hergnyan and Makaryan, 2006). Cultivating and facilitating diaspora homeland investment has become a significant concern of many national governments and multilateral organizations (United Nations, 2006). Several countries have even reformed their constitutions to provide dual
citizenship rights and formal political representation to their diaspora communities (Lessinger, 1992; Guarnizo and Smith, 1998).

While diaspora members are a vital subset of foreign investors, we know relatively little about what motivates diaspora members to invest in their homelands. The international finance literature traditionally assumes that investment decisions are predicated on financial return expectations. However, empirical research in economic psychology has found that some individuals invest in socially responsible funds whose primary objective is not profit maximization (Beal, Goyen and Phillips, 2005; Zivin and Small, 2005). Authors contributing to this research stream have typically explained this phenomenon by assuming the investor is motivated by psychological concerns, such as altruism or personal moral convictions. These assumed non-financial motivations to investment have yet to be fully conceptualized and empirically measured in the literature.

In an effort to further explore the dynamics of the diaspora investment process we build on Gillespie, Riddle, Sayre and Sturges’ (1999) four-community investigation of diaspora homeland investment motivation. In their study of the investment motivations of Armenians, Cubans, Iranians, and Palestinians, they identified two psychological determinants of diaspora homeland investment interest: altruism and a perceived ethnic advantage. Focused on individual-level determinants of homeland investment motivation, this study did not take into account differences between diasporas or the influential role that diaspora organizations can play in influencing members’ investment interest.

We draw on theory from anthropology, economics, finance, international business, psychology, and sociology. Our model contributes to the current understanding of diaspora homeland investment at the individual level in two key ways. First, we provide a multi-faceted
conceptualization of homeland investment interest by decomposing investment motivation into three categories of returns: financial, social, and emotional. Then, we demonstrate how social embeddedness can influence these investment expectations. In this study, social embeddedness refers to (1) the density of a diaspora member’s social network within the diaspora community in the country-of-residences and within the homeland itself and (2) his/her “community affect.” We define “community affect” as an individual’s emotional attachment to and identification with both the diaspora community in the country-of-residence and the homeland.

We then extend our model to include two additional levels of analysis currently unexplored in previous investigations of diaspora homeland investment interest: the effects of diaspora-community culture and diaspora organizational action on investment motivations. We broadly define diaspora organizations as non-governmental organizations located in the country of immigration whose members share a common ancestry. We argue that although cultural distance between diaspora subcultures and their respective homelands may impact diaspora members’ homeland investment interest, diaspora organizational support may help bridge cultural divides between diaspora communities and their homelands.

Our work responds to several recent calls for research development in the field of international business, including those (1) arguing for more multi-level research (e.g., Hillman and Wan, 2005; Leung, Bhagat, Buchan, Erez and Gibson, 2005; Smith, 2006), (2) encouraging the examination of non-governmental organization value creation (Teegen, Doh and Vachani, 2004), (3) suggesting greater examination of how subcultures affect international business (Lenartowicz and Roth, 1999, 2001; Lenartowicz, Johnson and White, 2003), and (4) calling for
increased attention to cultural-distance closing mechanisms in international business phenomena (Shenkar, 2001).

The paper is organized as follows. First, we address the individual-level motivations of homeland investment and explain how diaspora members’ social embeddedness and perceived ethnic advantages predict different types of investment motivation. Next, we explain how cultural distance between diaspora organizations and their homelands might impact diaspora members’ foreign investment interest. Then, we delineate how diaspora organizational support might bridge cultural-distance gaps between diasporas and their homelands. In the last section, we discuss empirical implications of our conceptual model.

**Investment Motivations and their Individual-level Antecedents**

To date, work that identifies predictors of diaspora homeland investment intentions is scarce. The first systematic work on this topic was undertaken by Aharoni in his study of Jewish investment in Israel (Aharoni, 1966). This research confirmed that American Jews invested sizeable amounts of money in Israel even though they considered it a high-risk venture. Aharoni suggested the investment process was significantly influenced by strong psychological ties that diaspora members maintained with their homeland and not simply by the opportunity to profit. Three additional factors were discovered including a desire to (1) assist in the building of the Israeli economy, (2) preserve a personal safe haven, and (3) gain prominence in the Jewish community.

Surprisingly, this topic was not substantively addressed again for almost 30 years until the work of Gillespie and her colleagues (Gillespie et al., 1999). Findings revealed that altruism and perceptions of ethnic advantage were positively related to interest in homeland investment across four diaspora communities. We suggest that altruism is only a starting point for
understanding what motivates the investment intentions of diaspora members. We integrate literature from economics, finance, and psychology in an effort to support our contention that diaspora members’ motivation to invest can be explained by the potential for financial, social, and emotional returns. Furthermore, we posit that these investment motivations are driven by two key factors at the individual-level of analysis (1) diaspora members’ transnational social embeddedness and (2) the degree of perceived ethnic advantage associated with homeland investment.

The continuum of investment motivation we propose is conceptualized at the individual level of analysis. Diaspora members each possess specific motivational profiles that contribute to their investment decisions. Some diaspora members are interested in investing in their homeland because they expect a financial return; others are driven by the possibility of social recognition from within their diaspora communities and organizations. The investment interest of other diaspora members may be motivated by the potential emotional satisfaction they will receive when investing in their homelands. These categories represent distinct types of returns, but it is possible for an individual investor to be simultaneously motivated by more than one type of return. For example, a new diaspora member may be interested in homeland investment because it makes her feel good (emotional), it further facilitates her integration into the diaspora community (social), and she has confidence that money can be made by the venture (financial).

Next, we examine each of these homeland investment motivations in turn.
Financial Investment Motives

Many individual investors are motivated by the potential to make money and improve the net worth of their portfolios (Markowitz, 1959; Miller and Modigliani, 1961). We draw support for this contention by integrating portions of the finance literature focusing on rationality and investment bias.

The concept of rationality has been influential in finance for almost 40 years; it provides the basic foundation for many current theories in modern finance (Beal et al., 2005). The concept of rationality assumes that individual investors prefer more rather than less, juggle risk and return, and demand higher returns to compensate for increased risk. That is, the maximization of returns given an individual’s specific risk tolerance, often governs investment decisions. A segment of diaspora members are undoubtedly rational and motivated by the potential for financial returns. Moreover, past research on diaspora homeland investment indicates that members not motivated by financial returns are the exception, “At least some community members wished to invest in their homeland for reasons other than solely to make a profit” (Gillespie, Sayre, and Riddle, 2001: 239). The authors’ suggest that the majority of diaspora members are at least partially motivated by the potential for financial returns. While rational, investors are also prone to several biases when investing. We explore these in an effort to further support the financial motive for investment.

Research has identified a tendency for investors to exhibit a “local bias” (Tesar and Werner, 1997; Benartzi, 2001; Liang and Weisbenner, 2002). That is, professional money managers and individual investors tend to disproportionately prefer local stocks (Coval and Moskowitz, 1999, 2001; Zhu, 2003; Ivkovic and Weisbenner, 2005). Coval and Moskowitz demonstrated that professional managers’ local investments outperformed their remote
investments. The authors suggest that proximity promotes the acquisition of more accurate investment-relevant information. However, research on individual investors suggests that local bias is driven by simple familiarity and better information (Zhu, 2003; Ivkovic and Weisbenner, 2005, respectively).

We suggest that diaspora members are driven to invest in their homelands due to “homeland bias.” In other words, diaspora members are often familiar with investment possibilities in the homeland and believe they have value-relevant information. These factors exacerbate the potential for positive financial returns and increase investment interest. Several other biases help explain the financial motive for homeland investment.

Past research has identified a link between overconfidence and investment decisions. (Odean, 1998; Allen and Evans, 2005). Odean (1998) found that overconfidence resulted in excessive trading which subsequently decreased returns. Findings from another study revealed that 40% of investors exhibited overconfidence in experimental financial markets (Allen and Evans, 2005). Similarly, the overconfidence of diaspora members may motivate homeland investment interest even when facing increased risk. The overconfidence of diaspora members could be driven by a variety of factors including past experience and current contacts in the homeland. For example, a diaspora member may believe he or she has a good chance of making money because they “know people on the ground” who could potentially provide valuable information. For example, a diaspora member might derive overconfidence simply from having visited the homeland a single time. From a psychological perspective these scenarios are related to various decision-making biases.

The tendency for decision-makers to anchor their thinking on specific information also affects investment decisions. The seminal work of Kahneman and Tversky (1973, 1979)
highlights the tendency for people to base decisions on “representative” information that fits their previous assumptions while ignoring more beneficial and pertinent information. This common decision-making bias may lead diaspora members to anchor their investment decisions on more positive information, thus leading to greater investment interest. For example, some diaspora members may rely on other diaspora members who believe the investment environment within their homeland has potential. They anchor their perspective on this limited information and proceed in the face of other information that suggests a more negative environment.

The potential for financial returns represents one end of our continuum of different returns that motivate investment. Rational investor theory supports the notion that like many other investors, some proportion of diaspora members are motivated to invest by the potential for financial returns. “Homeland bias” stemming from the finance literature on “local bias” also helps explain diaspora members’ homeland investment interest. Theoretical work in behavioral finance also suggests that investors are prone to common psychological phenomena, such as overconfidence and decision-making bias, which increase the perception of potentially achieving positive financial returns. The perception of ethnic advantage is another psychologically based belief that we contend at least partially predicts the expectation of financial returns.

**Role of Ethnic Advantage Perceptions.** Perceived ethnic advantage--perceived advantage to invest successfully due to the cultural similarity of the homeland--also affects the investment intention of diaspora members. Research on psychic distance has found that firms are more likely to invest in countries that are similar to their home country (Johanson and Vahlne, 1977; Davidson, 1980; Root, 1983). In addition, research involving immigrant entrepreneurship suggests that immigrants often establish businesses to serve their specific ethnic market because
of a belief that they have a better understanding of the market’s needs (Bonacich and Modell, 1980; Portes and Bach, 1985).

Gillespie and her colleagues (1999) found individual perceptions of ethnic advantage to be positively related to investment intentions. The concept of ethnic advantage is based on diaspora members’ beliefs that they are prone to less risk, understand consumer preferences more effectively, and possess a better grasp of the business environment as compared to their US counterparts. We suggest that diaspora members who perceive an ethnic advantage are more likely to believe they can invest profitably in the homeland. This belief increases the likelihood that these diaspora members will be financially motivated to invest due to their confidence in the potential profitability of their investment.

Diaspora members’ perceptions of ethnic advantage may or may not be accurate, but their perceptions are likely to increase their proclivity to expect greater levels of financial return. The potential for financial returns, then, becomes a determining factor leading to investment interest. Diaspora members’ feelings of ethnic advantage vary in degrees of accuracy. How likely that the accuracy of their ethnic advantage perceptions would be as an effective predictor of actual investment and the subsequent success of that investment is beyond the scope of this paper. Our primary dependent variable remains investment interest not actual investment. Therefore, we focus on the perception of ethnic advantage as opposed to the accuracy of this perception in the prediction of financial motivation. These conclusions lead us to our first proposition:

**Proposition 1a:** The investment interest of diaspora members will be motivated by the potential for financial returns.

**Proposition 1b:** Diaspora members’ perception of ethnic advantage will be positively related to their financial motives for investment.
While the potential for financial returns is certainly a powerful motivator, it does not adequately capture the “landscape” of possible expected returns that might motivate a diaspora member to invest in his or her homeland. We contend that financial motivation anchors one end of a continuum of motivation representing the possibility of different types of returns that diaspora members might receive when they invest in the homeland. Our next section focuses on social motivation for homeland investment.

Social Investment Motives

The work of Gillespie and colleagues (1999) and Aharoni (1966) stated that diaspora members revealed that diaspora members’ desire to invest in the homeland was not for profit alone. If diaspora members are not concerned about financial returns, what prompts their investment intentions? What type of “return” motivates investment interest in the homeland? To date, these questions have not been substantively addressed in prior research. We suggest that the anticipation of social returns motivates diaspora members to invest.

Theory grounded in social psychology provides the foundation for our contention that social recognition is another key driver of diaspora investment intentions. Before establishing this link, we briefly address meta-theories of motivation and cite the need to belong—a theory of fundamental human motivation (Baumeister and Leary, 1995) relevant to our proposition. Then we attempt to integrate the need to belong within the context of diaspora homeland investment.

A number of different theories of motivation attempt to explain human behavior. However, past research in psychology and sociology points to the possibility of meta-theories of motivation (Baumeister and Leary, 1995), suggesting that our myriad behaviors are motivated by a few core needs. Much of the literature on motivation has been dominated by research on the needs for power, achievement, intimacy, approval, and affiliation. However, many of these
needs can be explained by the desire for interpersonal attachments or the need to belong (NtB). The needs for approval and intimacy seem highly likely to be connected to the fact that approval is a prerequisite for forming and maintaining social bonds, and intimacy is a defining characteristic of close relationships. The NtB could be linked to and may help explain them all.

The need to belong—a need to form and maintain at least a minimum quantity of interpersonal relationships—is ubiquitous among human beings. This need has two primary features, including the need for frequent interactions with others that are primarily positive and free from conflict and negative affect. Second, people must believe an interpersonal bond exists that is marked by stability, affective concern, and continuation into the future. The need to belong as a fundamental component of human motivation has been supported via demonstrated links to cognitive processes, emotional patterns, behavioral responses, and well-being (Baumeister and Leary, 1995).

The NtB theory helps explain the human behavior of joining groups and organizations (Moreland, 1987). For example, joining a diaspora organization would partially satisfy the need for interpersonal attachments. That is, immigrants will be attracted to diaspora organizations due to a perceived level of similarity and a higher likelihood that they will receive support, experience positive interactions with others, and become part of a stable environment. However, membership is just one indication of belonging and people often seek to reinforce their connection with and within specific groups. The process of being recognized by other members of the group is motivational because it increasingly satisfies the need to belong. Social recognition within a group indicates acceptance, which partially satisfies the NtB. A key method for gaining social recognition within diaspora communities and organizations is to invest in the homeland (Aharoni, 1966). Receiving social recognition coincides with a strong sense of
satisfaction--e.g., “warm glow” (Arrow, 1972)--when deciding to invest in their homeland. Therefore, the desire for social recognition and the payoffs for doing so may drive the intention to invest in the homeland.

Striving for social recognition is motivated not only by a desire to maintain social relationships but also by the consequences of breaking bonds. The NtB predicts that people work hard to preserve relationships and avoid ending them (Hazan and Shaver, 1994). Researchers have found that breaking bonds causes significant amounts of stress for those involved (Bridges, 1980; Vaughan, 1986; Strube, 1988). Engaging in behaviors that elicit social recognition tend to strengthen social relationships and decrease the likelihood of those relationships ending. Therefore, people are motivated to perform behaviors that are more likely to earn recognition. Investing in the homeland often results in a significant amount of social recognition within the diaspora and decreases the probability of these bonds being broken.

Another important driver of investment interest included in the category of social returns is related to “homeland duty.” Diaspora members often feel a strong socialized sense of “duty” (Hudson, 2005) to invest in the homeland. Whether reinforced by previous generations or current relationships with friends and other diaspora members, the sense of duty is a powerful motivator of homeland investment intention. Homeland obligations are socially constructed; diaspora members are socialized by family and peers to assist the homeland, which can translate into a moral obligation to invest back. In some cases, homeland investment is driven by a duty to help the homeland become economically independent, thus decreasing the homeland’s dependence on outside resources, such as diaspora remittances.

While we have described why diaspora members might be motivated by the potential for social returns, we have not touched on what might predict this type of investment motivation.
We suggest that social embeddedness is positively related to social motives for investment and that this relationship is mediated by community affect.

*Role of Social Embeddedness.* Research in sociology concerning community social embeddedness decomposes an individual’s level of embeddedness into two component parts: the number and strength of his/her social relationship ties and his/her “sentimental ties of affection and commitment to others” (Petrzelka and Bell, 2000). Diaspora members are conceptualized in anthropology and sociology as deterritorialized transnational actors; they are embedded to some degree in a social context expanding over at least two distinct geographic spaces—the diaspora members’ country-of-residence and their homeland. Thus, diaspora members’ level of social embeddedness is dependent on social ties within both locations. The number and strength of these ties affect their level of commitment to the communities in both geographic anchors of the transnational social field (Portes, 1997; Werbner, 1999; Portes, Guarnizo and Haller, 2002)

The degree of a diaspora member’s embeddedness within the diaspora community and in the homeland may also affect his/her expectations of investment returns to his/her social standing within both social contexts. First, multiple network ties within diaspora and homeland communities increase the likelihood that a diaspora member’s investment actions will be recognized by his/her peers. Second, dense community networks and strong feelings of community may intensify the importance of such social recognition for the diaspora investor, which ultimately leads to motivation catalyzed by the potential for social returns.

**Proposition 2a:** The investment interest of diaspora members is motivated by the potential for social returns.

**Proposition 2b:** The degree to which diaspora members are socially embedded in their *diaspora community* is positively related to their social motives for investment and this relationship is mediated by community affect.
Proposition 2c: The degree to which diaspora members are socially embedded in their homeland is positively related to their social motives for investment and this relationship is mediated by community affect.

Thus far, we have discussed how the potential for financial and social returns may motivate diaspora homeland investment. Next, we turn to a third driver of investment motivation: expected emotional returns associated with investment activity.

**Emotional Investment motives**

Gillespie and colleagues defined altruism based on interviews conducted during their research where diaspora members revealed that their desire to invest in the homeland was not for profit alone. Aharoni (1966) mentioned a similar motivation in his work. If some diaspora members were not concerned about financial returns, what drove their altruistic behavior? Past research in economics and psychology provide theoretical support for our contention that some individual diaspora members are motivated by the expectation of feeling significant emotional satisfaction when contemplating investment.

Altruism is a concept revered in most societies. Many societies enforce strong social norms recognizing the importance and power of altruistic behavior. However, some have suggested that pure altruism may not exist because every decision creates some kind of return for the decision maker (Coates, 1998; Sesardic, 1999). We do not deny the existence of altruism in diasporas, but do contend that diaspora members may be motivated to invest by the expectation of some type of return. We believe diaspora members expect a certain level of emotional satisfaction—e.g., “warm glow” (Arrow, 1972)—when deciding to invest in their homeland.

This theory has also been used to explain individual investment in socially responsible investment funds (Zivin and Small, 2005) that do not allocate resources solely to maximize profits. Similarly, past research has found that individuals invest in ethical investment vehicles
based on expected emotional and financial returns (Beal et al., 2005). The emotional satisfaction return underlying altruism has also been identified as a key motivator for volunteerism (Mowen and Sujan, 2005). Some diaspora members may be altruistic and motivated by the emotional returns they receive from investing in the homeland.

**Role of Social Embeddedness.** The intensity of expected emotional returns associated with homeland investment may be explained by diaspora members’ level of social embeddedness within the transnational social space. For example, greater social embeddedness within the homeland community may heighten the expected “warm glow” of homeland investment as the potential beneficiaries of the investment become more personalized for the investor. Homeland social connections may also intensify the diaspora member’s psychological involvement in the homeland’s social, economic, and political development. Social embeddedness within the diaspora community in the country-of-residence may also drive emotional investment motivations; if homeland investment is deemed valuable by the diaspora community, it may make the diaspora member feel good to participate in an activity held in high esteem by the local community.

**Proposition 3a:** The investment interest of diaspora members is motivated by the potential for emotional returns.

**Proposition 3b:** The degree to which diaspora members are socially embedded in their diaspora community is positively related to their emotional motives for investment and this relationship is mediated by community affect.

**Proposition 3c:** The degree to which diaspora members are socially embedded in their homeland is positively related to their emotional motives for investment and this relationship is mediated by community affect.

It is important to note that there is a significant degree of heterogeneity among and within diaspora communities. Diaspora communities differ in terms of the push-pull factors that have
shaped their respective migration waves. White-collar labor migrations tend to create wealthier
diaspora communities than low-skilled labor migrations. Some diaspora communities, such as
the Afghan community in the US, were created more recently and consist mostly of first-
generation immigrants, while other communities, such as the Japanese diaspora in Brazil are
older diaspora communities, comprised of several different migration waves. A given diaspora
may include several ethnic, religious, or tribal groups. For example, the Lebanese diaspora in
France consists of Christians, Druze, and Muslims, while the Ghanaian diaspora in the
Netherlands includes immigrants from several tribal groups.

Individual-level models shed light on why diaspora members may be interested in
investment and can provide insight into why diaspora homeland investment interest might vary
within a given diaspora community. But the advantage of the multi-level model we employ here
lies in its ability to explore the reasons why levels of diaspora homeland investment interest may
vary from one diaspora community to the next. Our model expands the conceptual focus of the
diaspora homeland investment interest phenomenon to include variables residing at higher levels
of analysis, specifically diaspora community-level and diaspora organization-level effects.

Diaspora-Homeland Cultural Distance

By definition, diasporas have the “distinct shared histories” and “geographically based
experiences” that Lenartowicz and Roth refer to as characteristics of “subcultures” (2001: 308).
Sheffer (2003) argues that diasporas’ group-level identity, solidarity, and attachment differentiate
them from other immigrant groups.

Diaspora subcultures are formed by immigrant waves and their offspring. Immigrants
bring the cultural values and norms inculcated in the homeland with them into the country-of-
residence. In some cases, diaspora subcultures may be distant from that of their homeland from
the initial immigration wave if (1) subcultural differences existed prior to the wave of emigration
and (2) the push-pull factors of migration inspired only members from a particular subculture (or
a limited number of subcultures) to emigrate (Sheffer, 2003). Cohen (1997) categorizes
diasporas into five types based on the different historical experiences of diaspora migration:
victim (exile) diasporas, labor, imperial (colonizer expatriates), trade, and cultural diasporas.
African, Irish, Armenian, and Palestinian diasporas are examples of victim diasporas because
they were each initiated by a “scarring historical event…slavery for the Africans, famine for the
Irish, genocide for the Armenians, and the formation of the state of Israel for the Palestinians”
(Cohen, 1997: 28). Indian and Japanese diasporas fall into the labor category as they began
because of the nineteenth-century system of indentured labor abroad. Examples of imperial
diasporas include Venezuela, Peru, and Bolivia. Diasporas initiated by trade are numerous, but a
key example is China whose Hokkien traders established a thriving trade in silks, tools, and food
(Cohen, 1997). Finally, an example of a cultural diaspora is the Caribbean diaspora.

Through contact with the value context of the country-of-residence, diaspora subcultures
as a group may gradually acculturate to the cultural value profile of the country-of-residence
(Warner and Srole, 1945; Gordon, 1964). Berry, Kim, Minde, and Mok (1987) argue that two
fundamental dimensions of acculturation exist: the maintenance of the original identity and
maintenance of relations with other groups. These dimensions can be further dichotomized into
four distinct acculturation statuses: assimilation (high on intergroup relations and low on
maintaining original identity); integration (high values on both dimensions; also known as
biculturalism); separation (high on original identity and low on intergroup relations); and
marginalization (low values on both dimensions).
Diaspora subcultures that initially are similar to their homeland culture (separated acculturation status) can become more distant over time as diaspora exposure to the culture of the country-of-residence increases and integration or assimilation occurs (Berry, 1997). The context of the country-of-origin can play a role in fostering or inhibiting cultural distance between diasporas and their homelands. In countries-of-origin where assimilation is socially encouraged and feasible, cultural value changes may occur more readily than in contexts where it is discouraged or obfuscated (Portes and Rumbaut, 1990).

Thus, due to a variety of reasons, diaspora subcultures may or may not be culturally similar to the national culture of their homeland. In the international business literature, cultural distance is often argued to increase transaction costs associated with investment. In this literature it is assumed that when a lack of cultural similarity exists, time and money often must be spent by managers to sufficiently learn and adapt to the cultural norms that shape operational and market activities in the target country for investment (e.g., Kogut and Singh, 1988; Ghemawat, 2001). To date, cultural-distance effects on investment motivation have been examined only at the national level (e.g., Shenkar, 2001; Tihanyi, Griffith and Russell, 2005). But since diaspora subcultures are subsumed within the national cultural context of the country of residence, nation-to-nation comparisons are less accurate; differences between diaspora subcultures and their respective homelands provide a more salient conceptualization.

Small levels of diaspora-homeland cultural distance may drive individual-level ethnic advantage perceptions identified by Gillespie et al. (1999). In these cases, the diaspora’s shared cultural values with those in the homeland might give rise to group-level beliefs that diaspora members are better equipped than outsiders to navigate the homeland business environment and identify opportunities in homeland markets. Shared cultural similarity with the homeland may
also give rise to diaspora community-level norms and values promoting the social desirability of homeland economic involvement. Cultural similarity between many first-generation immigrant communities and their homelands may at least partially explain high proportions of first-generation immigrants investing in their homelands. When diaspora-homeland cultural distance is large, the motivation to invest may be much lower among the diaspora as a group due to feelings of alienation and less knowledge about market and operational realities in the homeland.

**Proposition 4:** Diaspora-homeland cultural distance at the diaspora community level is negatively related to perceptions of ethnic advantage at the individual level.

We argue that when diaspora-homeland cultural difference is great, diaspora organizations may provide various types of support—identificational, relational, and informational—that help bridge the cultural divide between diasporas and their homelands, thereby overcoming perceived costs and other obstacles associated with homeland investment. Diaspora organizations are non-governmental organizations formed by diaspora members for a common cause or purpose. These organizations include a wide variety of secret societies, rotating credit associations, mutual aid societies, religious associations, hometown associations, political groups, occupational and business associations, and youth groups (Moya, 2005). In the next section, we first describe the nature, impetus, and origins of diaspora organizations, detail the various types of support they provide to diaspora members, and explain how this support is related to the three different returns driving homeland investment motivations: financial, social, and emotional.
Diaspora Organizational Support

Scholarly inquiry in the fields of history and sociology has examined immigrants’ associational life in their new countries-of-residence. Much of this literature suggests that although governments can play a major role in facilitating organizational capacity in newcomer communities, the remarkable propensity for many immigrant groups to form associations has been observed across a multitude of host-country contexts and historical time periods—even in national contexts ambivalent or hostile to their formation (Bloemraad, 2005). Moya (2005: 837-838) notes that the global phenomenon of immigrant organization is illustrated by the fact that similar associational propensity jokes are common among immigrant groups in various cultural context: The quip, “Put three Germans in a room and in five minutes you’ll have four clubs,” has its counterpart among the Issei, Japanese immigrants in southern Brazil, “Two Japanese make an association, and three found a newspaper.”

Immigrant community associational diversity and complexity is related to the size and demographic heterogeneity of the immigration group. Smaller and demographically homogeneous immigrant communities form less diverse and limited organizations, while larger and more demographically heterogeneous groups form more complex networks of organizations (Vrga, 1971; Moya, 2005). Sheffer (2003) has noted that diaspora communities by definition tend to be associational immigrant communities; their desire to maintain a relationship with a homeland often motivates them to seek out others who can provide a connection to the homeland and/or who share their transnational psychological affiliation.

Scholars have argued that the process of migration itself sharpens collective identities along national or ethnic lines predisposing them to collective action (Portes and Rumbaut, 1990; Sheffer, 2003). Immigrant associations also have been referred to as “ethnic-veto groups,” since
many such groups are formed in response to informal social and/or formalized institutional hostility to their existence (Riesman, 1956: 324). Searching for social acceptance and/or resources unavailable in the general population, immigrants seek out support from others facing similar experiences. In these “encapsulated communities…culture can be conceived of as conflictual, open, hybridizing, and fluid while nevertheless having a sentimental and morally compelling force” (Werbner, 2005: 745).

We posit that diaspora communities offer three types of support that can stimulate diaspora members’ homeland investment motivations. Specifically, diaspora organizations can foster the diaspora member’s sense of transnational belongingness and homeland-assistance responsibilities, broker relationships between diaspora members and individuals in the homeland or diaspora community, and provide information about market and operational conditions in the homeland.

Transnational Belongingness and Duty. Diaspora organizations reinforce and socialize a Durkheimian sense of “collective consciousness” among diaspora members through social exchanges, rituals and performances (Werbner, 2005). It is often diaspora organizations that help to “detach national identity from its assumed link to the nation state or ‘the country of origin’ and place it within a newly created imaginary space of a nation within a nation” (Ghorashi, 2004: 324).

Diaspora organizations foster transnational identity in several ways. For example, rhetoric employed in printed or verbal communication with diaspora members can convey a sense of group identity as the collective terms, “we” and “us,” are repeatedly utilized to refer to members of the diaspora community in the country-of-residence and homeland communities simultaneously. In some cases, diaspora organizations refer to their members in hyphenated
identificational terms (e.g., Afghan-American), thereby reinforcing an individual’s transnational identificational status. Non-verbal messages conveyed in the juxtaposition or linkages of images from diaspora members in the country-of-residence and those individuals in the homeland on diaspora organizational web pages and other promotional materials can accomplish the same objective. Similarly, diaspora social action can foster transnational belongingness to the extent that the organization’s activities, such as lobbying, members-only services, or homeland-oriented projects, delineate expected benefits for “us” versus “them.” The “us” may refer to either or both the local diaspora community and the homeland community.

Diaspora organizations can also generate normative expectations about the duties and responsibilities of diaspora members to their respective homelands. These expectations can be socialized through communication about diaspora homeland contribution in positive terms. Further socialization can be achieved if meaningful recognition rituals, such as award ceremonies or banquets, are established to laud community individuals involved in and contributing to homeland development through foreign investment.

The provision of a sense of transnational belongingness and duty generated by diaspora organizations can close the cultural distance between diaspora individuals and their homelands and enhance their emotional- and social-investment motivations by increasing the individual’s level of community attachment. The more an individual’s positive feelings toward the diaspora community in the country-of residence and/or the homeland community are strengthened, the more likely he/she will experience positive emotional feelings associated with homeland investment. Similarly, the more attached an individual is to the local diaspora or homeland communities, the more he/she will seek out and value social recognition among fellow community members.
Proposition 5: Transnational belongingness at the diaspora organization level is positively related to social investment motivation at the individual level and this relationship is mediated by community affect at the individual level.

Insert Figure 4 about here

Relationship Brokering. Research regarding non-governmental organizations has suggested that NGOs, such as diaspora organizations, often serve as social “bridgers” or “bonders,” using “tools of information, influence, and solidarity to create social capital” (Teegen 2003: 273). Much of the work exploring transnational entrepreneurship has examined how immigrants leverage their social ties—often forged through engagement with diaspora organizations—to establish and grow successful enterprises either within the country-of-residence or in the homeland (e.g., Portes, Guarnizo and Haller, 2002; United Nations, 2006). By participating in organizational activities, diaspora members come into contact with other individuals with common interests in homeland involvement and development in the country-of-residence. These contacts may have and be willing to share resources (homeland contacts, knowledge about homeland market and operational realities, financial resources, etc.) to assist the diaspora entrepreneur in his/her entrepreneurial endeavor. Furthermore, the collective identity fostered through organizational membership may enhance interpersonal trust among members, thus increasing the propensity for cooperation and assistance among members. Through their transnational social ties, diaspora organizations may also help broker relationships between diaspora members in the country-of-residence and individuals useful to the entrepreneurial venture in the homeland, such as government contacts, bankers, potential business partners and suppliers, and successful, role-model diaspora entrepreneurs already active in the homeland (Portes, Guarnizo and Haller, 2002).
The literature regarding cultural distance and its impact on foreign investment argues that cultural distance often impedes the development of trust-based relationships in the investment country (Shenkar, 2001; Tihanyi, Griffith and Russell, 2005). We argue that diaspora-organization relationship brokering can have a substantial impact on the various motivations for homeland investment. By introducing diaspora individuals to each other and to individuals in the homeland, diaspora organizations help promote diaspora members’ embeddedness within the transnational social space, thereby increasing community attachment and expected emotional and social investment returns.

**Proposition 6:** Relationship brokering at the diaspora organization level is positively related to diaspora members’ social embeddedness within the transnational “space” at the individual level.

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Insert Figure 5 about here
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**Market and Operational Condition Information.** One of the most commonly cited obstacles to cross-border investment—particularly in a context of high cultural distance—is a lack of information about market and operational conditions in the investment target country (Shenkar, 2001; Tihanyi, Griffith and Russell, 2005). Diaspora organizations help close this distance in several ways. As discussed previously, diaspora organizations can increase diaspora members’ knowledge about market and operational conditions in the homeland by introducing them to social contacts who can purvey this information. But many diaspora organizations also assume the responsibility for this information provision themselves, sponsoring homeland investment conferences, training programs, or market research for their members (United Nations, 2006).
We suggest that by exposing diaspora members to greater information about the homeland environment, diaspora organizations may increase diaspora members’ perceived ethnic advantages associated with homeland investment. The potential for ethnic advantage may be particularly salient if such information is difficult for a non-diaspora member to acquire. Armed with this information, diaspora members may expect to gain greater financial returns.

**Proposition 7: Market/operational information provision at the diaspora organization level is positively related to perceptions of ethnic advantage at the individual level.**

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**Discussion**

In this paper, we have drawn on theory from the social sciences to (1) expand the conceptualization of diaspora investment interest to include not only financial-return expectations but also emotional and social returns, (2) explain how transnational social embeddedness and perceived ethnic advantages drive those motivations, (3) identify how diaspora-homeland cultural distance might impact investment motivation, and (4) articulate how diaspora organizations might close cultural distance between diaspora members and their homelands through the provision of various types of support.

Empirical tests of this model could generate valuable insights for governments, multilateral organizations, diaspora organizations, investment companies, and academic research regarding diaspora homeland economic involvement. A better understanding of the determinants of diaspora investment interest might (1) facilitate government attempts to promote greater levels of foreign direct investment, (2) help diaspora organizations identify methods for more effectively engaging and supporting their members, (3) offer investment-promotion agencies and investment companies the ability to customize promotions for their investment products and
services; and (4) inform the development of a model that explains the link between investment intention and actual investment.

Foreign investment represents the most significant source of revenue for some countries. In others it is an important ingredient contributing to economic prosperity. Many countries and sub-national administrative units, such as states and provinces, are highly motivated to learn more about factors contributing to the investment intentions and actual investments of their emigrant communities. In some cases, such as in Afghanistan, the Dominican Republic, India and Ghana, homeland governments have spent considerable time and resources to create agencies and specific public policy aimed at cultivating diaspora homeland investment interest. But in many other nations, homeland governments are unsure if investment-interest potential among their diaspora communities warrants expending resources to cultivate diaspora homeland investment interest (United Nations, 2006). Empirical tests of this model could quantify the market potential for homeland investment, thereby revealing whether the magnitude of diaspora homeland investment interest might justify the expenditure of frequently cash-strapped homeland resources.

Governments are increasingly discussing the importance of diaspora organizations but have been accused of talking more about them than listening to or working substantively with them (International Organization for Migration, 2005). Findings from this research could clarify the specific supportive roles diaspora organizations might play in investment-attraction activities for homeland governments, thereby providing a roadmap for more effective public-NGO sector cooperation.

Diaspora organizations are concerned with engaging and supporting their members in a variety of different ways. Testing elements of this model empirically could reveal specific
methods for diaspora organizations to engage their members more effectively. For example, in situations where a significant divide exists between the cultures of the diaspora organization and the homeland, specific actions may be taken by the diaspora to bridge this divide by providing support of various types. This support may help diaspora members overcome perceived barriers to homeland investment. Increasing homeland investment and positive perceptions that supported members of the diaspora have for the organization could be potential benefits. That is, diaspora members who perceive greater levels of organizational support will be more committed and willing to contribute back to the organization in various ways (Eisenberger, Huntington, Hutchinson and Sowa, 1986; Shore and Wayne, 1993).

Many different kinds of organizations—within and outside of homeland countries—are actively targeting diaspora investors. In many homelands, national and sub-national investment-promotion agencies are seeking ways to promote and facilitate diaspora homeland investment activity (United Nations, 2006). In some cases, global investment companies have created country- and region-specific mutual funds, such as Fidelity International’s Korea Fund. Some venture-capital firms in homeland countries have also actively sought investment among diaspora communities (Gillespie and Andriasova, 2004). Each of these organizations has a vested interest not only in estimating the size of the diaspora-investor market but also in understanding the psychographic segments that comprise this market. Insights concerning diaspora psychological investment motivations could help these organizations craft meaningful promotional messages and branding strategies for diaspora homeland investment products and services. Empirical tests of our model could shed light on whether standardized marketing approaches within diaspora communities would be effective or whether more segment-specific marketing strategies would be necessary.
A final empirical implication of this model is the development of the model’s next phase that will involve identification of key factors linking investment interest with actual investment. Increasing our understanding of the dynamics leading to investment interest will greatly contribute to mapping the road to actual investment. The factors contributing to diaspora members moving from interest to actual investment will vary significantly. For example, diaspora members motivated by the possibility for emotional returns will resist an actual investment if investment vehicles do not exist that will satisfy their emotional needs. On the other hand, diaspora members primarily motivated by the potential for financial returns are less concerned with feeling a “warm glow” and will make actual investment decisions based on different criteria. Moreover, factors at higher levels of analysis involving the diaspora organization and the homeland will also influence the transition from interest to investment.
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Figure 1 A multilevel model of diaspora homeland investment

Diaspora community

Diaspora-homeland cultural distance

Diaspora organization

Brokered relationships

Transnational belongingness

Market/operational information

Diaspora member

Transnational Social Embeddedness

Ethnic advantage

Sources of Motivation

CoR

Homeland

Community affect

Social embeddedness

Community affect

Social embeddedness

Financial

Social

Emotional

Investment interest
Figure 2 Individual-level model of diaspora homeland investment

Diaspora community

Diaspora-homeland cultural distance

Diaspora organization

Brokered relationships

Transnational belongingness

Market/operational information

Diaspora member

Transnational Social Embeddedness

CoR

Homeland

Social embeddedness

Ethnic advantage

Sources of Motivation

Financial

Social

Emotional

Investment interest

Social embeddedness

Community affect

Community affect
Figure 3 Cross-level relationship between diaspora-homeland cultural distance and ethnic advantage
Figure 4 Cross-level relationships between transnational belongingness and social and emotional motivation
Figure 5 Cross-level relationships between brokered relationships and social network density

Diaspora community

Diaspora-homeland cultural distance

Diaspora organization

Brokered relationships

Transnational belongingness

Market/operational information

Diaspora member

Transnational Social Embeddedness

CoR

Homeland

Social embeddedness

Social embeddedness

Sources of Motivation

Ethnic advantage

Financial

Social

Emotional

Investment interest

Community affect
Figure 6 Cross-level relationship between market/operational information and ethnic advantage

Diaspora community

Diaspora-homeland cultural distance

Market/operational information

Diaspora organization

Brokered relationships

Transnational belongingness

Diaspora member

Transnational Social Embeddedness

CoR

Homeland

Social embeddedness

Social embeddedness

Ethnic advantage

Sources of Motivation

Financial

Social

Emotional

Investment interest

Community affect

Community affect