Why Diasporas Invest in the Homeland: A Conceptual Model of Motivation

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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ABBREVIATED TITLE: Why Diasporas Invest in the Homeland
Why Diasporas Invest in the Homeland: A Conceptual Model of Motivation

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/Cartier 2003, 4). The psychological connection diaspora members have to their homelands makes them more likely to maintain ties to and involvement in their home countries than immigrants who sever identificational ties to their homelands (Safran 1991). Recognizing this, several countries have even reformed their constitutions to provide dual citizenship rights and formal political representation to their diaspora communities (Lessinger 1992, Guarnizo/Smith 1998).

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, Munda 2005). Diasporas have been credited with facilitating international
commerce (Cohen 1997). 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/Neagu 2006). Diaspora involvement in homeland philanthropy has also been examined (e.g., Freeman 2006).

As Ramamurti (2004) and others (e.g., Buckley/Clegg/Wang 2002, Huang/Khanna 2003) have noted, diasporas are an important subset of foreign investors in many developing countries. Huang and Khanna (2003: 81) have noted, “with the help of the diaspora, China has won the race to be the world’s factory. With the help of the diaspora, India could be the world’s technology lab.” 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/Balasubramanyam 2006).

Many developing and transition countries that find it challenging to compete in the global race for investment capital have targeted diaspora communities for investment. This investment attraction strategy has been noted to be particularly useful for countries that might be deemed less attractive by non-diaspora investors because of small domestic market size, inadequate infrastructure, or less-attractive structural characteristics (Gillespie et al 1999: 623). For example, between 1998 and 2004, diaspora investment accounted for 25 percent of total foreign direct investment flows into Armenia (Hergnyan/Makaryan 2006). Diaspora investment has generated some of the largest investments in post-conflict Afghanistan; Afghan Wireless, Afghanistan’s market leader in telecommunications, a $25 million Coca-Cola bottling plant, and Afghanistan’s first retail mall all were established by Afghans in the diaspora.
In an effort to stimulate diaspora homeland investment flows, many developing and transition economies have developed specific diaspora investment marketing campaigns to their overseas nationals and their descendants, but many find it challenging to cultivate and facilitate diaspora homeland investment interest (United Nations 2006). While diaspora members are a vital subset of foreign investors, we know relatively little about what might motivate diasporas to invest in their home countries. The international finance literature traditionally assumes that investment decisions are predicated merely on financial return expectations. However, recent empirical research in economic psychology and international business suggests that investment motivation is far more complex (Beal/Goyen/Phillips 2005, van de Laar/de Neubourg 2006, Zivin/Small 2005). Van de Laar and de Neubourg (2006) suggest that, “Emotions are largely absent in economic models [of investment]. Possibly for this reason, many theories fail to explain the actual decisions...” (p.207). Beal, Goyen and Phillips (2005) and Zivin and Small (2005) have found evidence that psychological altruistic feelings or personal moral convictions drive some individuals to invest in socially responsible companies; profit maximization is not the foremost concern of these investors.

Are diaspora homeland investors merely motivated by financial return expectations? Or are they more motivated by non-financial motivations? Or is diaspora homeland investment motivation more complex, involving a combination of financial and non-financial expectations? Are their differences in motivational determinants between diaspora communities and within communities? Why? Answers to these questions could enhance academic insight into this special case of cross-border investment and improve the promotional targeting efforts of countries and organizations marketing the idea of homeland investment to diaspora communities.
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 economics, finance, international business, psychology, and sociology. Our conceptual model contributes to the current understanding of diaspora homeland investment at the individual level in several ways. First, we provide a multi-faceted conceptualization of homeland investment interest by decomposing investment motivation into three specific categories of returns: financial, social, and emotional. Next, we explain how diaspora members’ perceptions of their investment “ethnic advantage,” a belief that diaspora members possess relative knowledge and social capital advantages compared to non-diaspora investors, might impact their financial return expectations. Then, we demonstrate how “social embeddedness”—the density and strength of a diaspora member’s social network ties within their local diaspora community and their homeland—and the intensity of a diaspora member’s “community affect,” or his/her emotional identificational attachment to the diaspora community in the country-of-residence and the homeland, might impact their social and emotional return expectations.

We then incorporate dynamics at levels of analysis beyond the individual level. First, we suggest that cultural distance between diaspora subcultures and their respective homelands may
lessen the intensity of a diaspora members’ homeland investment interest by decreasing his/her investment expectations and their antecedents. We also argue that *diaspora organizations*—non-governmental organizations located in the country of immigration whose members share a common ancestry—might help bridge the cultural divide between the diaspora and the homeland by providing information about the homeland market and operating environment and brokering relationships with individuals and organizations in the homeland.

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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., Arregle/Hebert/Beamish 2006, Hillman/Wan 2005, Leung/Bhagat/Buchan/Erez/Gibson 2005, Smith 2006), (2) encouraging the examination of non-governmental organization value creation (Teegen/Doh/Vachani 2004), (3) suggesting greater examination of how subcultures affect international business (Lenartowicz/Roth 1999, 2001, Lenartowicz/Johnson/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. 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, undertaken by Aharoni in his study of Jewish investment in Israel, confirmed that American Jews invested sizeable amounts of money in Israel even though they considered it a high-risk venture (Aharoni 1966). Aharoni suggested the Jewish diaspora investment process was significantly influenced by strong psychological ties that diaspora members maintained with their homeland and not simply by profit opportunity.

Surprisingly, this topic was not substantively addressed again for almost 30 years until the work of Gillespie and her colleagues (Gillespie et al. 1999). Their findings revealed that altruism and perceptions of ethnic advantage were positively related to interest in homeland investment across four diaspora communities.

In this paper, we build on the work of Gillespie and her colleagues and suggest that altruism is only a starting point for understanding what motivates the investment intentions of diaspora members and suggest that investment motivation is far more complex. We contend 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 key factors at the individual-level of analysis, including diaspora members’ (1) degree of social embeddedness, (2) intensity of community affect, and (2) their perceived level of ethnic advantage.

We suggest that diaspora members each possess specific motivational profiles that contribute to their investment decisions. Some diaspora members may be interested in investing in their homeland only because they expect a financial return; others may instead be driven by the possibility of social recognition from within their diaspora communities and organizations. The investment interest of other diaspora members simply may be motivated by the potential
emotional satisfaction they will receive when investing in their homelands. But we also suggest that diaspora homeland investment may be motivated by a combination of factors to varying degrees of importance. Next, we examine homeland motivational factors—financial, social, and emotional return expectations—in turn.

**Financial Investment Motives**

The potential to make money and improve the net worth of their portfolios is a key investment motivating factor (Markowitz 1959; Miller/Modigliani, 1961). The maximization of returns, given an individual’s specific risk tolerance, often governs investment decisions (Beal et al. 2005, van de Laar/de Neubourg 2006).

Psychological factors often play a role in the assessment of investment risk and financial return. For example, research has identified a tendency for investors to exhibit a “local bias” (Tesar/Werner 1997; Benartzi 2001; Liang/Weisbenner 2002) in the investment location decision. That is, professional money managers and individual investors tend to disproportionately prefer local stocks (Coval/Moskowitz 1999, 2001; Zhu 2003; Ivkovic/Weisbenner 2005). Coval/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 may be driven by simple familiarity and better information (Zhu 2003; Ivkovic/Weisbenner 2005, respectively).

We posit that diaspora members may be driven to invest in their homelands due to a type of local bias we refer to as “homeland bias.” In other words, diaspora members are often familiar with the local business environment and investment possibilities in the homeland and
may believe they have value-relevant information. These factors exacerbate the perception of potential for positive financial returns and increase investment interest.

Several other psychological factors affect investment risk and financial return expectations. For example, past research has identified a link between confidence and investment decisions. (Odean 1998, Allen/Evans 2005). Odean (1998) found that overconfidence resulted in excessive trading which subsequently decreased returns. Findings from another study revealed that 40 percent of investors exhibited overconfidence in experimental financial markets (Allen/Evans 2005).

Diaspora members’ level of confidence in the financial success of their investment undoubtedly affects their expectations of investment risk and return. Knowledge about the homeland business environment, previous business experience in the homeland, and/or local contacts may enhance the diaspora member’s confidence in the pecuniary success of the homeland investment venture. But, like other investors, diaspora investors also may be susceptible to investment overconfidence.

The tendency for decision-makers to anchor their thinking on specific information also may affect the assessment of investment risk and financial return. 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 potentially more beneficial and pertinent information. This common decision-making tendency 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
may 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 motivating homeland investment. Feelings of homeland bias, investment confidence, and
other psychological investment decision-making factors may shape diaspora members’
perceptions of their expected risks and financial returns associated with homeland investment. In
particular, these factors may give rise to a perception that diaspora members possess an ethnic
advantage when investing in the homeland, a belief that diaspora members possess relative
knowledge and social capital advantages compared to non-diaspora investors. We discuss this
antecedent of financial return expectations next.

Role of Ethnic Advantage Perceptions. Gillespie et al. (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 others because of their relative knowledge and social capital
advantages in the homeland. We suggest that diaspora members who perceive an ethnic
advantage are more likely to believe they can invest profitably in the homeland. This belief may
increase 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’ 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. For the sake of parsimony, our primary dependent variable remains investment interest
not actual investment. The investment interest to actual investment link is far too complex to adequately be addressed in this paper. 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 set of propositions:

**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 full landscape of possible expected returns that might motivate a diaspora member to invest in his or her homeland. We next explore non-financial motivations for homeland investment: social and emotional return expectations.

**Social Investment Motives**

The need to belong—a need to form and maintain at least a minimum quantity of interpersonal relationships—is ubiquitous among human beings (Baumeister/Leary 1995). 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/Leary 1995).

People are social by nature and need to interact with others and join groups and organizations to satisfy these core needs (Moreland 1987). Joining a diaspora organization could
partially satisfy a diaspora member’s need for interpersonal attachments. That is, immigrants might 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. 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 for social interaction and strengthens the connections to others.

Diaspora members may believe that engaging in homeland investment activities might increase the degree of social recognition they receive within their diaspora and homeland communities and increase their feelings of group belongingness (Aharaoni 1966). Thus, we suggest that 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. People work hard to preserve relationships and avoid ending them (Hazan/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 can be motivated to perform behaviors that are more likely to earn recognition, such as investing in the homeland.

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. The logic supporting social motives for investment is strong, but much less attention has been paid to what might predict this type of investment motivation.

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” (Petzelka/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/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**

Van de Laar and de Neubourg (2006) suggest that

“Emotions are still largely absent in economic theory, though the inclusion of emotions in for example game theory…is becoming more current. However, in decision-making theories emotions are still not often included. This finding is surprising given the fact that studies on emotions indicate that they in reality do influence decisions…”

Gillespie *et al.* (1999) and Aharoni (1966) suggest that emotional feelings of altruism may play a role when diaspora members contemplate homeland investment. With support from past research in economics, finance, and psychology we suggest that some individual diaspora members may be motivated by the expectation of feeling significant personal 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/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/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” (200, p. 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, p. 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/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/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/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/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 two types of support—informational and relational—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, pp. 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/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, p. 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, p. 745).

We posit that diaspora communities offer two types of support that can stimulate diaspora members’ homeland investment motivations. Specifically, diaspora organizations can provide information about market and operational conditions in the homeland and broker relationships between diaspora members and individuals in the homeland or diaspora community.

*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/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 5:** Market/operational information provision at the diaspora organization level is positively related to perceptions of ethnic advantage at the individual level.

*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,p. 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/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/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/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.**

**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 social and emotional 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/Sowa 1986; Shore/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/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

Market/operational information

Diaspora member

Brokered relationships

Transnational Social Embeddedness

CoR

Sources of Motivation

Ethnic advantage

Financial

Social

Emotional

Investment interest

Social embeddedness

Community affect

Community affect

Social embeddedness

Homeland