

Chapter 8

Non-pecuniary Factors Influencing Diaspora Homeland Investment



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Abstract This study attempts to provide a theoretical outline of the non-pecuniary factors influencing diaspora homeland investment. It presents the findings of previous scholars on non-pecuniary motivational factors that drive diaspora homeland investment decisions. Moreover, the study suggests other additional non-financial motives that nurture homeland investment decisions. To identify the non-monetary motivational factors influencing diaspora homeland investment, a comprehensive literature review on the perspectives of previous scholars was conducted. The study presents the analyses and findings of multiple scholars who studied diaspora investment motives. Although studies have suggested altruism, emotional satisfaction, and social status to be the primary motives, little is known about the non-economic motivations of diaspora homeland investment. Therefore, this study offers additional motivational factors to help broaden the understanding and provides an overview of the non-pecuniary factors that drive diaspora homeland investment intentions. It offers a comprehensive explanation of the topic, such as the background of diaspora investment, entrepreneurial activities, and general contributions to their home country. The study also presents recommendations for future studies.

Keywords Diaspora · Diaspora investment · Diaspora entrepreneurship · Homeland investment · Investment motivation · Investment interest · Non-pecuniary · Ethnic entrepreneurship

1 Introduction

Globalization has not only increased the flow of goods and services around the world but has also greatly influenced the mobility of people across geographical and cultural boundaries (Stalker 2000; Shenkar 2004). The contemporary migration context is affected by the pace of globalization and the transnationalization of the process (Portes and Yiu 2013). Contemporary global processes and globalization

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boosted migrations and created a space for ethnic entrepreneurship (Ramadani et al. 2014). Therefore, international migration is rapidly influencing the modern way of conducting international business and economy at large (Elo and Minto-Coy 2019).

Diaspora is a multidisciplinary concept with various definitions, and the phenomenon is also relevant to international business. Diasporas shape the global business environment, which has become more transnational and interconnected. The literature has discussed international business activities of diasporas, and they are considered influential global actors associated with globalization. Diasporas have contributed to changes in the global economy and enhanced global connectivity (Adamson 2016).

The concept of diaspora originated from the studies on Greek history, and it has now spread to various disciplines. The term “diaspora” refers to a community of people who live outside of their country of origin (COO) but remain to have an active relationship with their homeland. The number of people who move from their home country to various places around the world is large, but these people have different circumstances, such as being refugees, immigrants, asylum seekers, and expatriates (Butler 2001). They have special traits that differentiate them from other immigrants. For example, the word diaspora is used by the home country when referring to their people who live overseas, and the host country may use terms such as immigrants (Constant and Zimmermann 2016). Diaspora members have a strong psychological and economic relationship with their homeland (Sheffer 2006; Brinkerhoff and Brinkerhoff 2011). As a result, they affect the economic development and growth of their home country in many ways, such as engaging in financial transactions through remittance (Cohen 1997) and investment (Nielsen and Riddle 2010; Terrazas 2010).

2 Diaspora Investment

The economic contribution to their COO of the diaspora is more important than the sending of remittance or being involved in philanthropic programs. These people play a vital role in the development of their homeland countries by transferring financial and human capital back to their countries of origin. Another way that diasporas contribute to their COO is that they regularly go back and spend a considerable amount of time and make investments (Levitt 2001). Diaspora investors share market information about their host countries, such as competitive intelligence and operational regulations, with other firms in their COO (Riddle and Marano 2008). These investments take place through remittance or direct investment. The objective of any normal investment is the investors’ aim of earning profit and improving their net worth as an investment return, which is a major key factor that decides investments (Makowitz 1959; Miller and Modigliani 1961). The decisions of diaspora investors may be influenced by the home-biased type, which could be their major reason for investing in their COO (Tesar and Werner 1995; Nielsen and Riddle 2009). They have the benefit of homeland advantage, which is their knowledge about the market,

customers, and resource information they have (Ivković and Weisbenner 2005; Zhu and Weyant 2003), and this benefit helps them to gain competitive advantage over rival foreign investors.

Diasporas generally invest in an existing business by purchasing equity or create manufacturing facilities, and others engage in direct investment by starting new business ventures (Weidenbaum and Hughes 1996; Riddle 2008; Riddle et al. 2010) in their COO. In some cases, they set up service operations, such as retail chains, tourism enterprises, or consulting companies (Nielsen and Riddle 2010). Riddle (2008) reported that diaspora members contribute to the economy of their COO through investment by returning and setting up new business ventures or making a direct investment without returning.

Discussions in the literature on the homeland economic relationships of the diaspora are dominated by remittance, which is the money sent by the diaspora to their family members. However, Diaspora Direct Investment (DDI) is different from and superior to remittance. DDI refers to the establishment of a business entity in the home country by a return migrant (Debass and Ardivino 2009). It is the direct investment conducted by companies associated with the diaspora in the home country (Massey and Parrado 1998). DDI is part of a transnational structure conducting investment in the home country and facilitating interconnections between the homeland and the rest of the world (Orozco and Lapointe 2004). It exclusively focuses on the diaspora investment that positively contributes more to the home country's economy (Rodríguez-Montemayor 2012). Moreover, it has a considerable influence on economic growth and development (Debass and Ardivino 2009). DDI has various benefits for the home country. According to a report of the United States Agency for International Development, DDI is essential for the home country. Its benefits include resources such as brain gain, technology transfer, stable financial investment, and attracting foreign direct investment.

3 Diaspora Entrepreneurship

The literature on diaspora entrepreneurship mainly discusses transnational entrepreneurship and returnee entrepreneurship.

Transnational entrepreneurship refers to the “entrepreneurial activities that are carried out in a cross-national context, and initiated by actors who are embedded in at least two different social and economic arenas” (Drori et al. 2009, p. 1001). It deals with immigrant entrepreneurial activities that take place between their country of residence (COR) and COO (Lundberg and Rehnfors 2018). Transnational entrepreneurs import good from their COO to their COR (Aliaga-Isla and Rialp 2013).

Returnee entrepreneurship was defined by Akkurt (2008) as the entrepreneurial activities conducted by the people who lived overseas but later returned to their COO to conduct business. In this study, returnee entrepreneurs refer to Somali diaspora returnees who become involved in entrepreneurship. People who migrated overseas and spent some time particularly in the west are presumed to take opportunities

and acquire both human and financial capital, such as vital experience and quality education, which can be utilized for various purposes upon their return to their homeland (McCormick and Wahba 2000; Wickramasekara 2002).

The human capital contributions of diasporas can help “bridge the gap between the developing and the developed worlds” (Lowell and Gerova 2004). Diasporas become “reputation intermediaries” by representing their homeland abroad (Kapur and McHale 2003; Riddle 2008). Skilled emigrants are usually called “diaspora knowledge networks” (Kuznetsov 2008). Therefore, diasporas can be influential in many sectors because they can contribute to the economy and transfer cultural and civilization from their respective host countries or political participation (Patterson 2006).

Diasporas offer other sources to their home countries, such as modernization consultations, knowledge transfer, and other skills (Dickson 2003; Lowell and Findlay 2002). Moreover, diaspora returnees also offer entrepreneurial spirit to their homeland by starting new businesses using their experiences and creative ideas gained from abroad (Jones and Wadhvani 2007; Riddle 2008).

4 Diaspora Investment and Entrepreneurship Challenges

DDI and entrepreneurship are considered genuine methods that unlock untapped investment opportunities (Ojo et al. 2013). They contribute to employment creation and economic development in the home country. Some of the notable countries that have benefited from DDI contribution are China and India (Boly et al. 2014; Chand 2016). However, they face issues in the home country that challenge them, such as unpredictability of the legal and administrative systems and the possible political instability (Ciccone and Papaioannou 2007; Riddle et al. 2010). These obstacles and others such as dysfunctional institutions (Anyaeche 2012) and a poor judicial system (Gray 1997) affect diaspora entrepreneurs when they register and set up their business. Other scholars have suggested other challenges, including mistrust in the business environment (Chrysostome 2014) and corruption that hinders investment (Mauro 1995). The combination of these challenges can hold back the entrepreneurial activities of diaspora entrepreneurs in their home country.

Diaspora investment is driven by both pecuniary and non-pecuniary investment interests. Generally, there are three types of investment return expectations that may drive the interest of diasporas in investing in their COO during the post-conflict period: financial, emotional, and social status motivations (Nielsen and Riddle 2009).

In terms of economic motives, the potential to make money and improve the net worth of their portfolios is a crucial factor (Makowitz 1959). The maximization of returns gives individuals a specific risk tolerance, which usually governs investment decisions (Beal et al. 2005; van de Laar and de Neubourg 2006).

Gillespie et al. (1999) identified two assumptions that are similar to the factors mentioned above. Ethnic advantage and altruism are the motives behind the homeland investment decision of the diaspora. These two suggestions are similar and dissimilar

to the investment decisions of multinational firms. According to some researchers, similar motives are the ordinary investment in which investors seek a return on investment, whereas dissimilar factors are the non-economic factors such as altruism and patriotism (Gillespie et al. 1999; Smart and Hsu 2004; Lin 2010).

Diasporas that are willing to do business in their COO, especially those driven by financial motives, likely take advantage of their ties with their homeland (Nielsen and Riddle 2007), particularly, ethnic advantage and market knowledge.

5 Home/Ethnic Advantage

The home advantage, or ethnic advantage in some cases, refers to the positive investment of diaspora in their homeland as they feel they have a superior hand to their competitors because of their knowledge about their country's culture, economics, and social status. Gillespie et al. (1999) define "ethnic advantage" as a positive investment performance expectation based on the belief that co-ethnics possess inherent knowledge and social acceptance/access benefits that non-ethnics do not. Diaspora investors have greater access and attention to information to gain competitive advantage in their homeland (Graham 2010). Home advantage is one of the drivers of the diaspora to make homeland investment, and it is based on competitive advantage. The diaspora may enjoy higher levels of trust with co-ethnics because of their understanding of the culture and easier access to information in the homeland (Rauch 2003; Docquier and Lodigiani 2010; Leblang 2010; Javorcik et al. 2011). This concept explains that the diaspora is motivated to invest in their COO because they believe their familiarity with their home country is a boost and an advantage. In contrast with the foreign investors in the county, the diaspora considers ethnic advantage to be a powerful tool that non-ethnics do not have, and thus they consider this as a competitive advantage over rival investors such as foreign firms (Graham 2014). Therefore, diaspora-owned firms are more likely than other international firms to exploit social networks in the homeland to gain competitive advantage (Graham 2012).

6 Market Knowledge

The knowledge of the diasporas of their homeland gives them an advantage over their competitors. They have the confidence that they can do better than foreign investors. The level of confidence of diaspora members in the financial success of their investment affects their expectations of investment risk and return (Abdul-Talib and Abd-Razak 2012; Nielsen and Riddle 2007). Knowledge of the homeland business environment and their experience in the homeland or the local people may enhance the confidence of the diasporas in the financial success of their homeland investment venture. Developing countries, in general, and states with high levels of political risk, in particular, usually struggle to attract foreign direct investment, but

diasporas see only the opportunity (Ashari et al. 2018; Zamani et al. 2016). Taking advantage of their knowledge on their homeland is essential for making investments and business in general. Several scholars examined the pecuniary and non-pecuniary motivations of the diaspora for homeland investment (Gillespie et al. 1999; Levitt 2001; Saxenian 2006; Terrazas 2010; Kapur 2010; Riddle et al. 2010; Hammond et al. 2011; Mullings 2011; Riddle and Brinkerhoff 2011; Graham 2014; Williams 2018; Park and Chu 2018). Some researchers found that homeland investment motivations of the diaspora at the individual level are not only economic. Non-profit factors such as cultural, social, emotional, and political are among other influencing factors (Zivin and Small 2005; Riddle and Brinkerhoff 2011; Rana and Elo 2017). Non-pecuniary factors, including altruism, patriotism, search for social recognition, and the need to be close to family, are among the motivational factors (Gillespie et al. 1999; Nielsen and Riddle 2009; Newland and Taylor 2010; Lin and Tao 2012; Nkongolo-Bakenda and Chrysostome 2013; Elo and Riddle 2016).

Most existing studies on the non-pecuniary investment motivations of the diaspora suggested two common assumptions: altruism and social status (Gillespie et al. 1999; Smart and Hsu 2004; Lin 2010; Terrazas 2010; Riddle et al. 2010; Nielsen and Riddle 2010; Brinkerhoff 2016; Rana and Elo 2017). The literature on diaspora homeland investment is vast, but only a few studies focused on the motivational factors behind it. In the current study, we exclusively examined the non-financial motivations. We gathered and analyzed previous literature on the topic, presented the significant findings, and provided recommendations and future study guidelines. In the following sections, we discuss the literature review of the non-financial motives previous scholars suggested, followed by future research recommendations. The term “non-pecuniary” is derived from pecuniary, which is a Latin word that is equivalent to money, wealth, or property. In this study, it refers to the non-financial investment return that the diaspora obtains from their homeland investment. It represents anything other than money that motivates the diaspora to invest in their COO. This study discusses the following factors:

- (1) altruism
- (2) social recognition or status
- (3) homeland duty
- (4) emotional satisfaction
- (5) political motivation.

7 Altruism

Kanungo and Conger (1993) defined altruism as the intention and the will to help others by sacrificing their own welfare without expectation of reward. Altruistic actions are generally driven by compassionate feelings and duties (Van de Laar and De Neubourg 2006). Therefore, the altruistic concept is when the diaspora invests in their COO beyond the non-monetary investment returns. Some diasporas who use their human and financial capital to invest in their COO were inspired by altruistic aims

(Gillespie et al. 1999). Altruism is one of the non-pecuniary motivational factors affecting the investment decisions of diasporas (Nielsen and Riddle 2010).

According to Gillespie et al. (1999), diaspora communities contributed to the economic development of their COO and invested at a time when attracting foreign investors was difficult. Diaspora investors became an alternative to foreign investors, who perceive investing in countries with a weak economy and security condition to be too risky (Gillespie et al. 1999; Riddle et al. 2010; Smart and Hsu 2004). Terrazas (2010) suggested that the patriotic feelings of diasporas affect their decisions, making them willing to invest in their COO despite the political and economic risks. They perceive their investment as an obligation to help their COO and sometimes accept a below-market rate on their return of investment as a sign of sacrifice to their country (Beal et al. 2005; Zivin and Small 2005).

Moreover, diaspora members are likely to invest and contribute to their COO (Graham 2014). They invest even if multinational firms consider their COO to be unsuitable for investing due to security issues or inadequate infrastructure. For example, in a study on the diasporas of Cuba, Iran, Armenia, and Palestine, Gillespie et al. (1999) found that these challenges did not stop the diasporas from investing because of their strong emotional and altruistic feelings. In the same way, Somali diasporas invested in their country during the civil war (Hammond et al. 2011). Despite the existence of enormous risks, uncertainty, and economic risks, they continuously invested in their country (Sheikh and Healy 2009). However, pure altruism does not exist, and every contribution decision is associated with some return for the decision makers (Sesardic 1999; Nielsen and Riddle 2010).

Proposition 1 *Diaspora homeland investment is motivated by altruistic feelings.*

8 Social Recognition or Status

The need for social recognition from the family, clan, ethnic community, or professional community is part of human behavior and is therefore a common and normal need. As the need for social recognition is among the higher-level needs of Maslow's hierarchy of needs, people tend to seek recognition from their family or community. Contributing to the community and investing in their COO result in social recognition. Other members of the community honor the diasporas who contribute. Therefore, they strive for social recognition from the community, clan, or ethnic community, thus contributing back to the society as a way to achieve this desire.

For diaspora community members, the need for social recognition from their home country is strong, and therefore, they involve themselves in various developmental programs to contribute to their COO (Michelson et al. 2004; Nielsen and Riddle 2010). Gaining recognition is a significant motivator for contributing, particularly making investments (Aharoni 1966). Sana (2005) examined the Mexican male diaspora living in the USA who send remittance back to their ethnic community. These contributions represent a way of earning or maintaining social status.

Diaspora members believe that they can obtain recognition and a positive status within the diaspora communities and in their homeland through their investment activities (Aharoni 1966; Nielsen and Riddle 2010; Vaaler 2013; Nkongolo-Bakenda and Chrysostome 2013). To receive this recognition, they become involved in various economic activities in their home country, such as sending remittance (Sana 2005) and making investments (Michelson et al. 2004; Nielsen and Riddle 2010). Evidence suggests that these contributions can improve their status in the community and that receiving such recognition gives them a strong sense of identity and satisfaction (Arrow 1972; Ndofor and Priem 2011).

Proposition 2 *Potential social recognition influences diaspora homeland investment decisions.*

9 Homeland Duty and Possible Future Return

Homeland duty is another factor that drives the homeland investment of diaspora members. Diaspora members maintain an active relationship (i.e., economic and psychological relationships) with their home country. Economic relationships such as remittance and investment are driven by a sense of responsibility; diasporas regard their investment contributions as a duty (Boly et al. 2014; Nielsen and Riddle 2007). Homeland obligations are socially constructed; diaspora members are influenced by family and peers give assistance to the homeland. This sense of responsibility for their homeland makes them feel obligated to contribute and affects their investment decisions (Saxenian and Sabel 2008; Nielsen and Riddle 2010). Beyond the sense of duty, the possibility of a future return to their homeland and their perceived opportunities for their descendants also trigger investment and contribution decisions. Some diasporas invest in their COO to pave the way for future generations, as investments become a foundation if they decide to return home in the future (Safran 1991; Riddle and Brinkerhoff 2011; Elo and Riddle 2016).

Proposition 3 *Diaspora homeland investment is motivated by a sense of responsibility and perceived future homeland return.*

10 Emotional Connection or Satisfaction

People naturally need to interact with others by connecting with groups or organizations, and this need for belongingness is a significant factor of human motivation (Baumeister and Leary 1995). Emotions influence the investment decisions of diasporas (Aharoni 1966; Gillespie et al. 1999). Some diaspora members may be motivated by their emotional attachment to their COO, which inspires them to invest

regardless of the potential challenges. This strong emotion serves as an influential factor in homeland contribution (Tung 2008; Lin and Tao 2012; Hartini et al. 2017).

Diaspora individuals with higher emotional connections with their COO tend to ignore such challenges and still invest, unlike the non-diaspora investors who do not consider investing because of the imbalance in risk and return (Terrazas 2010). Other studies (Gillespie et al. 1999; Aharoni 1966; Mowen and Sujun 2005) pointed out that altruistic emotional motives play a role in the homeland investment decisions of diasporas. Similarly, Nielsen and Riddle (2007) suggested that the expectation of significant personal emotional satisfaction could be a key motivator of investment decisions.

Proposition 4 *Diaspora homeland investment is motivated by emotional connection.*

11 Political Motivation

Diasporas are associated with the politics of their home country, and thus, they engage with their COO through political mechanisms such as lobbying (Fidrmuc and Doyle 2004). They mobilize their influence and sway specific political outcomes in their home country (Constant and Zimmermann 2016). Some of them join advocacy groups and are involved in lobbying for the government of their host country to influence political issues in their home country (Riddle 2008). Scholars suggested instrumental motives as another non-pecuniary factor affecting diaspora investment in their COO. The homeland investment of some diaspora members is driven by their desire to acquire political access (Bandelj 2007; Nielsen and Riddle 2010; Graham 2012; Elo and Riddle 2016). Diasporas seek political influence to avoid government mistreatment and earn protection for their families back home (Graham 2012). Nduom (2018) found a positive relationship between political benefit and the homeland investment motivations of Ghanaian diasporas. Based on the literature, having interest in political influences (e.g., for personal reasons such as the need for protection for families back home) and seeking influence on the home country's political power through lobbying are evidence that political motivation is positively related to the COO investment intentions of diasporas.

Proposition 5 *Diaspora homeland investment is motivated by the possibility of gaining political influence.*

12 Conclusion and Future Research Recommendations

This study aimed to examine the non-monetary factors affecting diaspora homeland investment. Based on the current research on diaspora homeland investment

motivations, specifically the non-financial motives, this study provided a theoretical overview to demonstrate the critical findings of previous scholars. We conducted a comprehensive online search by collecting and reviewing important studies on the topic. The study covered the previous literature on the subject and critically reviewed old and recent studies. The five main non-monetary motivational factors that correlate with diaspora investment decisions were discussed.

In the literature, the role of rationality in investment decision making underpins much of the theory on modern finance (Beal et al. 2005). However, in this study, we draw on the theories from psychology and sociology (Bakar and Talib 2013). Previous studies (Baumeister and Leary 1995) argued the possibility of meta-theories of motivation and suggested individual motivations to be influenced by the need for power, involvement, and achievement. We referred to the theories of motivation. Therefore, Baumeister and Leary's (1995) need to belong theory, which is a fundamental human motivation, was related to the propositions of this study and was the underpinning theory of this work. According to Moreland (1987), the need to belong theory explains the human behavior of being attached to communities and organizations. This study applied it to the context of diaspora homeland investment decisions.

After conducting an extensive literature review, we found that the motivations behind the home country investment decisions of the diasporas went beyond economic interests. Scholars suggested factors such as altruistic feelings (Gillespie et al. 1999; Smart and Hsu 2004; Nielsen and Riddle 2009; Riddle et al. 2010; Newland and Taylor 2010; Hammond et al. 2011; Nkongolo-Bakenda and Chrysostome 2013; Graham 2014); the need to be closer to family, the need to earn social status, and the moral responsibility of helping the economic development of the home country (Sana 2005; Nielsen and Riddle 2007; Nkongolo-Bakenda and Chrysostome 2013; Boly et al. 2014), and patriotism (Lin and Tao 2012) are the key motivational factors affecting the investment decisions of diasporas.

We presented a comprehensive list of factors affecting diaspora homeland investment intentions. As suggested in previous studies, three main factors affect diaspora investment decisions: altruism, emotional attachment, and social status. Some studies also indicated other factors, such as homeland duty and political influence as influential motives.

The non-monetary homeland investment motivations of the diaspora discussed in the literature are mostly psychological factors. So far, most studies, including the recent ones, found altruism, patriotism, seeking social status, and political motives as the main factors. On the basis of the literature, we found that diasporas, who are either politically or economically struggling to attract foreign investors, are driven by psychological factors such as altruism and emotional connections, as they play an alternative role of foreign direct investors.

Researchers who examined the non-economic motivational factors found that social and emotional connections are determinant factors of diaspora investment in conflict-affected countries. As Gillespie et al. (1999) argued, diaspora entrepreneurship and investment are a significant contributor to the economy of countries that are deemed less attractive by non-diaspora investors due to numerous reasons, including political issues, poor infrastructure, and weak institutions, because diaspora investors

are first-mover investors despite the economic and political uncertainty (Gillespie et al. 2001). This is the reason why many countries have developed diaspora engagement policies to promote diaspora homeland investment (Riddle et al. 2008). As diasporas possess essential resources for the economic development of the home country, they became a target for many governments in the home countries for setting up programs to engage diasporas to harness their entrepreneurial resources (Nkongolo-Bakenda and Chrysostome 2013).

In conclusion, despite the current literature on the topic, more research is needed to properly investigate the non-economic factors driving the homeland investment intentions of diasporas. Therefore, future studies should develop a framework to examine the effects of individual-level motivational factors on investment decisions.

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