



**Daniel Isenberg**

Babson Global

**William Kerr**

Harvard Business  
School

Diaspora Entrepreneurship

# Take Advantage of Your Diaspora Network



Written for the Global Diaspora Strategies Toolkit by

**Daniel Isenberg** · Babson Global

*Daniel Isenberg* is Professor of Management Practice at Babson Global, and founding Executive Director of the Babson Entrepreneurship Ecosystem Project. Formerly an entrepreneur and venture capitalist, he has also taught at Harvard, Columbia, and Insead, and most recently published 'How to start an entrepreneurial revolution' (HBR, June 2010).

**William Kerr** · Harvard Business School

*William Kerr* is an Associate Professor at Harvard Business School focusing on entrepreneurship and innovation. His work examines the role of immigrant scientists and entrepreneurs in US technology development and commercialization, as well as the subsequent diffusion of new innovations to the immigrants' home countries.

*This publication is based on a previous article entitled 'Take Advantage of your Diaspora Network' which was published by Harvard Business School Publishing (August 2007).*

# Contents

<b>Introduction</b>	<b>1</b>
<b>What are Diaspora Networks?</b>	<b>2</b>
<b>Why are Diaspora Networks so important?</b>	<b>4</b>
<b>How can entrepreneurs access and utilise Diaspora Networks?</b>	<b>8</b>
<b>Summing up</b>	<b>10</b>
<b>Endnotes</b>	<b>11</b>

First published 2011

Diaspora Matters


Gateway House, 133 Capel Street,  
Dublin 1, Ireland

[www.diasporamatters.com](http://www.diasporamatters.com)

© 2011 Daniel Isenberg and William Kerr

Design by Identikit Design Consultants, Dublin  
Printed by Impress Printing Works, Dublin

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means electronic or mechanical including photocopying, scanning, recording or in any other form of storage or retrieval system without the prior written permission of the publishers.



# Take Advantage of Your Diaspora Network

## Introduction

When Sanjay Nayak, Dr Kumar Sivarajan and Arnob Roy founded Tejas Networks in Bangalore, India, in 2000, they had a fourth partner in Desh Deshpande – a prominent Indian expatriate who had founded several successful high-tech ventures in the US since the 1980s. Deshpande was well known in the US venture capital community, especially in Boston, and had a strong business network within the communications industry. He had noticed the recent emergence of India’s telecommunications industry and had wanted to ‘do something in India’ for several years.

A chance meeting in California between Deshpande and Sivarajan in 2000 led to the founding of Tejas Networks within just two months. As Tejas pursued its strategy of designing and building carrier-class communication products in India for sale abroad, the partnership with Deshpande brought many advantages. Deshpande invested personally and also helped Tejas to secure its first round of funding at a time when India’s venture financing community was very small and India was not known to most US-based venture capitalists. Tejas also jointly marketed and sold the communications products of Sycamore Networks, a US company Deshpande had founded in 1997. This allowed Tejas to establish

customer relationships prior to the rollout of its own equipment; it also gave the start-up a backstop during the ensuing telecommunication downturn.

That Deshpande was of Indian origin was not a coincidence. Indeed, Tejas's early history has other examples of its founders utilising Indians living abroad. An Indian working in a US consulting firm helped locate CEO-to-be Nayak for Tejas; Tejas also utilised the Indian network for customer contacts and informal contracts.<sup>1</sup> Tejas's story illustrates the power of diaspora networks (DNs) in global entrepreneurship. This paper discusses several features of DNs, combining both academic and practitioner perspectives. The next section begins by describing their history and prevalence in many ethnicities, and the final section documents the broad resources that DNs can provide for founders, identifies potential pitfalls or traps associated with DNs, and presents practical advice for entrepreneurs accessing and utilising their DNs.

## What are Diaspora Networks?

The term 'diaspora' originally described the emigration of Greeks to colonise and assimilate a recently conquered territory. Diaspora later referred to the scattering of an ethnic people from their homeland, apparently first applied to the dispersion of the ancient Jews from Palestine after the Babylonian captivity. In today's parlance, diasporas broadly refer to ethnic groups that are both living outside of their traditional homelands and living as minorities in their current nations. The term is now applied to the internationally distributed communities of many ethnicities – Chinese, Indian, Korean, and so on.

A central feature of these overseas ethnic communities is their retained affinity for both their native lands and members of their ethnic group living in other countries. While adapting to their local environment, diasporas often retain elements of the language, religion, food, family structures and other cultural elements of their homelands. While these deep psychological and sociological bonds are important in many ways – including their often profound effects on the political and social climates of their home countries – this paper describes the central role diaspora bonds play in global business, particularly global entrepreneurship. The long history of DNs in global business includes Phoenician trading networks distributed throughout the ancient Mediterranean,<sup>2</sup> fifteenth-century Chinese business outposts in Southeast Asia, and the origin of international finance through diaspora-based banking networks spanning sixteenth-century Europe. As we will see, DNs remain important today as before.<sup>3</sup>

DNs arise due to several factors. As the early use of the term diaspora in the ancient Jewish context suggests, most of the early large-scale ethnic migrations were due to crises such as war or oppression. Unfortunately, we still see examples of this today. Several hundred thousand ethnic Albanians fled the former Yugoslavia during the Kosovo crisis at the turn of the century. Many of these went

to neighbouring European countries such as Austria, Germany, Italy and Switzerland; others fled further to the Nordic countries or to the US, Canada and Australia. Two other historical causes of DNs are post-colonial migration and family reunification efforts.

More recent history has witnessed the formation or strengthening of DNs due to the voluntary international migration of workers. While much of the globalisation discussion focuses on international capital flows or trade, these cross-border flows of labour are no less important. Wage differentials across countries prompt some workers to move from regions with relative labour surpluses to those with relative labour shortages. These international compensation differentials are not necessarily uniform across occupations or skill levels but instead depend upon the economic conditions of countries. For example, the relatively large information, communications and technology (ICT) sectors in the US are constantly recruiting high-quality foreign workers to fill vacancies. Low-skilled migration across Europe, mostly from Eastern Europe to Western Europe, is an important feature of current European economic and political integration.

The economic and business impact of diasporas for receiving countries can be substantial. The disproportionate influence of immigrant scientists and engineers for US technology development, for example, is staggering. While foreign-born people account for a little over one-tenth of the US working population, immigrants comprise almost half of the US PhDs in science and engineering.<sup>4</sup> Just looking within the PhD sector, these immigrants have made an exceptional contribution to US science and innovation as measured by Nobel Prizes, election to the National Academy of Sciences, citation counts, and so on.<sup>5</sup> Immigrants also play an important role in commercialising new technologies, with a substantial share of Silicon Valley's ICT CEOs being of Indian origin.

Distributed ethnic communities in low-skilled occupations are economically significant too. Moreover, immigrant entrepreneurs tend to cluster in selected industries, a process that increases their business impact for specific sectors. Examples within the US are Korean entrepreneurs in dry cleaning, Vietnamese in nail salons, Gujarati Indians in traveller accommodations, Punjabi Indians in gas stations, Greeks in restaurants, and so on. The higher natural social interactions among these ethnic groups aid in the acquisition and transfer of sector-specific skills. Scale economies lead to occupational clustering by minority ethnic groups.<sup>6</sup>

The openness of receiving countries to both low-skilled and high-skilled migration can ebb and flow, as the current US policy debates regarding Mexican immigration and temporary guest worker visas attest. With the downturn of the high-tech sector after 2000 and national security concerns following 9/11, the US substantially reduced the number of H-1B visas issued to high-skilled, temporary workers. The appropriate quota for these visas is still hotly debated. Bill Gates and other ICT industry executives have testified before Congress that the H-1B quota must be increased for the US high-tech sector to remain competitive and grow.

Domestic ICT labour groups protest, however, that the firms are only trying to reduce their labour costs by increasing the supply of foreign programmers willing to work for lower wages.

The broad impact of this high-skilled migration for sending countries is also debated. Advocates of the ‘brain drain’ perspective believe substantial losses occur when the best and brightest leave developing countries to work abroad: the immediate loss of professionals such as doctors and engineers, the associated reduction in jobs for complementary unskilled labour, and longer-term impacts like fewer role models in society for the next generation. For some African countries, half of their nationals with university degrees live abroad.<sup>7</sup>

On the other hand, ‘brain gain’ advocates stress the important contributions of DNs in transferring financial, technical and similar resources from advanced economies to their home countries. Some go further to argue that this unique transfer through DNs offers a way for developing countries to ‘leapfrog’ traditional development stages. On a more mundane level, financial flows from these overseas migrants through DNs – termed remittances – now exceed foreign aid for many developing countries. The Philippines places young workers, often in nursing or domestic help occupations, in foreign countries as a development strategy.<sup>8</sup> A third and most recent variant, ‘brain circulation’, stresses the need for active labour movements within the DNs between the origin and destination countries for realising the brain gain benefits.

In truth, which of these models holds depends on the specifics of each country and the nature of its DN. We now turn to the practical question of how entrepreneurs can utilise their DN to establish global ventures. In many respects, these international entrepreneurs represent the brain gain or brain circulation models at their best. Like Tejas, they offer the hope of bringing the best resources of advanced economies to developing or emerging economies through entrepreneurship and DNs.

## Why are Diaspora Networks so important?

All relationship networks can be useful for conducting business (e.g. professional associations, technical working groups and university alumni clubs). DNs are particularly advantageous for global entrepreneurs, however, due to their inherently international footprint and the wide range of global resources they can potentially make available to entrepreneurs. The external needs of each new venture vary greatly, and so will the manner in which its founders tap their DNs. A condensed list of the potential resources DNs provide includes:

- **Local information:** The many requirements for operating successfully in new environments include an understanding of local tastes and spending habits, business culture, local regulations, government procedures, and so on. DNs can greatly aid the accurate and efficient collection and assimilation of this knowledge. Whereas such knowledge is important for advanced economies such as the US, Europe or Japan, it is absolutely essential for working in developing or emerging economies in which knowledge is more implicit.

Like Tejas, the business plans for many global start-ups propose combining the best of multiple countries – R&D in Israel or Scandinavia; manufacturing in China or Mexico; product distribution and sales in the US, Europe or Asia. While perfect in design, few ventures are able to navigate multiple local terrains successfully; the *guanxi* of China, for example, are often keys to success. DNs can be instrumental in helping global entrepreneurs optimise resources locally and globally, including human resources.

- **Human resources:** Many start-ups struggle with both the completion of the founding team and the hiring of early employees once the enterprise is under way. One of the advantages of working with a top-tier venture capital firm, for example, is its assistance in completing organisational gaps. Assembling human resources is an even greater challenge when the new venture is distributed across multiple countries. Qualified candidates are harder to find, common languages are necessary, and human resource search firms are still developing their international capabilities.

By their nature, the internal labour market of DNs extends across borders in ways that traditional employment sourcing groups do not. Moreover, teams extending across multiple nations and multiple ethnicities can struggle with communication and trust. Geographical distance exacerbates common start-up frustrations such as founder-CEO leadership succession, the migration of founding teams to specialised roles and responsibilities, and so on. Common ethnic bonds can ameliorate some of these early problems. As the Tejas case highlights, DNs are very valuable for recruiting these needed team members for global start-ups.

- **Technology access:** Recent research stresses the importance of ethnic scientific communities in frontier countries for conveying new technologies to their home countries. In surveys of Silicon Valley, 82% of Chinese and Indian immigrant scientists and engineers report exchanging technical information with their respective nations, and 18% further invest in business partnerships.<sup>9</sup> While these exceptional contributions emanating from Silicon Valley do not extend immediately to all industries or ethnic groups, broader empirical studies demonstrate that technology diffusion through DNs is a widespread phenomenon.<sup>10</sup>

DNs are a critical source for technical information when developing advanced products or operating within industries characterised by fast product cycles and global supply chains. Even when blueprints, standards, source code, and so on are widely disseminated, the tacit or practical knowledge about how new innovations work is very hard to acquire abroad. Yet, highly codified components often have low margins and fierce competition, while higher profits characterise more tacit products that are less subject to commoditisation.

This concern extends to the direction industries are moving, as high-tech start-ups must ensure that their innovations integrate into the path the industry is taking. Lester and Piore describe how a Japanese communications equipment manufacturer withdrew from the US market after being excluded from standards hearings held by the Federal Communications Commission (FCC) despite the FCC publishing the transcripts of its sessions.<sup>11</sup> The Japanese vendor felt it would not understand adequately the unspoken or implicit decisions being made. DNs aid the transmission of this tacit knowledge.

- **Funding access:** US venture capitalists have historically sought to invest in companies within their immediate geographic region, often less than a one-hour drive, a plane ride or a 50-mile distance from their office. The risky nature of entrepreneurial investments, along with the need for frequent on-site monitoring and advice, weighed heavily against long-distance relationships. As venture capitalists have become increasingly attracted to foreign opportunities such as those in China, India and Eastern Europe, they have relied in part on DNs to facilitate these opportunities.

Although there are noteworthy exceptions, the initial entry by a venture capitalist firm into a foreign country is often preceded by the hiring of an expatriate from the target country who assists in the creation of its overseas portfolio. Far beyond simple language skills, this expatriate offers a deeper perspective on overseas opportunities, performs a better due diligence on the founding team members, and helps to navigate local laws and bureaucracies. Even if the firm then decides to open a physical office abroad, retaining members of the DN in the US offices aids communication within the firm. The flip side is also true. Entrepreneurs abroad often tap their DNs for introductions to foreign investors, and venture capitalists increasingly place a premium on entrepreneurs with experience and connections in both the US and abroad.

In addition to serving as a new channel for venture capital investment, DNs contain financial resources themselves. Nine of the ten largest investors in China in the mid-1990s, reaching US\$200 billion in 1995, were overseas Chinese investors engaged in a variety of cooperative relationships through their DN.<sup>12</sup> Successful US immigrant entrepreneurs also make angel investments in their home countries, and more formal international angel networks are developing to facilitate these investments.

- **Informal contracts:** Inadequate mechanisms for contract enforcement have plagued international business since its earliest days. To a large extent, international trade began through DNs such as the Phoenician or Chinese diasporas.<sup>13</sup> Rather than relying solely on national enforcement of cross-border contracts, these networks developed internal penalties for breaking agreements or providing poor-quality products and services. Being ‘black listed’ by a network member in one country meant that the offender could no longer work with a network member in any country, with a potentially weakened reputation outside of the network as well.

The legal framework for international business is much more advanced today, but it can still lag the needs of global entrepreneurs working in nascent technology fields or in developing economies without strong rule-of-law or intellectual property protections. Working through a DN can again reduce some of these liabilities. Single trades or outsourcing contracts are effectively transformed into repeated relationships with lasting consequences for misbehaviour.

- **Reputation enhancement:** There are a variety of reasons why India has excelled at software off-shoring: lower wages, English language, shifted working hours from the US, and so on. Some credit, however, belongs to the strength of India’s US entrepreneurial community.<sup>14</sup> In addition to the above resources, US Indian entrepreneurs boost the reputation of their business partners in India for landing these contracts. Entrepreneurs in foreign countries pitching services to large US corporations by themselves are a small, unknown company located on the other side of the world. Working through DNs can reduce the perceived risks of these contracts through a local presence.<sup>15</sup>

While the above summary does not exhaust the resources DNs can provide to global entrepreneurs, it does emphasise the breadth of possibilities. Malleability and trust are what gives the informal networks their strength. The global reach of DNs is particularly beneficial for start-ups operating in multiple countries. They can be useful as well, even for large multinational companies as they seek to enter and serve new markets.<sup>16</sup>

Recent research also shows how DNs can substitute for local networking opportunities. In a study of India’s software industry, Nanda and Khanna found that the entrepreneurs located outside software hubs rely significantly more on DNs for business leads than those within major hubs such as Bangalore and Mumbai; they also showed that use of these DNs was related to better firm performance.<sup>17</sup> Nanda and Khanna indicate, moreover, that it is primarily the entrepreneurs who have previously lived abroad who best utilise DNs. In a similar vein, DNs can aid the return migration of entrepreneurs who have lived outside of their home country for an extended period by providing the contacts and resources to reintegrate into the native business landscape.

We do not want to imply that the effective exploitation of a DN is without costs or risks. It is important that global entrepreneurs avoid insularity, cronyism, ‘group think’ and potentially shady practices (ways of ‘beating the system’) that sometimes crop up in immigrant networks, especially those that are excluded from mainstream opportunity. DNs can also become intertwined with family businesses in emerging economies that layer on additional complications. But the upsides of DNs vastly exceed the downsides, and therefore entrepreneurs who are going global through choice or necessity should view their ethnicity-based DN as a valuable asset.

## How can entrepreneurs access and utilise Diaspora Networks?

By their very nature DNs can be challenging to penetrate even if an entrepreneur is a member of the ethnic group. In fact, biases may even exist against second-generation or third-generation immigrants when interacting with members of their native country. This paper closes with some steps entrepreneurs can take to exploit their DNs, some of which are common sense, some of which are less obvious. The heterogeneity of these networks requires, however, that these steps be adapted to the particular characteristics of the DN in question.

- **Map out the DN:** In any given city or country, members of DNs often cluster in residential neighbourhoods, in public organisations, in schools, and in industries and companies. The first step in exploiting any DN is to develop an informal map of where the members are concentrated. In Tokyo, Americans tend to live in Azabu, shop in Omotesando and hang out at the American Club. Many of them work for professional service firms such as Morgan Stanley, McKinsey and subsidiaries of large American firms. The Jewish Community Centre in Tokyo is a good place to meet Israeli business leaders, government officials, entrepreneurs and non-Israeli Jewish executives.
- **Identify the formal organisations:** Many countries have offices whose purpose is to facilitate trade and investment between countries and whose doors are open to nationals who are visiting from their home countries. These offices maintain formal databases and, informally, the officers can often give important advice on who to contact and what mistakes to avoid. These formal organisations are not in and of themselves DNs, but they are closely related. They are often an excellent source of information about DNs, including the names of specific individuals, companies or less visible informal DN organisations, clubs or groupings. Furthermore, it is sometimes possible to recruit officers from such organisations – they are often very knowledgeable, have good local contacts and view their current position as a stepping-stone to the private sector.

- **Tap into informal organisations:** Great sources of contacts are the more or less informal organisations of ethnic entrepreneurs and other business professionals. These organisations are most frequently found in communities where there is a concentration of immigrant professionals living and working – in the US they are often centred on high-tech zones like Silicon Valley or universities like MIT. Two prominent Indian examples are The IndUS Entrepreneurs (<http://www.tie.org>) and Silicon India (<http://www.siliconindia.com>); Chinese examples include Hua Yuan Science and Technology Association (<http://www.hysta.org>) and the Chinese Entrepreneur Association ([www.ceaa.org](http://www.ceaa.org)).<sup>18</sup> The Boston–Israel Business Forum (<http://www.bibf.org>) has connected Israeli entrepreneurs with local resources, many of whom are Israelis and/or Jewish executives in the Boston area.
  
- **Identify the influential members of your DN:** When you have identified the formal and informal organisations and the concentrations of people from your relevant network, it is very important to develop contacts with credible and influential individual DN members. This may sound obvious, but it can be a subtle exercise to identify people who have high credibility within the local business community *and* the DN immigrant or expatriate community. Some languages have mildly derogatory terms for those expatriates who have gained credibility in the host country, sometimes unjustifiably, but have lost it within their own ethnic community. Having a coach, confidant, advisor or board member who is respected by both ‘sides’ is a very scarce and valuable resource. Such informal intermediaries can provide information, contacts, institutional access and culturally informed guidance.
  
- **Remember to give back:** When you have the experience, understanding, contacts and access yourself, remember to help others who are in the same position that you were in a few years before. Your own carefully created credibility will be useful to others and will further enhance your credibility, stature and leadership ability on both ‘sides’ of the DN.

## Summing up

Many of the benefits of DNs are obvious. The launch of a new venture, however, is a very intense time, and it is often easy to overlook the simple but powerful resources that can aid you. DNs are one such important resource for international entrepreneurs. Some founders will be able to tap into a DN naturally due to their ethnicity; others may need to assemble complementary team members or advisors who have access to these communities. Due to the informal nature of DNs, entrepreneurs should invest in developing these relationships well in advance of specific needs. Only with such investments will DNs deliver their full potential.

## Endnotes

- <sup>1</sup> Daniel Isenberg (2006) 'Tejas Networks India Pte,' HBS No. 807-058, Boston: Harvard Business School Publishing.
- <sup>2</sup> María Eugenia Aubet (2001) *The Phoenicians and the West: Politics, Colonies and Trade*, Cambridge, UK, New York: Cambridge University Press.
- <sup>3</sup> John Kao (1993) 'The Worldwide Web of Chinese Businesses,' *Harvard Business Review*.
- <sup>4</sup> William Kerr (2007) 'The Ethnic Composition of US Inventors,' HBS Working Paper.
- <sup>5</sup> Paula Stephan and Sharon Levin (2001) 'Exceptional Contributions to US Science by the Foreign-Born and Foreign-Educated,' *Population Research and Policy Review*, 20 (1): 59-79.
- <sup>6</sup> Martin Mandorff (2007) 'Social Networks, Ethnicity, and Occupation,' Working Paper.
- <sup>7</sup> Mihir Desai, Devesh Kapur and John McHale (2006) 'The Fiscal Impact of High Skilled Emigration: Flows of Indians to the US', Working Paper.
- <sup>8</sup> Tarun Khanna and Paula Campbell (2003) 'Diasporas: Causes and Effects,' HBS Note 703-510. Khanna and Campbell present a supply-demand framework for analysing international labour movements. They also discuss in greater detail the substantial volume in remittances and the role of DNs.
- <sup>9</sup> AnnaLee Saxenian (2002) 'Silicon Valley's New Immigrant High-Growth Entrepreneurs,' *Economic Development Quarterly*, 16(1): 20-31; AnnaLee Saxenian with Yasuyuki Motoyama and Xiaohong Quan (2002) *Local and Global Networks of Immigrant Professionals in Silicon Valley*, San Francisco: Public Policy Institute of California.
- <sup>10</sup> William Kerr (2008) 'Ethnic Scientific Communities and International Technology Diffusion,' *Review of Economics & Statistics*; William Kerr (2007) 'Heterogeneous Technology Diffusion and Ricardian Trade Patterns,' HBS Working Paper.
- <sup>11</sup> Richard Lester and Michael Piore (2004) *Innovation: The Missing Dimension*, Cambridge, MA: Harvard University Press.
- <sup>12</sup> Gordon Redding (1995) 'Overseas Chinese Networks: Understanding the Enigma,' *Long Range Planning*, 28(1): 61-69; Tarun Khanna and Paula Campbell (2003) 'Diasporas: Causes and Effects,' HBS Note 703-510.
- <sup>13</sup> Aubet (2001) *The Phoenicians and the West*; James Rauch (2001) 'Business and Social Networks in International Trade,' *Journal of Economic Literature*, 39: 1177-1203.
- <sup>14</sup> Michael Piore (2004) 'The Limits of the Division of Labor in Design and the Prospects for Off-Shore Software Development in Mexico,' Working Paper.
- <sup>15</sup> Devesh Kapur (2001) 'Diasporas and Technology Transfer,' *Journal of Human Development*, 2(2): 265-286.
- <sup>16</sup> Fritz Foley and William Kerr (2007) 'US Ethnic Scientists and Foreign Direct Investment Placement,' HBS Working Paper.
- <sup>17</sup> Ramana Nanda and Tarun Khanna (2007) 'Diasporas and Domestic Entrepreneurs: Evidence from the Indian Software Industry,' HBS Working Paper.
- <sup>18</sup> The International Entrepreneurship website (<http://www.internationalentrepreneurship.com>) can provide some initial leads for most countries. See also AnnaLee Saxenian (2006) *The New Argonauts*, Cambridge, MA: Harvard University Press.

## Notes

# Notes



Diaspora Matters  
Gateway House  
133 Capel Street  
Dublin 1  
Ireland

**E** [info.diasporamatters.com](mailto:info.diasporamatters.com)  
**W** [www.diasporamatters.com](http://www.diasporamatters.com)