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## **Factors Influencing Investment Decisions during Economic Crisis: With Reference to Investment Behaviour of Non-resident Sri Lankan Entrepreneurs and Professionals**

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### **Abstract**

Foreign direct investments (FDI) are vital for a country to improve its economic stability, especially in a country like Sri Lanka, which is in a massive financial crisis. FDI can be made by expatriates or foreigners. This study focused on the factors Sri Lankan native professionals and entrepreneurs consider when investing in Sri Lanka. There is a lack of literature about the investment decisions of expatriates when investing in their homeland. This research paper explores bridging the gap by using a qualitative method and an inductive approach. Data were collected by conducting in-depth interviews with eligible businessmen and professionals. Eleven interviews were conducted to identify the codes and themes that affect investment decision patterns. This paper highlights that expatriate investments need more attention and awareness to enable an easy flow of forex into the nation. The study's findings showed that the Sri Lankan government's decisions (exchange rates, political decisions, tax), the attitude of the Sri Lankans, the education system, and the emotional bond with Sri Lanka are affecting the investment decision. The study helps the Sri Lankan government and policymakers realise the difficulties investors face when investing in Sri Lanka. Also, this study reveals how the education system and attitude of the people should change to increase FDI flow.

**Keywords:** Foreign direct investments, Government decisions, Attitude, Education, Emotional bond

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### **01. Introduction**

FDI is already an important topic in the literature. Despite Sri Lankan natives receiving state support for education and other valuable resources from their homeland, during the very critical crisis time, expatriate Sri Lankans do not positively show any trends coming forward and directly investing in Sri Lanka. Even though nonresident Sri Lankans could clearly

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observe and realize that Sri Lanka's economy has been hit hard and the country is currently facing a financial crisis, a lot of Sri Lankan migrants do not offer any help to lend money through FDI. It has always been observed that the FDI funds have positively impacted, both the economic strength and soundness of technology. As stated above, in a very critical situation, where the whole nation is struggling to cope with high inflation and a sudden drop in the forex reserve, it is quite a concern why there is a lack of potential investments being routed through the Sri Lankan economy to smoothen the inflow of foreign exchange. Studies point out that economic variables are the primary determinants of FDI (Nielsen et al., 2017). FDI funds not only stabilize the economy, but also act as a source of benefits because it can introduce new technologies, generate employment, raise productivity, and foster competition in local markets; thus, FDI is regarded as a key factor in economic growth and development (Forte & Moura, 2013). Hence, the background situation of lack of knowledge of FDI and limited awareness about the factors catalyzing and inhibiting direct investments is the need of the hour to restore the nation to its original state. The point of view of economists, financial researchers, and market specialists is that a developing country cannot achieve economic development and financial sustainability through sole reliance on inland exports. In order to achieve substantial economic growth, it is imperative for a country to develop effective strategies and efficient policies, even though imports undeniably serve as a critical pillar for profit generation. Sri Lanka cannot solely rely on the expectation of investment from individuals, as investors are unlikely to commit their funds to ventures that offer limited returns. Hence, it becomes crucial for Sri Lanka to adopt comprehensive approaches that address investor concerns and create an environment conducive to long-term investment, fostering sustainable economic development. They are expecting certain goals in return as well (Sevdalis & Harvey, 2007). The diversified ethnic groups living out of their countries of origin have been identified to be valuable assets of investments and catalysts of economic growth in their homeland, as well as in their country of residence. This study is focused on one main objective, which is,

- To find the factors that influence expatriate professionals and businessmen when investing in their homeland.

The study aimed to achieve this objective by adopting a qualitative approach to discover factors that affect the investment decisions of non-resident Sri Lankans to improve the economic growth of Sri Lanka.

## **02. Literature Review**

FDI can play a role in the growth of the host country by helping to improve economic activity and the number of jobs available in the economy (Forte & Moura, 2013). This literature review investigated the factors that lead professionals and entrepreneurs to invest in their native countries and the strategies they implement in order to gain profits amidst an economic downturn in Sri Lanka.

A government can provide domestic financial assistance to the people, which will positively affect FDI flows and growth (Rao et al., 2023). Studies show that the corporate tax rate and ease of doing business negatively impact FDI inflow (Abille & Mumuni, 2023). Hence, we can understand that if the government could maintain a reasonable corporate tax rate, a country can improve its economy by gaining more FDI.

Studies found theoretical rationales and empirical evidence that states, national transportation systems reduce the effectiveness of FDI over different (international) national distances, specifically that it leads to gaps in the efficient transfer of goods and services within different geographical areas eventually leading to delays in financial FDI transactions (Halaszovich & Kinra, 2020). Institutional factors, such as the rule of law, political stability, and democratic institutions, have a positive relationship with FDI (Bailey, 2018).

Thinking patterns & IQ levels of people change according to the quality of the education they receive. So, with high-quality education & a proper schooling system, a country can increase FDI (Wang & Wong, 2011). However, this study was unable to explore the quality of education that was expected by the people. Nevertheless, in accordance with the data we have collected, we could identify that immigrant individuals expect to have a better quality of education focused on the job training sessions, which they find already implemented in their host country.

Generally, in contemporary literature, we do observe a concept that points out that emotions have been greatly ignored in economic decisions. The term emotions depicts the driving factors that push every potential expatriate investor to invest back in their homeland such as patriotism and emotional bond. Nevertheless, the above-mentioned fact does not mean that emotions are completely disregarded during the decision-creation procedure. According to studies, emotions do not seem to be a conflicting factor and it greatly helps in a positive way to reach a correct investment decision (Van de Laar & de Neubourg, 2006).

FDI has always been a controversial issue in all nations, aided by inflammatory statements from various media outlets. However, not much research has been done on how this information affects people's perceptions of foreign investment. This study sought to understand why expatriates from Sri Lanka do not invest in the country. After conducting the research, an integrated framework of threat theory and information processing was used to analyze the potential. The dangers, in turn, can influence people's perception of foreign investment. According to research, the systematic processing of threat information by triggering perceptions of both economic and symbolic threats led to the development of negative attitudes against foreign investment (Adira & Halida, 2021).

### **03. Methodology**

#### **3.1. Sampling and Data Collection**

An inductive approach was adopted to conduct the study. The data has been collected through interviews. All the data collected from interview respondents have been analyzed to identify variables. The study was done by using qualitative methods to achieve the objectives. Semi-structured in-depth interviews have been conducted with professionals and businessmen who have the capacity to invest in Sri Lanka. The snowball sampling method has been used to interview the target people. We have selected professionals and businessmen from different religions, businesses, and cultural community organizations based mainly in the UK (United Kingdom), Canada, Australia, and Japan using snowball sampling (Adu-Okoree et al., 2023). The interviews were conducted with open-ended questions designed to elicit detailed information about the factors influencing their

investment decisions, as well as their perceptions and evaluations of the risks and opportunities of investing in Sri Lanka.

### 3.2. Measures

Further, data were collected through interviews with an interview guide and the research's sampling method involves primary data sources. Since the study used the snowball sampling method, the next primary data source has been introduced by the first primary data source. This continued till it gathered sufficient data and reached the saturation point at the 11th interview. The researchers studied the transcripts of the interviews deeply to identify recurring themes and patterns. The researchers coded the data and then identified themes that emerged from the data. Further, collected data were analyzed using thematic analysis to identify patterns and themes in the responses and interviews were conducted several times to identify recurring themes and patterns. The researchers coded the data, grouped similar responses, and then identify themes that emerged from the data. This sampling method was the ideal sampling method for this proposed study and to end users this study will provide valuable insights on how to attract and maintain FDI during the economic crisis. The research has added to the current literature on FDI and economic crises by giving more detailed knowledge of the decision-making process of professionals and businessmen in these conditions.

## 04. Results and Discussions

From conducting 11 interviews with native Sri Lankans that live abroad, the study discovered that many factors affect their investment decisions. However, the findings showed that most people are willing to invest back in Sri Lanka, even though Sri Lanka has significant issues of economic stability. From thematic analysis, researchers were able to categorize all the codes into four main factors. The generated themes are the Sri Lankan government's decisions, Sri Lankans' attitude, Sri Lankans' literacy, and the emotional bond with Sri Lanka.

### 4.1. Respondents profile

Table 1: Respondent profile

Respondent	Profession	Country	Experience
Respondent 1	Software Engineer	Australia	20 Years
Respondent 2	Accountant	United Arab Emirates	08 Years
Respondent 3	Software Engineer	Canada	14 Years
Respondent 4	Businessmen	Australia	30 Years
Respondent 5	Software Engineering	United Kingdom	18 Years
Respondent 6	Electrical Engineer	Australia	13 Years
Respondent 7	Accountant	Australia	05 Years
Respondent 8	Electrical Engineer	Australia	13 Years
Respondent 9	Businessmen	United Kingdom	25 Years
Respondent 10	Banker	United Kingdom	10 Years
Respondent 11	Grocery store	United Kingdom	17 Years

## 4.2. Sri Lankan Government's Decisions

According to all the themes, our sample of professionals and entrepreneurs were concerned about the government's decisions, as the government controls a country's system; government decisions are a primary factor in achieving a stable economy. Policy, Tax, Exchange Rate, Interest rate, Opportunities, Starting a business, Strategy, Reliable information sources, Resources, Procedure, Exchange restrictions, and Politics are the codes that we were able to find and include in government decisions. Respondent 5, an entrepreneur & software engineer in England, described the policies in Sri Lanka as follows:

" However, Sri Lanka's economy is based on the government. There is no exact policy in Sri Lanka. Policies change with the new government. That should change. Sri Lanka must have the same goal without changing from time to time" (Respondent 5).

According to the results, sudden changes in policies without a long-term vision affect confidence in investing. Also, some interviewees pointed out that even though there are policies, some people do not care about them, especially in politics. For example, Respondent 9, a businessman in the United Kingdom (UK), revealed:

. "When you're going to open a restaurant or a hotel, you want to get the liquor license. Now you know how in Sri Lanka, it's a politician or politician's supporters who are the only people who can get those license right" (Respondent 9)

In Sri Lanka, there are a lot of people who do not know the law. " A lot of people don't have a good understanding of the law" (Respondent 3).

Many Sri Lankans who have migrated to other nations have a view that their native people are unaware of government rules and do not treat them with the respect they need.

This view is supported by the experience and observations of those who migrated from Sri Lanka seeking better chances. While it's important to recognize that not all Sri Lankan immigrants have this viewpoint, many of them have said it.

"If the political factor is stable, we can predict the economy. But if the political factor is unstable, we cannot predict the economy." (Respondent 5).

According to Respondent 5, it is required that some aspects of politics are established, for instance, its homogeneity or heterogeneity. However, if politicians misuse their political power, it will lead to political instability and affect investment decisions. Sri Lanka should also have a proper strategical plan. Respondent 4, a large-scale investor in Australia, described why a country should have a good strategy.

"This is how we can't just build these hotels now, we also need to know how to bring tourists. That's when it gets cheaper. And facilities should be given. You have to work with a goal." (Respondent 4).

According to Respondent 4, if the government builds a strategy to bring foreigners to Sri Lanka, they can build more hotels. There is no point in investing in a hotel without a target customer base. Interest rates and exchange rates are also affecting FDI, and the sustainability of the government is a further factor.

"Some people invest that money in Sri Lanka. So when they send money to Sri Lanka, one pound equals Rs. 240-250. But now one pound is equal to Rs. 400. So now the investment is like a cost to him because it is difficult to pay for the loan from the income because of the exchange rate" (Respondent 5).

According to the description, the exchange rate is a significant issue for those investing in Sri Lanka. Also, interviewees mentioned that the current interest rates affect their investment decisions. Tax is also a main code that was generated from the interviews. Respondent 5 explained how the tax system should be, by comparing it with the tax system in the UK.

"The next factor is tax. We are planning a budget for a year. We build a strategic plan to pay taxes and increase profits. But in the middle of the year, the government changes the taxes. The best example is Sri Lankan have to pay new taxes right now. Just think, if I forecast to save one million from the business after the cost. So I have made the strategies and plan to invest that million next year. But if the government suddenly charges 30% of my income, how will I save a million and invest the next year as planned?" (Respondent 5).

Investors are expecting a straightforward tax system. However, according to the outcomes of the interviews, they do not care about how much the tax is. Instead, they want it to be stable and fair. Here is what Respondent 3 shared about his experience with the tax system in Canada." In Canada, you don't have to pay taxes if you are already helping to grow the economy" (Respondent 3).

According to what Respondent 5 mentioned, the purpose of a tax system is to develop the country. So if a business already contributes to an economy, releasing a tax percentage will also attract more investors. In Sri Lanka, there are exchange restrictions as well. The interview with Respondent 10 gave an excellent insight into the study regarding exchange restrictions. "Because, for instance, you bring in some foreign currency into your country, and even if you make a return, sometimes you can't take your money back to your whatever the foreign country I am a resident or a citizen in" (Respondent 10). The study revealed that registering a new business is challenging in Sri Lanka. It takes a lot of time and effort. Respondent 5 explained his experience like this. "I made a company in Sri Lanka 3 years ago. And we went through the company registration process of it. That process made me not do business registration in Sri Lanka ever again. It is so complicated" (Respondent 5). The interview with Respondent 7 also shared their experience registering a business in Australia. "So, you can create an Australian business number within 10 minutes. You just go to the site, add your details get the number" (Respondent 7). According to the study, Sri Lankan government must create smooth and straightforward procedures. The study examined that there are many issues with procedures.

"For example, I was brought to Trinco about 7 times to get approval for my Kantale work. It didn't work. Nothing happened after that. I went to Colombo Forestry and did not get any help. That means working from their side" (Respondent 4).

According to Respondent 4, a country should have proper, reliable, and easy procedures. Another code that was generated by the study is that Sri Lanka needs a source to get reliable information. If there are places to get reliable information that can be trusted, investors' confidence levels will increase. Therefore, the government should focus on this as well. Respondent 1 explained it thus: "And also, there needs to be a place to get reliable information. For example, in Australia, if we take a building, we can get the whole history of it. When we are investing in something, we should know the numbers. How much has it increased or decreased? About the demand. We have to have a reliable source to get this information". The study explored that a country should have enough resources to improve its economy. Respondent 4 described the Resources in Sri Lanka in this way: "If the resources in Sri Lanka are utilized properly, Sri Lanka can recover. That's easy because it is not a big country.

Apart from that interview, Respondent 1 pointed out a unique idea: " The biggest issue is finding resources". According to the study results, the Sri Lankan government should focus on managing and exposing Sri Lanka's resources. A government should open various opportunities for the people to do business. Respondent 5 explained how the government in the UK gives opportunities to people who try to start a business: "There are government agencies that you can go to and get advice and training. Even if you know web development, you may need to learn how to run a company or need management skills. We can get this training free of charge".

The Sri Lankan government should focus on programs like this and motivate people to start new businesses. Respondent 1 also described how the government supports the people who work. "if we work hard, we have a lot of opportunities in Australia than in Sri Lanka" (Respondent 1). Some studies show that the government can play a significant role in attracting FDI in developing countries (Sabir et al., 2019).

### **4.3. Education System in Sri Lanka**

The education system in Sri Lanka is controlled by the existing government. Respondent 9 described the issue that the Sri Lankan education system has: " The main barrier is we've been structured, we've been designed, and we've been hit with our education system, our free thinking and the free creativity and entrepreneurship kind of thing".

In the interview, Respondent 9 pointed out that if a country does not have people who think out of the box, it is hard to have faith in an economy. The study showed that government decisions could make a massive impact on the economy because almost everything in the country is controlled by the government. Studies also show that knowledge creation helps the long-term economical growth of a country (Bužinskienė & Rudytė, 2015).

### **4.4. Attitude of the Sri Lankans**

The study explored that Sri Lankans should improve their Attitude if they expect investment from people. The study determined transparency, professionalism, and communication as the codes of attitude. Respondent 5 explained the situation thus, "in Sri Lanka, people need to learn how to communicate. Also, a lot of Sri Lankan people need to be more transparent & professional. For example, when working with European people, they directly tell it if they

don't like something. But if I partner up with a Srilankan in a business and I tell an idea to him. And he agrees with me even though he doesn't like the idea. So when it comes to the initiation part, they will not give their 100% because they don't like it. So we have to improve open communication”.

#### 4.5. Emotional Bond

Emotion is a factor that has been identified in the interviews in this study. All the interviewees discussed the factor of emotion. As per the interviews that researchers have conducted, professionals who are aboard would not get their profit back. Respondent 1 said that “I do not take the profit out from Sri Lanka because that will affect the county”. According to Respondent 1’s statement, some professionals do not get their profits back. They wanted to keep the money in Sri Lanka to help the economy. Some professionals have mentioned that they have feelings to invest in Sri Lanka. Respondent 1 said that "I have a feeling like that, everyone has that feeling who lives aboard. No matter how many times it fails they keep investing”. According to his view, professionals and businessmen have some emotions about Sri Lanka, and also, they have the intent. Respondent 6 said “So if I can give something to society, I mean by investing, you know, creating some jobs. So I want to do something for my mother country. That’s it. So we can take it as an emotional factor.” Some professionals want to do investments in order to create jobs so that they can help Sri Lankan economy overcome the economic crises. Nevertheless, Respondent 7 said, “When it comes to investment, I don't think. If they feel like that they can make a donation, right? So, I don't think anyone would consider such feelings. But there are some people who want to invest”. Researchers have identified that having emotions in the process of investment decisions is considered a great drawback. On the whole, according to the interviews we have conducted so far, there is feedback on both positive and negative sides of the role of emotions in investment decisions related to the behavioral aspects of each individual.

#### 4.6. Generated Codes and Themes

The below grid shows the details of the codes generated from the interviews.

Table 2: Generated Codes and themes

Codes	Theme
Policy, Tax, Exchange Rate, Education System, Economic Stability, Interest rate, Opportunities, starting a business, Strategy, Transportation, Reliable information sources, Procedure, Exchange restrictions, Politics, Economic Stability	Government Decisions
Transparency, Communication, Professional	Attitude of Sri Lankans
Literacy, Education	Education of Sri Lankans
Emotional Bond	Emotional Bond

### 05. Conclusion

This research investigated the possible factors affecting the investment decisions of non-resident Sri Lankans, especially during the crisis time period. This paper has discussed in-depth the underlying reasons affecting and inhibiting potential investors not showing keen interest in investing in their homeland. The research conducted a series of eleven interviews



to find generalized reasons and factors affecting the investment decisions of potential investors. The main factors affecting the investment criteria are the Sri Lankan government's decisions, the attitude of the Sri Lankan people, financial literacy, and the underlying emotional factor. The research paper has discussed the key areas that need more attention and awareness for eligible non-resident professionals and businessmen Sri Lankans to invest in Sri Lanka encouraging more forex inflow to the nation's economy. The scope of this study shows the factors affecting FDI, and data were collected from Sri Lankan professionals and businessmen in Australia, the UK, Canada, and Japan. From this study, the Sri Lankan government can get insights to improve FDI. Since there is a lack of research on this topic, this will contribute a lot of knowledge and it will help make future decisions to improve FDI in Sri Lanka. Also, the article provides a comprehensive understanding of the factors that influence FDI during an economic crisis.

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