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The effect of social bonding and identity on the decision to invest in food production

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ABSTRACT

Consumer interest in locally produced food is a growing trend. Like the preference for local in food consumption decisions, an individual may be motivated to support the local community by participating with investment capital. This paper draws on the phenomenon of home bias in financial decisions and hypothesizes that familiarity with agricultural production generates a positive attitude towards investing in the domestic food chain. Using a dispersed sample of 845 financial market professionals, we find that locational effects and social proximity contribute to self-categorized rural identity and bonding. Individuals who identify themselves as rural are more positively disposed to investing in firms that operate in the food chain. Consumption preference for domestically produced food and preference for maintaining the vitality of rural areas increase the probability of perceiving food production as attractive investment. The evidence reconciles with the familiarity and patriotism hypotheses. The findings are relevant for agricultural producer firms that seek outside equity and may prove useful for effective marketing of financial products.

1. Introduction

The demand for locally grown food and traceability is a booming trend among rural and urban consumers worldwide. The growing interest in local food is widely documented in consumer studies in the U.S and in several European countries (La Trobe, 2001; Darby et al., 2008). The preference for food of domestic origin has also gathered strong evidence in the experimental literature, which has documented higher willingness-to-pay values (WTP) for country of origin attributes (Dentoni et al., 2009; Lusk and Briggeman, 2009). Food choices in favor of local are driven by consumer perceptions that local products are of better quality and healthier (La Trobe, 2001), or due to concern over the carbon footprint (Grebitus, Lusk, and Nayga, 2013). Furthermore, some consumers perceive the social effects as important, and food choices are seen as means to support local agriculture and contribute to the benefit of the economy and the livelihood of rural communities (Onozaka, Nurse, and Thilmany, 2010; Marsden, Banks, and Bristow, 2000).

In parallel to the increasing interest in local production is the ongoing demographic change towards greater urbanization, which is lengthening the physical distance between producers and consumers (Åsebø et al., 2007). This means that fewer people have roots in rural areas and many more people are citizens by birth. Even fewer have relatives working and living in rural areas because of the intensification of agriculture, leading to a decline in the number of agricultural producers and the concentration of production in larger farms. Sociodemographic changes alter the forms of social interaction and interpersonal relationships. Consequently, the social bonding ties within rural communities have changed (Carmo and Santos, 2014). However, the growing popularity of farmers' markets and alternative food networks manifest the revival of consumer willingness to bond with producers (Vecchio, 2010; Gumirakiza, Curtis, and Bosworth, 2014).

This paper investigates whether positive attitude towards domestic food production carries over to willingness to support it by investing in the firms that operate in the domestic food production chain. Similar affective motivations that contribute to the preference for local in food choices may induce a person to act in support of the local community not only through purchases but also in decisions over how to allocate investment wealth. The paper links the literatures on social identity and on investor behavior testing if self-categorized identity and bonding variables correlate with individual agricultural investment preferences. In the finance literature, social effects in investment decisions are evident in community level preferences (Demarzo, Kaniel, and Kremer, 2004), geographical bias resulting from investors' preference for the familiar (Huberman, 2001), and group identity breeding patriotic portfolio choices (Morse and Shive, 2011). We draw on the phenomenon of home bias in financial decisions and hypothesize that familiarity with agricultural production generates a positive attitude towards investing in it.

The effects of social capital and interpersonal interaction on economic outcomes were widely recognized in cross-cultural studies

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(Knack and Keefer; 1997; Guiso, Sapienza, and Zingales, 2004), among individual investors with personal savings (Duflo and Saez, 2002; Hong, Kubik, and Stein, 2004), and in professional decision making in financial markets (Lehmann and Neuberger, 2001; Pool, Stoffman, and Yonker, 2014). We extend this line of research studying the link between food and agricultural attitudes and the investment behavior. This paper fills a significant gap by providing evidence that social identity not only affects consumption but also investment decisions. Moreover, we use a non-standard sample of more than 800 certified financial advisers studying the link between social identity and investment interests of a relevant sample of Finnish professional decision-makers.

Rural exposure was measured with objective factors such as growing up in a rural community, having a relative who is an agricultural producer, and the share of inhabitants employed in agriculture in the current place of domicile. The findings of Cornaggia, Cornaggia, and Israelsen (2014) led us to hypothesize that the birthplace has a stronger impact in the construction of geographic identity than the characteristics of the current domicile. The questionnaire also elicited variables describing rural ties, as we asked the respondents to state whether they identified themselves as ‘rural persons’. Another variable measured the sense of agricultural-sector solidarity and whether a respondent felt an affective bonding relationship with the rural population. We used Probit regression models to examine the variables that affect rural identity and bonding, and then tested the role of proclaimed agricultural identity (and bonding) on investment behavior. The identity and bonding variables were then used to explain the investment attitudes. Prior evidence indicates that farm-born individuals develop strong emotional ties to rural values that remain throughout their lives (Cassidy and McGrath, 2014). In line with this finding, we made a prediction that the self-categorized identity and social bonding of the respondents are constructs of rural ties, and further, that they produce a positive attitude to investing in agricultural production. We also built on the finding of Williams (2007) that prosocial consumption attitudes extend to investment decisions by testing whether investment attitudes are associated with consumption preferences for domestic food.

The geographically extensive sample of this study consisted of 845 financial advisers who hold the diploma for certified financial advisers (i.e. the Finnish national equivalent of the international CFA diploma). The use of a financially literate sample in which most of the respondents are employed as professionals in the financial sector mitigated the common problems with experiments involving student subjects (Harrison and List, 2004). The respondents were, however, advised to express their preferences as private investors and to think about their own portfolio choices instead of acting in their possible role as delegated portfolio managers.

The remainder of the paper is organized as follows. Key literature on familiarity effects, identity and the role of values in investment decisions is presented in Section 2. Section 3 describes the data and methods in more detail, and Section 4 presents the results, after which Section 5 concludes the study.

2. Familiarity, social identity, and values in economic decisions

Extensive empirical evidence demonstrates the role of behavioral factors in investment decisions. Investors have the tendency to overweight familiar assets in both the domestic setting and international portfolio choices (French and Poterba, 1991; Kang and Stulz, 1997; Portes and Rey, 2005; Coval and Moskowitz, 1999). As an explanation for local bias (national) and home bias (international context), familiarity with the assets is suggested to play a role. Familiarity motivations may explain why an investor fails to hold a diversified portfolio and gives up higher returns or lower risks (Huberman, 2001). Both geographical and professional proximity contribute to the sense of familiarity, which results in a preference for the stocks of local firms (Coval and Moskowitz, 1999, Massa and Simonov, 2006).

The tendency to overweight local assets may also be explained with information advantages and superior knowledge of the region (Ivković and Weisbenner, 2005). On the other hand, for some investors, familiarity per se may motivate investment, similarly to the decision to support the local sports club. Favoritism has even been observed for professional financial analysts (Cornaggia, Cornaggia, and Israelsen, 2014), who assign higher bond ratings, reflecting higher credit quality, to local issuers. Furthermore, an affective regional spirit, such as patriotism and loyalty to the community, are found to determine the portfolio allocations of individual investors (Morse and Shive, 2011; Demarzo, Kaniel, and Kremer, 2004).

The familiarity effect illustrates the mechanisms of how personal experiences and social identity affect economic outcomes. The environment in which a person grows up is found to affect preferences and beliefs later in life (Guiso, Sapienza, and Zingales, 2004; Malmendier and Nagel, 2011). Shared experiences in the past contribute to social capital and trusting behavior, while trust in turn facilitates the flow of capital to economic development (Guiso, Sapienza, and Zingales, 2004). Social identity theory states that belonging to the same group fosters bonding between people, of which binding ties that form between members of the family, school, work place, and community, for example, provide rich real world evidence (Tajfel and Turner, 1979; Akerlof and Kranton, 2000, 2005). Shared common characteristics form the basis for social bonding. An individual may also choose an identity through club memberships, brand choices, or behaving in a prosocial way, diminishing the social distance between the individual and the specific social group (Glaeser, Laibson, and Sacerdote, 2002). Priming and making the identity salient is found to induce an individual to change behavior in order to conform to that prescribed by social identity or stereotype (Benjamin, Choi, and Strickland, 2010; D’Acunto, 2014).

Bonding social capital, which Putnam (2000) describes as inward-looking between homogeneous groups of people, reinforces identities. Individuals who identify themselves with a social group are motivated by the group goals. Furthermore, individuals derive economic utility from acting in adherence to an identity that matches their values (Akerlof and Kranton, 2000, 2005). This is observed in consumption decisions, for instance, when identity affects brand choices and switching (Lam et al., 2010) and breeds customer loyalty (Homburg, Wieseke, and Hoyer, 2009).

Evidence from various fields corroborates the notion that subjective values are powerful drivers of economic decisions. Consumption choices related to health and the environment, in particular, are laden with sentiment. For instance, attitudes are found to explain consumer aversion to hormone-treated beef (Lusk, Roosen, and Fox, 2003), pro-environment attitudes are found to materialize in lower energy consumption (Sapci and Considine, 2014), and attitudes are observed to be integral factors even in organized food procurement (Klein, 2015).

In the field of investments, the impact of subjective values on decisions is evident in socially responsible investments (SRI) or in ethical investing. Such decisions may be driven by other preferences than those regarding financial returns (Riedl and Smeets, 2014). Both empirical and experimental evidence support the role of prosocial identity and ideology in ethical investing (Webley, Lewis, and Mackenzie, 2001; Bauer and Smeets, 2014). Some ethically minded investors are even prepared to take financial losses for the sake of complying with their morals in portfolio choices (Lewis, 2001). Furthermore, investors who lean on attitudinal values in financial decisions may be more committed in times of poor financial performance, even to the extent of escalation of commitment (Webley, Lewis, and Mackenzie, 2001). A key conclusion on the attitudinal investment motivations is that investors enjoy the ‘warm glow’ from investing ethically or being part of a social movement (Lewis, 2001).