



Ownership effect in the wild: Influence of land ownership on agribusiness goals and decisions in the Argentine Pampas



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ABSTRACT

The psychological influence of ownership, albeit well studied in the lab, is less understood in the field. We examine its influence on agribusiness goals and decisions in the Argentine Pampas. Study 1, a survey of agribusinesses, finds differences in goal focus based on land ownership: Ownership positively predicts a focus on longer-term economic and social goals, as well as pro-environmental attitudes. Land ownership negatively predicts short-term profitability goal focus, which in turn mediates the use of futures/options to maximize profit, and influences land use for cash crops. Study 2 unpacks within-business differences via interviews with agribusiness that farm both owned and rented land. Ownership-based differences are observed in underlying intentions: the same individual focuses on enhancing the value of owned land, but on maximizing returns from rented land. This focus on deriving immediate value may be motivated by the initial rental cost incurred by the tenant, which can be thought of as a loss, making immediate profitability a more salient goal. This short-term focus, though logical in light of prevailing one-year leases in the Pampas, ignores that over 85% of leases are renewed by the same agribusiness, suggesting that the same tenant may well be the person facing future consequences. We explore the possibility that tenants may be effectively caught in a two-person social dilemma with their future selves.

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1. Introduction

Psychological feelings of ownership have been well documented in the lab as the “endowment effect” where those who own an object are likely to assign a higher price to it, compared with who do not have the same feelings of ownership vis-à-vis the object (Kahneman, Knetsch, and Thaler, 1990; Beggan, 1992). These feelings can be a function of mere possession (subjective ownership) of the object, even without factual ownership (Reb and Connolly, 2007). The literature, however, lacks an understanding of whether feelings of ownership tied to possession of an object are tied only to differences in prices generated by “owners” and “non-owners,” or whether they also are linked to changes in owners’ goals and choices pertaining to the object.

It seems reasonable to hypothesize that ownership of an asset may lead to differences in the usage or goals associated with the asset. Feelings of ownership clearly increase the value associated with an object or asset (Morewedge et al., 2009). In addition, ownership

raises concerns about potential loss in the object’s value (Kahneman and Tversky, 1979) and draws attention to its value-enhancing features (Ashby, Dickert, and Glockner, 2012). Thus an owner would be motivated to maintain the value-generating features of the object, and this motivation would influence day-to-day usage of the object. For example, lessees of cars, who “possess” a car but do not legally own it, may act in ways that preserve the value of the car (e.g., regular servicing) rather than simply maximizing the value they derive from the car (Hendel and Lizzeri, 2002). However, leases typically include an option to buy the car at the end of the term. It is unclear therefore, whether a lessee is motivated by possession or, instead, by the potential to actually own the car at the end of the lease. Clearly, this issue needs further research.

Whether ownership influences goals and choices pertaining to an object or asset, is a highly relevant question, because in the real world there are many objects or assets that one can possess and/or use over long periods without the possibility of buying or selling them. In this paper, we address such a situation focusing on land farmed by agribusinesses in Argentina, one of the main global producers of agricultural commodities. In Argentina over 60% of the cropland is rented (Piñeiro and Villarreal, 2005), a pattern also observed in other countries such as the United States (Carolan, 2005). Agribusinesses

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farm land that they lease and therefore possess without any intention or ability to ever buy the leased land, and often do so over long periods of time. Thus those using the land make choices during the annual farming or cropping cycle that have consequences that may not materialize until later, when the land may or may not be farmed by the same lessee.

Our paper aims to empirically address this gap in the literature about ownership effects on goals and choices via (a) an anonymous field survey of agribusiness decision makers (Study 1), and (b) in-depth interviews with 10 decision-makers who both own and rent land in the Argentine Pampas (Study 2). Specifically, we explore two main questions: First, does land ownership influence the economic and social goals of agribusiness decision makers? Second, do differences in goals based on land ownership translate into differences in agricultural or economic practices (such as crops grown and use of risk-management financial instruments), and attitudes toward the environment? And finally, we explore the consequences of agribusinesses differentiating the goals associated with rented vs. owned land, particularly with a view to how differences in goals and decisions might impact land quality. In the rest of the Introduction, we present some brief background on the Argentine Pampas, followed by a discussion of our hypotheses. Section 2 details our two empirical studies. In Section 3, we discuss the broad implications and the limitations of this research.

2. Background on the Argentine Pampas

The Argentine Pampas are among the most fertile regions in the world (Calviño and Monzón, 2009; Hall et al., 1992). Climate fluctuations, technological innovations, and global and local economic and political contexts have shaped the evolution of agricultural systems in the Pampas over the last few decades (Bert et al., 2011). The most significant changes have been in land use and the structure of the farming sector. First, because of its higher profitability compared to other enterprises, in recent years agriculture has expanded considerably, displacing pastures and native grasslands (Magrin, Travasso, and Rodriguez, 2005; Pengue, 2005; Viglizzo, 2011). Second, land tenure has changed rapidly: recent estimates state that approximately 60% of the land currently farmed in the Pampas is rented (Piñeiro and Villarreal, 2005; Reboratti, 2010).

The growing global demand for grains, together with local changes in the Argentine economy as well as cost savings and the simplification of agronomical management due to technologies such as no-tillage sowing and herbicide-tolerant genotypes (Qaim and Traxler, 2005), has recently enhanced the relative profitability of agriculture in Argentina. As a result, cropping has become increasingly attractive against alternative farming activities (e.g., cattle ranching) or other investment options in Argentina. The increasing interest in profitable agricultural production in the Pampas has led to a growing demand for land by farmers seeking to expand their production scale. Additionally, there has been an influx of individuals from other sectors (e.g., industry, commerce) choosing to invest in manager-run farms or agribusiness (Reardon et al., 2000).

High land prices in the Pampas, together with the virtual inexistence of credit, have made growth via purchase of land economically prohibitive. Instead, agribusinesses increase the size of their operations by renting additional land, a mechanism that involves much more affordable capital outlays. Owners of smaller extensions that are economically unviable (Bert et al., 2011) increasingly rent out their land to agribusinesses that both own and rent land, or to new firms entering the sector (Gallacher, 2009). Approximately 23 million hectares are currently cropped in the Pampas (Website of the **Ministerio de Agricultura, Ganadería y Pesca, Argentina**), therefore about 13.8 million hectares are farmed by agribusiness that rent land. The average rental price for the last season, according to Argentine land brokers (www.cadetierras.com.ar), was approximately 300 USD

per hectare. The size of the annual land rental market in the Pampas, therefore, involved about 4.3 billion USD.

We interviewed four Argentine agricultural experts who among them advise and/or manage over 100,000 hectares throughout the Pampas, to better understand the structure of land rental contracts, as lease agreements are not officially tracked. As a point of reference, on average, an agribusiness farms 400 hectares. All four experts strongly agreed that over 90% of land leases are one-year contracts. Despite the short-term legal contracts, often the same tenant repeatedly rents the same parcels of land. The experts we polled showed strong consensus that over 85% of lease contracts are renewed between the same individuals for an average of 5 years. In fact, among farmers advised by these experts over 60% of leases have been renewed for 10 years or longer. Moreover, long-term occupation of a parcel is fostered by land exchanges between those who are connected via extended family or social ties. A review of local newspapers and agricultural trade magazines supports these estimates. Thus, although tenants have legal possession of the land for only one year at a time, they carry a deeper psychological connection to the land, knowing that in reality they are likely to farm the same piece of land considerably longer.

3. Hypotheses for current research

The literature suggests that possession of a parcel of land, even if it is only rented, should result in feelings of ownership. In our research, tenants and owners in the Pampas are similar in that they possess farmland and intend to use it for the same purpose: cropping for economic profit. Unlike traditional lab studies of ownership where participants are given the object they own or possess without incurring an upfront loss, Argentine land tenants start the cropping season having to pay a large sum of money in rent (\$300 per hectare, on average) plus sowing costs per hectare that may equal the rental fee if growing soybean, to almost twice the rental value if the chosen crop is maize.

The behavior of land tenants in the Pampas presents an interesting real-world case study because of an apparent contradiction. On one hand, tenants know that for as long as they pay the rent, they can continue to possess and use the land. Therefore, they should feel psychologically connected to the land for a span longer than the legal duration of the lease and, consequently, take actions to preserve the long-term gain potential from that land. On the other hand, having paid the land rental fee and sowing costs up front, tenants start the cropping cycle in the domain of losses. According to Prospect Theory (Kahneman and Tversky, 1979) tenants should be both risk seeking and highly concerned with overcoming the initial loss and stemming additional losses. It bears pointing out here that the majority of decisions and financial outlays related to farming the land, such as which crops should be planted, etc., are made at the start of a cropping cycle. Since “losses loom larger than gains” (Tversky and Kahneman, 1991); the initial outlay of costs is more likely to determine tenant goals than their psychological connection to the land. Therefore tenants are more likely to focus on maximizing gains in the short-term (*this* cycle), and choose crops like soybean that require lower additional investment.

In addition to the differences in economic goals between tenants and owners, we posit that both owners and tenants also will focus on different social goals. Specifically, as owners can use their connection with the owned object to reinforce their self-identity (Dommer and Swaminathan, 2013), we predict that owners are more likely to be concerned with creating social capital, whereas tenants are more likely to ensure that they avoid any additional losses by fulfilling any short-term social obligations to employees and family. Thus having made the initial payments with the risk of not being able to recoup them (possibly ending the cropping season with a loss) should exert influence on both economic and social goals of tenants.

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