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**BEHAVIOURAL ASPECTS OF INVESTMENT
DECISIONS ON FARMS**

Key words: farms, investment decisions, behavioural aspects, risk, uncertainty

ABSTRACT. The main purpose of this paper is to identify the behavioral factors that impact the investment decisions made by farm managers. A survey carried out in 2023 with 152 farms located in Greater Poland was the source of empirical materials. The study suggests that overconfidence and over-optimism are not widespread in the group surveyed. In assessing their own knowledge of investment topics, 74% of farmers claimed to be equally competent as other agricultural producers. When preparing the implementation of an investment, most respondents (47%) foresee a neutral scenario of how the situation could develop, 20% for an optimistic scenario and only 13% pick a pessimistic one. Nearly 25% of interviewees admitted to rely on the brand's reputation when choosing a fixed asset (the availability heuristic). The vast majority of farmers surveyed (65%) replied that investing their own funds requires a more in-depth analysis. This corroborates the conclusions made by Richard Thaler and Eric Johnson who discovered that people are less willing to risk their own hard-earned money.

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INTRODUCTION

Decision making is one of the key aspects of every economic activity because each decision may considerably affect the operator's efficiency, performance (profit or loss) and development [Śmiglak-Krajewska 2019]. Major decisions made by farm managers include investments (e.g. in buildings, land, vehicles, specialized machinery and equipment, new production technologies, technical infrastructure, livestock, and intangible assets). These are long-run processes which have long-lasting impacts on the functioning of the whole farm while significantly affecting its environment. When making the decision, complete and reliable information is not always available, and it is uncertain whether the objectives will be met. This gives rise to hesitation or risks. According to Piotr Sulewski [2014], this perspective, guided by the behavioral approach, leads to the conclusion that in a context of incomplete information (resulting in risk and uncertainty), farm resources may be used in a sub-optimal way.

In the Polish agriculture, little emphasis has so far been placed on investigating issues related to behavioral finance [Kata 2013, Soliwoda 2014]. Most Polish researchers mainly focus on capital markets and on the activity of stock investors, taking account of how behavioral factors affect their investment decisions [Szyszka 2007, Tyszka, Gajdka 2013, Zielonka 2003]. Broad empirical research on the presence of behavioral factors in the investment decision-making process at enterprise level was carried out by Leszek Czerwonka [2015]. He demonstrated that the following mental inclinations do affect investment decisions: the status quo effect and (to a smaller degree) the affect heuristic, the availability heuristic, the framing effect, overconfidence, over-optimism, and the sunk costs effect. The intent to bridge that gap in the agricultural sector contributed to undertaking these research efforts which, as the basic problem, attempt to discover the behavioral factors that affect investment decisions at farm level.

Behavioral factors are underpinned by social and psychological aspects, and are expressed by specific emotions, beliefs, expectations and attitudes of farmers. They have an impact on how the farmers perceive the reality (cognitive aspects) and on what motivates them, and therefore affect their decisions and actions [Kata 2013]. The research hypothesis advanced in this paper is that the analysis of the farms' investment decisions (based on the assumption that the decisions are fully rational) fails to take account of significant factors (including behavioral aspects) that affect these decisions. The study assumed that the farmers' replies to survey questions can indicate the presence of the availability effect, the affect effect, over-optimism, overconfidence, and the sunk costs effect. The presence of the above would suggest that instead of being driven by cost-efficiency and backed up by analyses, some decisions are made and certain options are chosen because people are guided by impulses or emotions, or subconsciously believe they know the investment instrument they pick. The high degree of uncertainty involved in investments (which

can become either a success or a failure) suggests that these effects can be related to investment activities. Indeed, behavioral effects are particularly pronounced in uncertain or risky situations. This is corroborated, among other discussions, by the prospect theory [Kahneman, Tversky 1979] which criticizes the expected utility hypothesis advanced by John von Neumann and Oskar Morgenstern [1944], and claims that when making decisions in an uncertain environment, people tend to be risk-averse with respect to potential profits and risk-taking with respect to potential losses [Tuzimek 2015]. The prospect theory is the direct reason behind the emergence of motivational inclinations in the decision-making process [Żurek 2016]. Also, it explains why actual human behavior deviates from what is foreseen by the normative utility hypothesis [Gajdka 2013]. Hence, the main purpose of this study is to identify the behavioral factors that impact the investment decisions made by farm managers.

SELECTED EFFECTS OF BEHAVIORAL ECONOMICS VS. INVESTMENT DECISIONS

When making the decisions regarding financing streams and instruments, farmers face many problems resulting from incomplete information, a restricted capacity to analyze it, and the impacts of subjective attitudes (risk propensity, openness to change etc.), motives and individual (incoherent) preferences. Behavioral economics relies on a number of tools, including the prospect theory, in explaining many psychological aspects of decision-making, such as cognitive and motivational inclinations which can contribute to making sub-optimal or even wrong decisions [Kata 2013]. The inclinations included in the first group mean that as regards the investors' cognitive capacity, they tend to use a number of simplified ways of reasoning (referred to as heuristics) which can lead to wrongful conclusions [Gajdka 2013]. In turn, the motivational aspects are related to the decision-maker's preferences. These heuristics can make decision-making an easier and simpler process. However, when guided by them, people may become prone to cognitive distortion which they often do not realize [Nalepka, Łach 2017]. Piotr Zielonka [2021] lists the following as the most frequent kinds of heuristics:

- overconfidence in one's knowledge and skills,
- illusion of control,
- over-optimism,
- the availability heuristic,
- the anchoring heuristic,
- the representativeness heuristic,
- conservatism,
- the positive recency effect.

In turn, he believes the following to be the most frequent motivational inclinations:

- loss aversion,
- the disposition effect,
- the sunk costs effect,
- myopic loss aversion; and mental accounting.

Based on a review of the relevant literature, Table 1 presents a set of potential psychological inclinations which may significantly affect the farmers' investment decisions.

Table 1. Description of selected behavioral factors that may affect the farmers' investment decisions

Behavioral factor		Description
Cognitive inclinations	Availability heuristics	An individual believes that the events he/she can easily recall are more likely to happen
	Affect heuristics	An individual makes his/her decision based on a single characteristic of the object concerned, and transfers it to other attributes of that object
	Over-optimism	May result in overestimating the likelihood of desired rare events and in underestimating that of unwanted ones
	Overconfidence	A tendency to overestimate one's knowledge and skills, making an individual think that what they believe in is true
Motivational inclinations	Narrow framing	Means analyzing problems in a siloed manner, without taking their context into account
	Sunk costs	People tend to stick to their previous decisions even if the project is unlikely to succeed

Source: [Tversky, Kahneman 1974, Zaleśkiewicz 2011, Gajdka 2013, Zielonka 2021]

MATERIAL AND METHODS OF RESEARCH

This paper presents some preliminary findings from a survey on investment decisions made by farm managers. The study was carried out in 2023 with a sample of 243 farms (larger than 12 ha of agricultural land) located in the Wielkopolskie Voivodeship. A total of 152 valid questionnaires were approved for the analysis. The study was based on personal interviews with the use of a survey questionnaire composed of 26 research questions and additional questions on the respondents' socio-demographic characteristics. Once collected, the information was analyzed and described with the use of descriptive statistics methods.

SELECTED EFFECTS OF BEHAVIORAL ECONOMICS VS. FARMERS' INVESTMENT DECISIONS: RESULTS OF THE SURVEY

The survey covered 152 farmers with an average farming experience of 18 years. The average farm area was 122 ha (with the minimum and maximum area being 25 ha and 1800 ha, respectively). The dominant activity was crop production for 79 farms (54%), mixed production for 41 farms (28%) and livestock production for 32 farms (18%).

The largest group was composed of persons aged 30-39 (31%), whereas persons aged up to 29 and over 60 had the smallest share (less than 12% each). Of the respondents, 44 persons (29%) had a tertiary agricultural education, 36 (ca. 24%) had a vocational agricultural education, 26 (17%) had a tertiary education, 14 (9%) had a secondary education, 15 (10%) had a secondary agricultural education, and 5 (3%) had a primary

Table 2. Characteristics of the respondents' profile

Variable	Category	Frequency (N)	Percentage [%]
Gender	Male (M)	118	76.00
	Female (F)	38	24.00
Age	< 29	18	11.84
	30-39	48	31.58
	40-49	32	21.05
	50-59	36	23.68
	> 60	18	11.84
Level of formal education	Primary education	5	3.29
	Vocational education	12	7.89
	Vocational agricultural education	36	23.68
	Secondary education	14	9.21
	Secondary agricultural education	15	9.87
	Tertiary education	26	17.11
Family Income [PLN]	Tertiary agricultural education	44	28.95
	> 15,000	10	6.00
	15,000-30,000	3	2.00
	30,000-50,000	49	32.00
	50,000-100,000	7	5.00
	100,000-250,000	1	1.00
< 250,000	82	54.00	

Source: own elaboration

education. Incomes were assessed based on the amounts of income earned in the year prior to the survey (2022), as declared by the farmers. There were large differences in incomes across the population surveyed. Farms with an annual income of PLN 250,000 or more made up as much as 54% of the interviewees, 32% had an annual income of PLN 100,000 to 200,000, and 15% earned between PLN 30,000 and 50,000 per year (Table 2).

This study took into consideration the following behavioral effects which might affect the farmers' investment activity: the availability heuristic, the affect heuristic, over-optimism, overconfidence, the narrow framing effect, and the sunk costs effect.

The availability heuristic means a situation where an individual envisions the likelihood or frequency of certain events based on relevant experience or connotations that can be easily recalled [Cieślak 2003]. When using the availability heuristic in making an assessment, individuals will be guided more by information that is readily available, i.e. is clearer and related to emotions, and will ignore the actual importance of this information for the assessment and decision-making processes. Hence, available statistical data can be of smaller analytical importance than e.g. the conviction of a risky event being highly likely based on past experience and emotions [Motylska-Kuźma, Wieprow 2017].

The farmers were asked whether they would make a decision to purchase an asset based on how easily they can recall it and how renowned it is (Figure 1).

The replies to the question on selecting an asset based on how much an individual knows it (in function of its brand) suggest that a renowned brand, i.e. the ease of recalling information relating to it, is not the first selection criterion for most decision-makers (78%). Note however that in this case, the availability effect – i.e. relying on information which is easier to recall – is accompanied by lower economic availability because branded goods are usually more expensive. According to the findings presented in the literature, the availability effect has an actual and significant impact on the way humans view things,

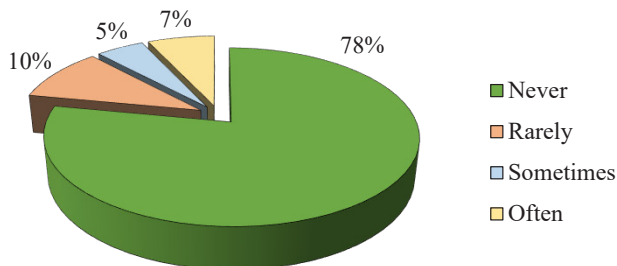


Figure 1. Potential occurrence of the availability heuristic
Source: own study based on the questionnaire survey

and may become the source of major mistakes, which makes it justified to refer to it as the “availability trap” [Czerwonka 2016, Lee 2018].

In order to assess the potential occurrence of the affect heuristic (meaning that individuals make their decisions based on what they emotionally believe to be right) in farm managers, the respondents were asked whether, in making their decision to purchase a new fixed asset (e.g. land, technical equipment, machinery), they:

- thoroughly analyze all the characteristics of the product concerned;
- or are guided by an overall evaluation;
- or rely on a single, important characteristic of it (Figure 2).

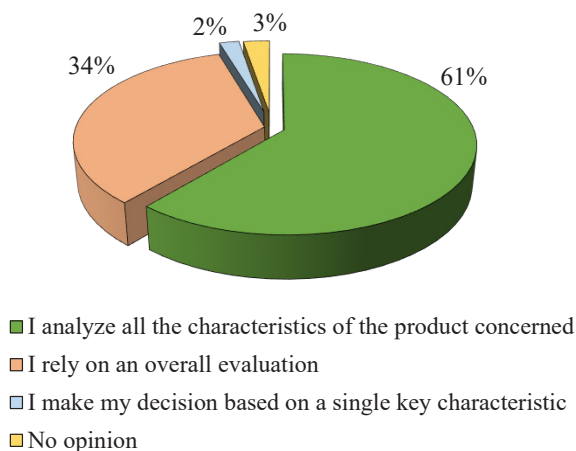


Figure 2. Potential occurrence of the affect heuristic
Source: own study based on the questionnaire survey

Most (61%) of the farmers surveyed said they thoroughly consider the importance of all characteristics of the product concerned, 34% do not perform a detailed analysis and rely on an overall evaluation. The smallest number of interviewees (3%) make their decision based on a single important characteristic of the fixed asset concerned. According to a study carried out with selected actors of the capital market (financial managers, investors, investment fund managers), the participants indicated an association between a high expected return on investment and low risk levels [Ganzach 2000, Czerwonka 2016, Li, Zhao 2021]. Meanwhile, the classical theory of finance claims that a positive correlation exists between the risk and profitability of investments [Vengesai, Muzinduts 2019]. However, because of the affect heuristic, decision-makers faced with time restrictions and limited amounts of information follow general opinions which are driven by emotions rather than underpinned by detailed analyses [Ahmad et al. 2021].

Over-optimism and overconfidence are other effects that may have an impact on investment activities. Often, when the decision-makers are excessively confident in their knowledge and skills, they also demonstrate excessive optimism. The reason for this is that the first of these irrationalities refers to optimism related to the operator's direct activity, whereas the second means an optimistic view of whether certain events can happen (as a result of favorable internal circumstances) [Czempas 2007].

The farmers were asked whether, in preparing different scenarios of forecasted investment viability, they view one of them as being more likely (Figure 3).

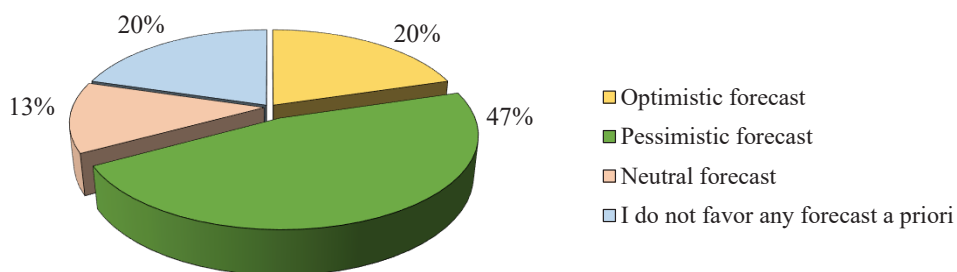


Figure 3. Investment viability forecasts

Source: own study based on the questionnaire survey

As shown by the replies, most (47%) farmers tend to rely on neutral forecasts of how the situation may develop, 20% choose optimistic forecasts and 13% opt for pessimistic ones. Every fifth respondent does not favor any forecast on an a priori basis. A consistent overestimation of the likelihood of an optimistic scenario for the future is indicative of the respondents' over-optimism. According to Nassim Nicholas Taleb [2007], although optimism and adequate self-esteem are essential in succeeding in nearly all professions, underestimating the chances of failure may result in making wrong decisions. It is extremely important to note that excessive confidence in one's own knowledge and skills becomes particularly impactful when people deal with highly complicated tasks, have little capacity to foresee their feasibility, and lack quick, clear outcomes [Barber, Odean 1999].

In order to assess the potential for the emergence of overconfidence, the respondents were asked if they are more, equally or less competent in assessing the investments (Figure 4). The respondents' replies suggest that overconfidence is not widespread in the group surveyed (18%). In assessing their own knowledge of investment topics, a vast majority of them (74%) claimed to be equally competent as other agricultural producers.

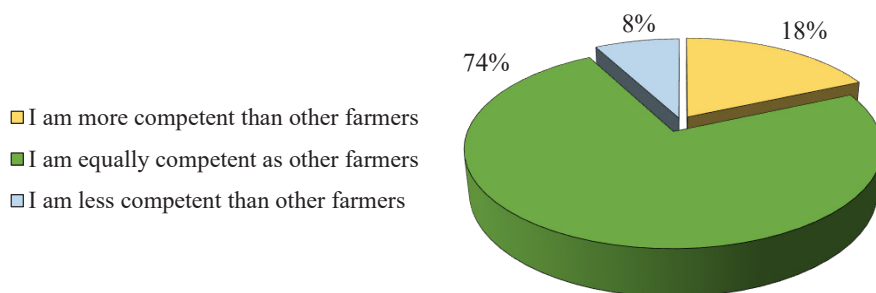


Figure 4. Potential occurrence of overconfidence
 Source: own study based on the questionnaire survey

The results presented in scientific literature indicate that people tend to overestimate their knowledge [Griffin, Tversky 1992, Kahneman 2012, Lis 2016, Sharot, Cass 2020]. People tend to be overconfident especially when faced with questions and problems at a moderate to tough difficulty level [Odean 1998]. Also, psychological research reveals the existence of selective attribution which consists in that people credit themselves for successes (even if incidental) and blame factors beyond their control for any failure [Szyszka 2007].

The next question was about the possible occurrence of the narrow framing effect (Figure 5) which can be reflected in a failure to tell the difference between real and nominal values, and being more inclined to make a more risky use of money easily earned than of hard-earned money.

As shown by the analysis of replies to this question, the vast majority of farmers surveyed (65%) stated that investing their own funds requires a more in-depth analysis.

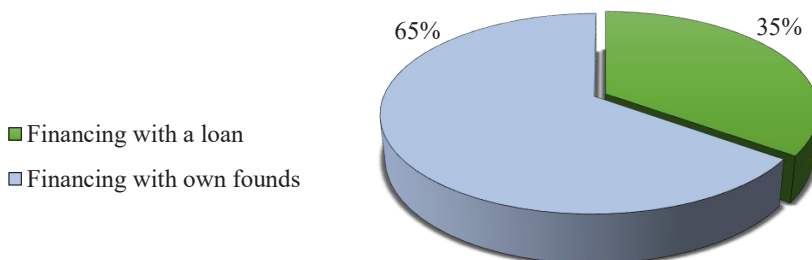


Figure 5. Sources of investment which require a more detailed analysis
 Source: own study based on the questionnaire survey

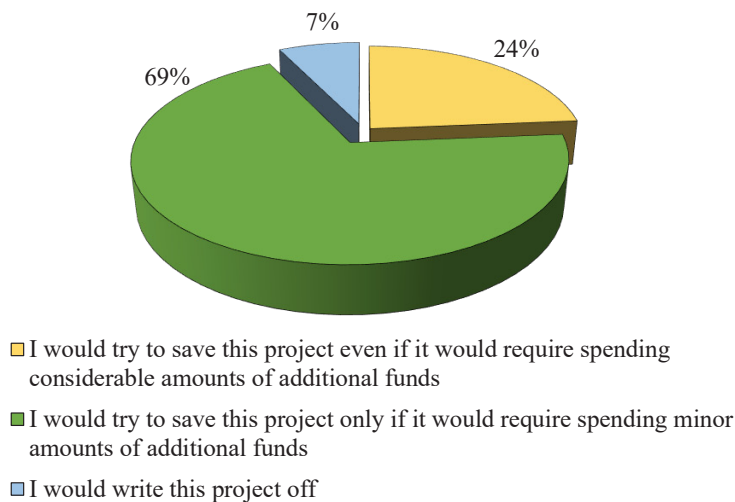


Figure 6. Possible occurrence of the sunk costs effect

Source: own study based on the questionnaire survey

This corroborates the conclusions made by Richard Thaler and Eric Johnson [1990] who discovered that people are less willing to risk their own hard-earned money (house money effect) [Cárdenas et al. 2014]. In the case of this question, note that owners of cash are more risk-averse. Conversely, those who will finance their investments with external funds tend to accept greater risks.

The next question was about the possible occurrence of the sunk costs effects in farmers (which means people are more inclined to continue a project if they already invested some money, effort or time in it) (Figure 6).

The replies provide grounds for concluding that 24% of respondents may be affected by the sunk costs effect (Figure 6). As Piotr Zielonka [2021] notes, that effect is one of the consequences of loss aversion, i.e. the decision-makers' reluctance to discontinue a project which generates losses and start a new one instead. Hence, the greater the loss incurred by the project, the harder it is to discontinue it.

SUMMARY

In summary, the study carried out with farmers based in the Wielkopolskie Voivodeship confirmed that investment decisions at farm level are affected by some behavioral factors. Getting to know the behavioral aspects of investment decisions makes it possible to focus on the problem of rationality of decisions made by farm managers. The study suggests that overconfidence and over-optimism are not widespread in the group surveyed. In assessing their own knowledge of investment topics, a vast majority of them (74%) claimed to be equally competent as other agricultural producers. When preparing the implementation of an investment, most respondents (47%) foresee a neutral scenario of how the situation could develop; 20% opt for an optimistic scenario and only 13% pick a pessimistic one. Nearly ¼ of respondents are likely to be affected by the sunk costs effect. For 22% of interviewees, the brand's reputation is the key criterion in choosing a fixed asset (the availability heuristic). The vast majority of farmers surveyed (65%) replied that investing their own funds requires a more in-depth analysis. This corroborates the conclusions made by Richard Thaler and Eric Johnson who discovered that people are less willing to risk their own hard-earned money.

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BEHAVIORALNE ASPEKTY DECYZJI INWESTYCYJNYCH W GOSPODARSTWACH ROLNYCH

Słowa kluczowe: gospodarstwa rolne, decyzje inwestycyjne, behawioralne aspekty, ryzyko, niepewność

ABSTRAKT. Głównym celem opracowania jest identyfikacja czynników behawioralnych, mających wpływ na decyzje inwestycyjne podejmowane przez osoby zarządzające gospodarstwem rolnym. Źródłem materiałów empirycznych były badania ankietowe przeprowadzone w 2023 roku w 152 gospodarstwach rolnych w Wielkopolsce. Z przeprowadzonych badań wynika, że zjawisko nadmiernej pewności siebie oraz nadmiernego optymizmu występuje w niewielkim stopniu wśród ankietowanych rolników. Oceniając własną znajomość zagadnień inwestycyjnych, 74% rolników stwierdziło, że posiada wiedzę na tym samym poziomie jak inni producenci rolni. Przygotowując się do realizacji inwestycji, większość respondentów, tj. 47% przewiduje neutralny scenariusz prognozy rozwoju sytuacji, 20% optymistyczny, a jedynie 13% pesymistyczny. Prawie 25% respondentów wskazało, że przy wyborze środka trwałego kieruje się renomą jego marki (heurystyka dostępności). Spośród ankietowanych rolników zdecydowana większość, tj. 65%, odpowiedziała, że finansowanie środkami własnymi wymaga bardziej wnikliwej analizy, tym samym potwierdziło to wnioski Richarda Thaler'a i Erica Johnsona, którzy stwierdzili mniejszą skłonność do ryzykowania własnych środków finansowych, zarobionych ciężką pracą.

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