The Influence of Kinship Systems on International Equity Allocation

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Abstract

In the anthropological view, kinship systems differ in their tightness, respectively how strongly people are embedded in very large extended family networks. In tight kinship societies, people trust only those in their group, and cooperation takes place within in-groups, mistrust of those outside the group being high. In loosely kinship societies, people have greater generalized trust in out-groups and are more willing to cooperate and build productive relationships with strangers (Alesina and Giuliano, 2014). These variations in the structure of extended family relationships have led to a heterogeneity of the moral systems that regulate people's behaviour. The theoretical model developed by Enke (2018) predicts that in tight kinship systems, cooperation, and trust are suppressed by communal moral values, emotions of external shame, notions of purity and disgust, and revenge taking. On the other hand, in loose kinship systems, cooperation, and trust are strengthened through universal moral values, internalized guilt, altruistic punishment, and moralizing gods. In this study, we investigate the effect of kinship systems on foreign bias in international equity allocation using data for 36 home investor countries and 35 destination countries for the period 2001–2021. Investors from a tight (loose) kinship system will exhibit less (more) portfolio diversification among foreign markets. Our results provide credence to an information-based explanation, indicating that a lack of information about foreign stock markets amplifies this relationship. At the same time, the association between the kinship systems and foreign bias is stronger in the case of investors that are more nationalistic.

Keywords: foreign bias, foreign portfolio investments, information asymmetry, kinship systems, nationalism