

# **DOES INVESTMENT EXPERIENCE INFLUENCE FUND INVESTORS' PERCEIVED VALUE AND PURCHASE INTENTION?**

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## **ABSTRACT**

*Internet is now one of the most popular channels for investors to acquire investment related information. However, investors with different investment experience in mutual fund may have different perceived quality, perceived risk, and perceived value about Internet information. Therefore, this paper investigates the relationships between Internet information richness, perceived quality, perceived risk, perceived value, and purchase intention for investors with different investment experience. Using random sampling, we administered the questionnaires to investors living in Taiwan from March 1, 2013 to June 1, 2013. The research findings show that Internet information has a larger direct effect on perceived value and a larger indirect effect on purchase intention than perceived quality in Group 1 (investors with investment experience in mutual funds before), whereas perceived quality has a larger direct effect on perceived value and a larger indirect effect on purchase intention than Internet information in Group 2 (investors without investment experience in mutual fund before).*

**JEL:** G1, M1, M5

**KEYWORDS:** Information Richness, Perceived Quality, Perceived Risk, Perceived Value, Purchase Intention

## **INTRODUCTION**

Internet is now one of the most popular channels for investors to acquire information because they can easily find a huge amount of investment related information through Internet. It raises a question: Will information richness affect investors' perceived value and purchase intention differently for investors with different investment experience in mutual funds? Most information richness studies focused on communication media choices (Daft, Lengel, and Trevino, 1987; Lo and Lie, 2008), information security awareness (Shaw, Chen, Harris, and Huang, 2009), or determinants of virtual stores acceptance (Chen and Tan, 2004), with limited research targeting the relationship between Internet information and fund investor's purchase intention for investors with different investment experience. Therefore, this paper investigates the relationships between Internet information richness, perceived quality, perceived risk, perceived value, and purchase intention for investors with different investment experience in mutual funds. This study's results can provide a reference for fund industry practitioners, Internet information providers, and mutual fund investors. The rest of this paper is organized as follows. Section 2 reviews previous research on information richness, perceived quality, perceived risk, perceived value, and purchase intention. Section 3 describes the data and method we employ. Section 4 reports the empirical results, and section 5 concludes the paper.

## **LITERATURE REVIEW**

Information richness is defined as "the ability of information to change understanding within a time interval" (Daft and Lengel, 1984) or "the amount of information that can be conveyed through a communication medium" (Lo and Lie, 2008). Perceived quality is the consumer's judgment about a product's overall excellence and superiority, not the actual quality of a product (Zeithaml, 1988; Aaker, 1991). Perceived

risk is defined as the unfavorable outcomes related to a product or service (Engel, Blackwell and Miniard, 1995), the subjective perception of possibility and severity of a wrong purchase (Sinha and Batra, 1999), or the uncertainty a consumer perceives about the outcome of his or her purchase (Hoyer and Macinnis, 2010). Perceived value represents a trade-off between buyers' perceptions of quality and sacrifice, and it is positive when perceptions of quality are greater than the perceptions of sacrifice (Monroe and Dodds, 1985). Purchase intention is the likelihood that a customer will buy a particular product (Fishbein and Ajzen, 1975; Dodds et al., 1991; Schiffman and Kanuk, 2000).

The information richness is higher if more uncertainty and ambiguity can be reduced timely (Daft and Lengel, 1984), or more information can be conveyed within a time interval (Lo and Lie, 2008). In other words, when information richness is high, uncertainty and ambiguity can be reduced more, thus the consumer's perception about risk will be lower, and investors' judgment about Internet information's overall excellence and superiority and their overall assessment of the utility of Internet information will also be higher. That is, their perception about quality and value of Internet information will be higher. Dowling and Stealin (1994) showed that perceived risk increased when information which consumers possess was less complete. Kim and Lennon (2000) also found that the amount of information perceived by the consumer was negatively related to their perceived risk and positively related to their perceived value. Accordingly, we note the following hypotheses.

H1: The effect of Internet information richness on perceived value is mediated by perceived quality.

H2: The effect of Internet information richness on perceived value is mediated by perceived risk.

Perceived risk plays an important role of the perceived quality-perceived value relationship (Sweeney, Soutar & Johnson, 1999; Snoj, Korda & Mumel, 2004). A higher perception of quality improves consumers' perceived value and then strengthens consumers' purchase intention (Zeithaml, 1988; Dodds et al., 1991). Chen & Chang (2012) and Beneke, Flynn, Greig, & Mukaiwa (2013) proved perceived risk was negatively influenced by perceived quality. Faroughian, Kalafatis, Ledden, Samouel, & Tsogas (2012) also found perceived risk has a significant impact on perceived value. Besides, many scholars have considered that perceived value is relevant to the emotional responses and consumption experiences of consumers, which can further influence the consumer's purchase behavior (Dumana & Mattil, 2005; Sweeney & Soutar, 2001). That is, purchase intention is positively related to perceived value (Beneke, Flynn, Greig, & Mukaiwa, 2013; Zeithaml, 1988; Chen & Chang, 2012; Tih & Lee, 2013). Corter and Chen (2006) show that investors with relatively more investment experience have more risk-tolerant responses and higher-risk portfolios than less experienced investors. Nicolosi, Peng, and Zhu (2009) present evidence that individual investors do learn from their trading experience, consequently adjust their behavior, and thus effectively improve their investment performance. It is rather reasonable to suggest that investors with different investment experience in mutual funds will have different perceived risk or perceived value about Internet information. Accordingly, we propose the following hypotheses.

H3: The effect of perceived quality on perceived value is mediated by perceived risk.

H4: Perceived value has a significantly positive impact on investors' purchase intention.

H5: The effect of perceived risk on perceived value is moderated by investment experience.

## DATA AND METHODOLOGY

Using random sampling, we administered the questionnaires to investors living in Taiwan from March 1, 2013 to June 1, 2013. A total of 550 responses were distributed, and 500 usable responses were collected, for an acceptable response rate of 90.91%. We perform data analyses on SPSS 20.0 and AMOS 21.0, with the adopted methods including descriptive statistics analysis, reliability and validity analysis, correlation analysis, and structural equation modeling (SEM) analysis. We design the items of the questionnaire for the five dimensions: information richness, perceived quality, perceived risk, perceived value, and purchase

intention. These items are measured on Likert’s seven-point scale, ranging from 1 point to 7 points, denoting “strongly disagree”, “disagree”, “a little disagree”, “neutral”, “a little agree”, “agree”, and “strongly agree”, respectively. The gauging scales are selected from the literature. Information richness is gauged by 4 items taken from Daft, Lengel, and Trevino (1987) and Lo and Lie (2008). Perceived quality is measured by 5 items taken from Petrick (2002). Perceived risk is measured by 5 items by means of Dowling and Staelin (1994), Sinha and Batra (1999), and Hoyer and Macinnis (2010). Perceived value is gauged by 3 items taken from Monroe and Dodds (1985). Purchase intention is gauged by 3 items taken from Zeithaml (1988) and Dodds et al. (1991).

**ANALYSES AND RESULTS**

Through descriptive statistics analysis in Table 1, we found that the basic attributes of major group are female (54.0%), unmarried (72.8%), 21-30 years old (63.8%), university education level (72.0%), monthly income below NT\$40,000 (87.0%), students (39.6%), and investors without investment experience in funds before (59.6%). Additionally, all the dimensions in our study have a Cronbach’s  $\alpha$  greater than 0.7, which complies with the criterion proposed by Nunnally (1978) and Wortzel (1979). Factor analysis is taken as a tool to verify the convergent validity of the questionnaire. We extract factors with an eigenvalue greater than 1, a cumulative explained variation greater than 50%, and a factor loading greater than 0.5 (Kaiser, 1958). It also has discriminant validity, because the correlation coefficient of each of the two factors is lower than the Cronbach’s  $\alpha$  of each dimension.

Table 1: Descriptive Statistics Analysis of Sample

	Items	No. of Respondents	Percent (%)
Gender	Male	230	46.0
	Female	270	54.0
Marital status	Unmarried	364	72.8
	Married	136	27.2
	Younger than 20 years old	29	5.8
Age group	21-30 years old	319	63.8
	31-40 years old	82	16.4
	41-50 years old	44	8.8
	Older than 50 years old	26	5.2
Education level	Junior high school	17	3.4
	Senior high school	60	12.0
	University	360	72.0
Occupation	Graduate school	63	12.6
	Service industry	117	23.4
	Financial industry	33	6.6
	Information technology	33	6.6
	Manufacturing industry	29	5.8
	Public servants & teachers	28	5.6
	Students	198	39.6
Monthly income	Others	62	12.4
	Below 20,000	223	44.6
	20,001-40,000		
	40,001-60,000	212	42.4
	60,001-80,000	50	10.0
	More than 14,000	10	2.0
		5	1.0

*This table shows descriptive statistics analysis of the sample. The first two columns represent demographic variables and their items considered in this research. The third and fourth column reports the number of respondents and its corresponding percent, respectively*

This study also conducts structural equation modeling (SEM) analysis to test the fit of the factors (dimensions) of Internet information, perceived risk, perceived quality, perceived value, and purchase intention. The goodness-of-fit indices of the model are as follows: GFI is 0.882, AGFI is 0.848, CFI is

0.907, RMSEA is 0.078, and  $\frac{\chi^2}{df}$  is 4.007. All these indices are within the acceptable range, meaning that the overall model fitness is good (Hair et al., 2009; Gefen et al., 2000; Wheaton et al., 1977).

Figure 1a: Path Analysis - Group 1

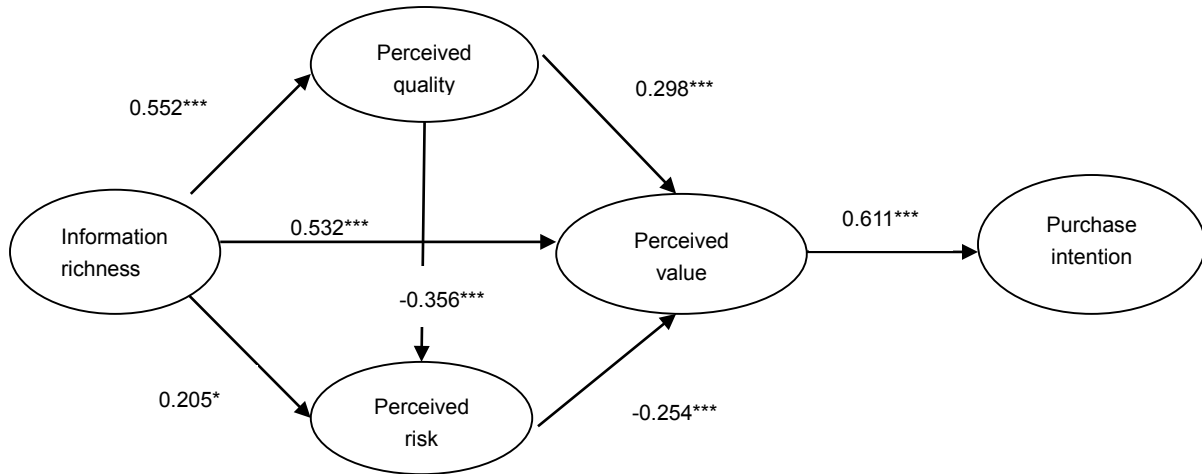
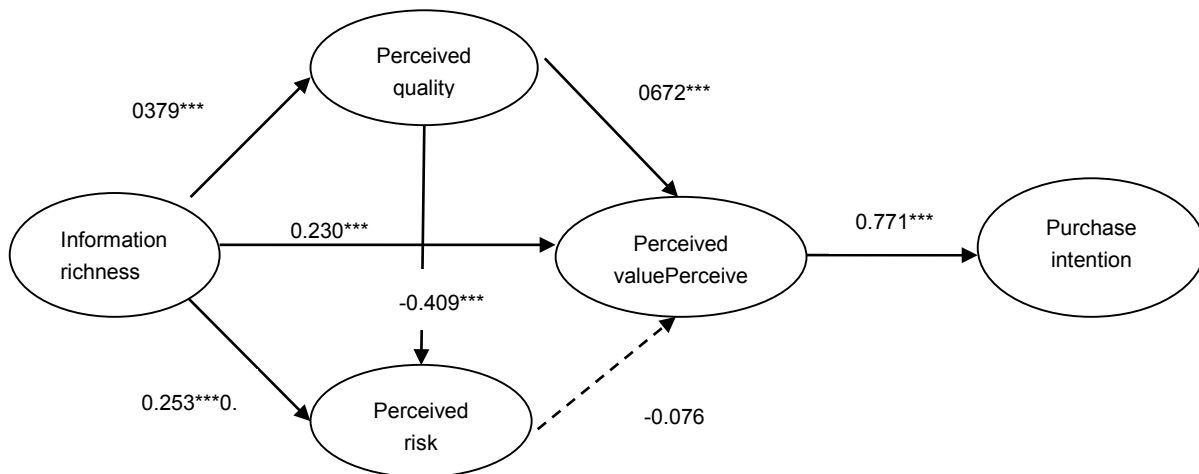


Figure 1b: Path Analysis - Group 2



*This figure shows the path analysis from structural equation modeling. Values beside the path represent the standardized regression coefficients. \*\*\*, \*\* and \* indicate significance at the 1, 5 and 10 percent levels, respectively. Group 1 and Group 2 represents investors with and without investment experience in funds before, respectively.*

Figure 1a and Figure 1b presents the path analyses from SEM for investors with investment experience in funds before (Group 1) and without investment experience in funds before (Group 2). According to the estimated values of the standardized parameters of the relationship model, we find that all the hypotheses are supported in Figure 1a, and the only difference between these two groups is that perceived risk does not have a significant impact on perceived value in Figure 1b.

Table 2: Effect Decomposition

	Information		Perceived Quality		Perceived Risk		Perceived Value	
	group 1	group 2	group 1	group 2	group 1	group 2	group 1	group 2
total effects								
pq	0.552	0.379	0.000	0.000	0.000	0.000	0.000	0.000
pr	0.009	0.098	-0.356	-0.409	0.000	0.000	0.000	0.000
pv	0.694	0.477	0.388	0.703	-0.254	-0.076	0.000	0.000
pi	0.424	0.368	0.237	0.543	-0.155	-0.058	0.611	0.771
direct effects								
pq	0.552	0.379	0.000	0.000	0.000	0.000	0.000	0.000
pr	0.205	0.253	-0.356	-0.409	0.000	0.000	0.000	0.000
pv	0.532	0.230	0.298	0.672	-0.254	-0.076	0.000	0.000
pi	0.000	0.000	0.000	0.000	0.000	0.000	0.611	0.771
indirect effects								
pq	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
pr	-0.197	-0.155	0.000	0.000	0.000	0.000	0.000	0.000
pv	0.162	0.247	0.090	0.031	0.000	0.000	0.000	0.000
pi	0.424	0.368	0.237	0.543	-0.155	-0.058	0.000	0.000

*This table shows the effect decomposition of information richness, perceived quality (PQ), perceived risk (PR), perceived value (PV), and purchase intention (PI). Group 1 (Group 2) represents investors with (without) investment experience in mutual funds before.*

According to the effect decomposition in Table 2, perceived value has the largest total effect on purchase intention in both groups compared to Internet information, perceived quality, and perceived risk. Moreover, the total effects of Internet information, perceived quality and perceived risk on perceived value in Group 1 (Group 2) are 0.694 (0.477), 0.388 (0.703) and -0.254 (-0.076), respectively, whereas the total effects of Internet information, perceived quality and perceived risk on purchase intention in Group 1 (Group 2) are 0.424 (0.368), 0.237 (0.543) and -0.155 (-0.058), respectively. This means that the total effects of Internet information on both perceived value and purchase intention are larger than the total effects of perceived quality on those same two in Group 1. Conversely, the total effects of perceived quality on these two dimensions are larger than that of Internet information in Group 2. Table 2 also shows that Internet information has a larger direct effect on perceived value and a larger indirect effect on purchase intention than perceived quality in Group 1. In Group 2 perceived quality has a larger direct effect on perceived value and a larger indirect effect on purchase intention than Internet information.

## CONCLUSIONS AND SUGGESTIONS

Internet is now one of the most popular channels for investors to acquire investment related information. However, investors with different investment experience in mutual funds may have different perceived quality, perceived risk, and perceived value about Internet information. Therefore, this paper investigates the relationships between Internet information richness, perceived quality, perceived risk, perceived value, and purchase intention for investors with different investment experience. The research findings show that perceived value has the largest total effect on purchase intention in both groups compared to Internet information, perceived quality, and perceived risk. Besides, Internet information has a larger direct effect on perceived value and a larger indirect effect on purchase intention than perceived quality in Group 1, whereas perceived quality has a larger direct effect on perceived value and a larger indirect effect on purchase intention than Internet information in Group 2. According to the results, we suggest that Internet information providers should devote more efforts to strengthen the consistency, reliability, dependability, and superiority of the information which they provided on the Internet. By doing this, the information richness and the perceived quality of Internet information can be enhanced, which in turn increases the perceived value and purchase intention of both more experienced and less experienced investors. The primary limitation of this study is that we only considered perceived quality, perceived risk and perceived value in this study. There are still other factors that impact the purchase intention of mutual funds. Future research is recommended to include other variables in more comprehensive models with possibly higher explanatory power.

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