
Original Article

Does advertising strategy matter in influencing mutual fund purchase?

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ABSTRACT This study explores the role of advertising strategies (informational versus transformational) in consumers' purchase intentions related to mutual funds. Moreover, this study investigates the possible moderating role of gender and financial literacy in advertising strategy. Findings of the experimental approach applied in this study suggest that advertisement strategy does influence investment intention related to the mutual funds. We also found that females are less likely to purchase mutual funds when exposed to transformational advertisements. Moreover, investors with higher financial literacy prefer informational advertisements. The results also indicate that the informational advertisements are more useful and increase awareness levels among investors.

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Keywords: mutual funds; advertising strategy; informational advertisement; transformational advertising; financial literacy; gender

INTRODUCTION

On 1 August 2009, the Securities Exchange Board of India banned entry loads (a fee that is calculated as a percentage of the total investment made) charged by all mutual fund firms operating in India. The bulk of the entry loads was used to service the commissions paid to the brokers selling mutual funds (Anagol *et al*,

2013) since they reduce the search costs of investors (Bergstresser *et al*, 2009). Such removal of incentives to brokers subsequently may increase the search cost of investors. One of the possible avenues available to mutual fund firms to reduce investors' search costs is an effective advertising strategy (Geer, 1997; Barber *et al*, 2005). Despite the importance of advertising strategies in conveying the information content of mutual funds (Haslem, 2012), to date, there are scant studies examining the impact of advertising strategies on investors' decision making.

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Research has shown the importance of the role of gender in advertising strategies (Fisher and Dubé, 2005; Meyers-Levy and Loken, 2014). It has been found that female consumers are comparatively more emotionally reactive than their male counterparts (Dube and Morgan, 1998). However, a number of research studies reported that women process information more comprehensively than men do (Meyers-Levy and Maheswaran, 1991; Darley and Smith, 1995; Benyamini *et al*, 2000; Graham *et al*, 2002). Given these inconclusive research findings, further investigation is required regarding the role of gender in financial advertisement information processing, since males and females experience and process financial information differently (Bajtelsmit and Bernasek, 1996; Barber and Odean, 1999).

In addition, we examine the relationship between financial literacy and advertising strategy, since it has been reported that financial literacy plays a role in influencing the investment behavior of mutual fund investors (Muller and Weber, 2010). Hastings and Tejada-Ashton (2008) found that investors with low financial literacy are more likely to follow broker advice. Therefore, it is important to explore the impact of financial literacy on the investors' mindset empirically. To the best of our knowledge, there is no study that examines whether financial literacy influences the relationship between advertising strategies and investment behaviors. The present study bridges this gap by exploring the impact of financial literacy and advertising strategies on the behavior of the investors.

The present study extends existing knowledge by examining the advertising strategy type as an effective and alternative option to the mutual fund companies to attract new investors. Although prior studies have investigated advertisement of mutual funds, the focus has been on advertising disclosure. Lee *et al* (2013), for example, found positive cognitive responses on the attitude of mutual fund investors when exposed to advertising disclosures. In addition, this study explores the

roles of gender and financial literacy as possible moderators of investment behavior and suggests an optimal advertising strategy. Furthermore, the present work contributes to the determinants distinguishing between advertising content.

HYPOTHESES

Advertising strategies in mutual funds

Previous studies (Lord and Putrevu, 2009; Ahn *et al*, 2011; Fennis *et al*, 2012; Cui *et al*, 2013) have categorized advertising strategies into informational and transformational strategies. The notion of informational advertising strategy is based on the well-documented information processing concepts (Fishbein and Ajzen, 1975). On the other hand, the concept of transformational advertising strategy is rooted in three dissimilar research domains, namely: (i) emotional factors (Rogers, 1983); (ii) explicit classical conditioning factors (Petty and Cacioppo, 1981); and (iii) motivational factors (Dichter, 1964). Puto and Wells (1984) argued that transformational advertisements position a brand by the psychological characteristics of a consumer, whereas informational strategies are based on providing factual data related to the characteristics of the offering. Moreover, studies have reported positively regarding transformational content in service-related advertisements (Butler and Abernethy, 1994; Abernethy and Franke, 1996; Jones and Smythe, 2003; Yim *et al*, 2007; Mortimer, 2008). However, other studies concerning advertisement content in services have advocated the informational content effectiveness of service advertisements (Lee *et al*, 2011; Sisodia and Chowdhary, 2012).

Prior studies have also found that advertising has an important role to play in promoting mutual funds (Capon *et al*, 1996; Jones and Smythe, 2003; Barber *et al*, 2005). For instance, Haslem (2010) found that

investors react positively to mutual funds' advertisements. Wilcox (2003) has shown that investors consider past fund performance as an investment criterion. Similarly, Cronqvist (2006) stated that mutual fund advertisements rely on past performance to attract potential investors. However, Kuhnen and Knutson (2011) reported that emotional aspects influence investment in mutual funds. Moreover, prior studies have found that advertisements save search costs related to investments and play a crucial role in attracting investors (Barber *et al*, 2005).

Overall, the lack of evidence for the importance of advertising strategies in financial products' promotions, combined with the significance of advertisements in promoting mutual funds, leads us to expect that the selection of advertising strategy should have an impact on purchase intention. Hence, the following hypothesis is proposed:

Hypothesis 1: Consumers' purchase intentions of mutual funds is a function of the advertisement strategy (informational versus transformational).

Importance of gender in financial services products

The selectivity hypothesis postulates that the genders exercise different strategies and have different thresholds for processing information (Meyers-Levy and Loken, 2014). Previous studies have shown that the intensity of the emotional practices experienced by females is more frequent (Barrett *et al*, 2001) and is more intense than the emotional practices experienced by males (Birnbaum *et al*, 1980). Further, it is also reported that females are required to be persuaded much harder by advertisers to initiate a change of emotional states compared with males (Dube and Morgan, 1998). However, it has also been found that the intensity of various emotional experiences is the same across both genders (Kring and Gordon, 1998). In addition,

a number of research studies support the notion that women process information more comprehensively than men do (Meyers-Levy and Maheswaran, 1991; Darley and Smith, 1995; Benyamini *et al*, 2000; Graham *et al*, 2002).

Since advertising strategies, as mentioned above, are based on information processing concepts and given the gender variation in information processing, we expect a moderating role of gender on the purchase intention of mutual funds. Hence, we propose the following hypothesis:

Hypothesis 2: Gender moderates the impact of advertising strategy on the purchase intention of mutual fund investors.

Financial literacy and investments in financial products

Muller and Weber (2010) have stated that most of the individual investors face problems of financial literacy. Similarly, Lusardi and Tufano (2009) have found that financial literacy has a significant influence on the investment behavior related to financial products. It has also been found that investors who are low in financial literacy level are less likely to invest in the stock market (Van Rooij *et al*, 2011). Moreover, they are more likely to make an investment decision on the basis of the brokers' consultation fees (Hastings and Tejada-Ashton, 2008), face more problem in wealth management (Hilgert *et al*, 2003; Stango and Zinman, 2007) and are more prone to make mistakes in their retirement plans (Lusardi and Mitchell, 2006; 2007; 2009).

Overall, these studies suggest that the financial literacy of investors may play a significant role while processing information via advertisements. Therefore, it is expected that when an investor is exposed to a mutual fund advertisement, the informational or transformational content of the advertisement would interact with the level of financial

literacy that investor possesses. Subsequently, there is a need to examine the role of financial literacy in selection of advertising strategy. Hence, the following hypothesis is proposed:

Hypothesis 3: Financial literacy has an impact on the selection of advertising strategy.

METHODOLOGY

The selection of stimuli

We have used audio-visual advertisements as stimuli since previous studies have shown that the audio-visual medium is more effective in order to influence customers (Rossiter and Percy, 1980; Burns *et al*, 1993). Initially, we selected five advertisements for each category (informational and transformational strategies) from various web portals. Thereafter, these advertisements were shown to five different professionals working in the mutual fund industry in India. We requested them to rank these advertisements separately based on these two advertising strategies. On the basis of the suggestions, we selected advertisements and categorized them into informational and transformational strategy advertisements. The above procedure allowed us to have minimum overlap between the different categories of advertisements. Since we selected advertisements from web portals, the brand names associated with the advertisements were modified using a hypothetical brand name.

Pretest

Once the advertisements were decided upon, two focus groups comprising the targeted sample of respondents (those who are known to have invested in mutual funds in the past year) were formed to corroborate the manipulations made in the advertising strategies. The focus groups consisted of a balanced group of individuals in terms of gender, educational background and income level. To address the

issues of validity of the experiment, we randomly assigned respondents to each of the groups while maintaining group composition balance. All the participants went through both the advertisements. To validate the findings with regard to the manipulations, the participants were given a scale to rate the test advertisements based on informational and transformational content. A significant difference was found between the mean scores of group 1 in informational ($M = 5.32$) and transformational ($M = 1.53$) content of the advertisement shown to them. Thus it validated the informational content of the advertisement chosen for the experiment. Similarly, a significant difference was found between the mean scores of group 2 respondents in informational ($M = 2.12$) and transformational ($M = 4.87$) content of the advertisement shown to them. This validated the transformational content of the advertisement chosen for the experiment. Results from the focus group participants showed that the advertisements were successful in categorization as per the strategy (informational/transformational) intended. Hence, it was concluded that the pretests were successful in nature (see Table 1).

Sample and experimental procedure

The target population for the study was past investors of 1 year in mutual funds in India. The study was conducted in Hyderabad. The sampling frame consisted of a list of past investors from a brokerage firm. We followed purposive sampling. One hundred and sixty respondents were selected randomly from the list in order to have eighty males and females, respectively. We randomly assigned the

Table 1: Scale means for each commercial

	Group 1 mean scores***	Group 2 mean scores***
Informational content	5.32	2.12
Transformational content	1.53	4.87

*** Indicates significance at 1 per cent between group mean scores.
Note: The table shows the mean value of advertisement type.

Table 2: The sample profile of study participants

Variable	N	%	Variable	N	%
Age			Education (Highest level)		
25–35	60	37.5	College graduate	95	59
Between 35–50	54	34	Post-graduate	48	30
Greater than 50	46	28.5	Higher than post-graduate	17	11
Gender			Annual income (Hundred 000's per annum(INR))		
Male	80	50	Less than 5	11	7
Female	80	50	Between 5–10	115	71.8
			Greater than 10	34	21.2
Marital status			Occupation		
Married	123	77	Service	105	65.6
Single/others	37	23	Self-employed	55	34.4

Note: The table shows the profile of our respondents.

respondents into two groups. Thereafter, we exposed one group to the informational advertisement and another group to the transformational advertisement. Every effort was made to mimic a natural viewing environment. Each group was exposed to a single type of advertisement only. These were shown to them concurrently but in different rooms in order to control the sharing of their experiences about the advertisements. Furthermore, respondents were also requested to avoid expressing their feelings about the advertisement until after they completed the questionnaires in order to minimize social contagion effects (Howard and Gengler, 2001). The sample composition of the experiment is presented in Table 2.

MEASUREMENTS

Informational and transformational content

Data was collected following Puto and Wells' (1984) well-known scale of informational and transformational content of advertisements. Puto and Wells' (1984) scale originally had 23 items. Eight of them represent informational content measures (Cronbach's $\alpha = 0.89$) and the remaining fifteen items show transformational measures (Cronbach's $\alpha = 0.91$). Scores on the informational as well as transformational content of advertisements were measured as

the summation of scores of their respective representative measures.

Purchase intention of mutual fund

The scale of Kozup *et al* (2008) was used to operationalize the concept of purchase intention related to mutual fund. The original scale consisted of three items. Only the third item of the scale was utilized as it related to the specific objective of this study. The item to measure purchase intentions was measured on a 7-point Likert scale ranging from less likely (1) to more likely (7).

Financial literacy

The standard scale of financial literacy that has five questions covering various basic aspects of foundational financial knowledge was used (Big Five) to calculate the financial literacy scores of the respondents (National Financial Capability Study, USA (FINRA Investor Education Foundation, 2013)).

Covariates

To account for social demographic factors that may have an impact on the proposed relationships, we included the following covariates to control for their effect in our study. These covariates include variables such as age group, income, education, occupation and marital status.

Confound checks

We performed a confound check to assess the magnitude of gender difference in financial literacy. There was no significant difference ($P > 0.3$) in the mean scores of females ($M = 3.8$) when compared with males' mean scores ($M = 4.1$).

DATA ANALYSIS AND RESULTS

Manipulation checks

No differences were seen among the two groups in familiarity of the advertisements shown ($P > 0.2$). Similarly, insignificant difference was reported ($P > 0.3$) among the two groups in terms of the ease of understanding the message conveyed in those advertisements.

Hypothesis tests

We used multiple regression to examine our hypothesis. The dependent variable was the purchase intention of mutual funds. Table 3 reports the findings. Consistent with Hypothesis 1, we found (model 1) that the coefficient of *Advtg type* is negative and statistically significant at 1 per cent level (coefficient = -0.48 , P -value < 0.0001). This finding suggests that informational advertisements had higher impact on the purchase intention compared with transformational advertisements. Concerning Hypothesis 2, as hypothesized, the moderating role of gender in influencing the purchase intention was observed. Examination of the moderating effect revealed that females' purchase intention is influenced more by informational adds compared with males (in model 3, $Gender \times Advtg\ type = -0.19$, P -value < 0.05). Thus, these results confirm Hypotheses 1 and 2.

Hypothesis 3 stated that investors with higher financial literacy should give more importance to the informational advertisements compared with transformational advertisements. As shown in model 5 of

Table 3, the interaction effect (*Financial Literacy* \times *Advtg Type*) is statistically significant (t -value = -6.54 , P -value < 0.0001) with a negative coefficient (-1.46). Our result supports Hypothesis 3.

We also used a number of control variables: income, age, education, occupation and marital status. We found that the purchase intention of mutual funds is negatively correlated with the level of education. Self-employed investors were less likely to purchase mutual funds compared with those employed in salaried service. We also found that marital status was an important determinant of the purchase intention of mutual fund.

DETERMINANTS DIFFERENTIATING CONTENT AMONG TYPE OF ADVERTISING STRATEGY

In this subsection, we measured determinants related to contents shown in an advertisement. Since these determinants may direct us on how investors differentiated between the advertisements that were shown to them for this study. For this analysis, we performed logistic regression, where the dependent variable takes the value 1 for the informational advertisement and 0 for the transformational advertisement. We reported the results in Table 4. It was found that informational advertisements are much more likely to aid in awareness levels of the investors when compared with the transformational ones (odd ratio = 8.34 , P -value < 0.0001). Similarly, we found that informational advertisements were more likely to be useful for investors when compared with transformational advertisements when making investment decisions (odds ratio = 1.34 , P -value < 0.0001) (Table 4).

DISCUSSION

Theoretical implications

Our findings complement the well-documented information-processing concepts

Table 3: Determinants of purchase intentions of mutual fund

Variables	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value
Intercept	-4.98*** (-83.41)	-4.97*** (-83.52)	-4.94*** (-83.41)	-5.19*** (-12.39)	-5.00*** (-13.27)	-4.68*** (-8.12)	-4.28*** (-8.02)	-3.85*** (-3.86)	-3.68*** (-3.15)	-3.66*** (-3.07)
<i>Advtg type</i>										
Ref = Informational										
Transformational	-0.48*** (-4.71)	-0.48*** (-33.57)	-0.55*** (-13.29)	-0.51* (-1.66)	-0.53** (-2.16)	-0.51** (-2.44)	-0.65** (-2.32)	-0.41** (-2.08)	-0.59** (-2.26)	-0.61** (-2.54)
<i>Gender</i>										
Ref = Males										
Females	—	-0.04 (-0.61)	-0.10*** (-3.75)	-1.94*** (-7.19)	-0.16*** (-6.9)	-0.15*** (-2.97)	-0.13*** (-2.74)	-0.14*** (-3.27)	-0.09*** (-2.67)	-0.08*** (-2.63)
Gender*Advtg Type	—	—	-0.19** (-1.95)	-0.12** (-1.95)	-0.22** (-2.05)	-0.24** (-2.06)	-0.28** (-1.93)	-0.43** (-2.12)	-0.45** (-2.26)	-0.45** (-2.28)
Financial literacy	—	—	—	-0.03 (-0.42)	-0.03 (-0.41)	-0.04 (-0.53)	-0.04 (-0.58)	-0.05 (-0.63)	-0.07 (-0.65)	-0.04 (-0.55)
Financial literacy*Advtg Type	—	—	—	—	-1.46*** (-6.54)	-1.66*** (-7.84)	-1.85*** (-7.99)	-1.62*** (-6.91)	-1.54*** (-6.32)	-1.36*** (-5.56)
<i>Income</i>										
Ref = less than 500 000 pa										
500 000–1 000 000 pa	—	—	—	—	—	-0.18 (-0.57)	-0.17 (-0.68)	-0.17 (-0.57)	-0.19 (-1.27)	-0.14 (-1.38)
Greater than 1 000 000	—	—	—	—	—	-0.47 (-0.68)	-0.47 (-0.68)	-0.47 (-0.68)	-0.47 (-0.68)	-0.47 (-0.68)
<i>Age</i>										
Ref = 25–35 years										
35–50 years	—	—	—	—	—	—	0.59** (2.05)	0.63** (2.07)	0.58** (2.11)	0.54** (2.15)
Greater than 50	—	—	—	—	—	—	0.89** (2.45)	0.85** (2.45)	0.87** (2.45)	0.86** (2.45)

Table 3 (Continued)

Variables	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value	Coefficient t-value
<i>Education</i>										
Ref = Undergrads										
Masters	—	—	—	—	—	—	—	−0.22*	−0.27*	−0.24*
								(−1.79)	(−1.69)	(−1.72)
Higher than masters	—	—	—	—	—	—	—	−0.47**	−0.43**	−0.41**
								(−2.18)	(−2.25)	(−2.38)
<i>Occupation</i>										
Ref = Service										
Self-employed	—	—	—	—	—	—	—	—	0.45**	0.52**
									(−2.21)	(−4.24)
<i>Marital status</i>										
Ref = Single/other										
Married	—	—	—	—	—	—	—	—	—	0.32*
										(−1.67)
Adjusted R ²	0.06	0.07	0.08	0.08	0.1	0.11	0.15	0.23	0.26	0.28
N	160	160	160	160	160	160	160	160	160	160

Notes: The table presents the determinants of purchase intentions of mutual fund. Purchase intention of mutual funds is measured by Likert scale where 1 = least likelihood and 7 = most likelihood of purchase. Advertising type is a dummy variable and takes value 1 for transformational advertisement, otherwise 0 (Informational). Variable Gender is a dummy variable and takes value 1 for female, otherwise 0. Financial literacy is measured by National Financial Capability Study, USA (FINRA Investor Education Foundation, 2013). Occupation is a dummy variable and takes value 1 for Business, otherwise 0. Marital status is a dummy variable and takes value 1 for married, otherwise 0. *** Indicates significance at 1 per cent, ** indicates significance at 5 per cent, * indicates significance at 10 per cent.

Table 4: Determinants of advertisement type

Variable	Estimated odds ratio	Variable	Estimated odds ratio
Awareness	8.34***	Sufficient	0.69
Financial Literacy	1.13***	Interesting	0.84
Attractive	0.06	Likeable	0.58
Useful	1.34***	—	—

*** Indicates significance at 1 per cent, ** indicates significance at 5 per cent, * indicates significance at 10 per cent.

Notes: This table shows the determinants of advertisement type. The dependent variable is a dummy variable and takes 1 for informational advertisement and 0 for transformational advertisement.

(Fishbein and Ajzen, 1975) of informational advertising strategy. Since mutual funds' informational advertisements are based on factual data, our study further supports Puto and Wells' (1984) argument on informational strategies. Our study also contributes to literature concerning advertisement content in services, where the informational content effectiveness is advocated (Lee *et al.*, 2011; Sisodia and Chowdhary, 2012).

Next, we contribute to the literature related to gender differences in information processing as advocated by the selectivity hypothesis (Meyers-Levy and Maheswaran, 1991) that posits females process information more comprehensibly (Meyers-Levy and Sternthal, 1991). Consistent with this hypothesis, our study has found that females prefer informational messages where they may notice and elaborate more extensively on relevant information (Meyers-Levy and Loken, 2014). On the basis of our findings, it is prudent to contest the stereotypical image of females that is propagated with respect to their emotional decision making (Barrett *et al.*, 2001). The findings of this study rather point to the strong cognitive and utilitarian values of females similar to Fisher and Dubé (2005).

The present study extends the knowledge in the theory of financial literacy and its importance in investment decisions (Fox *et al.*, 2005; Perry and Morris, 2005), since enhanced levels of financial literacy reflect investors' superior financial decision making (Wonder

et al., 2008). Further, our findings add to the literature of financial literacy and advertisements influencing financial behaviors related to wealth accumulation, participation in capital markets, risk management and asset allocation in financial plans (Wiener and Doescher, 2008; Monticone, 2010). Our findings also support the earlier studies that relate to informational advertisements' importance in influencing investors' cognitive abilities to make financial decisions (Huhmann and Bhattacharyya, 2005; Kozup and Hogarth, 2008).

Managerial implications

The results of this study suggest that the managers who design advertising strategies should focus more toward the informational strategy. They must not rely purely on emotional aspects for selling mutual funds via their advertisements. As the findings of this study reveal, relying solely on emotional aspects actually impacts the targeted customers in a negative manner. The age old belief of females being more emotional and hence tending to be influenced by transformational content is not true, as has been proven by this study. In fact, we have shown that females are as good as their male counterparts in terms of financial literacy and prefer informational advertisements for mutual funds. The results also indicate that financial literacy of investors matters for selection of advertising strategy. In addition, managers should note that informational advertisements concerning mutual funds are likely to be more useful and increase the awareness level of consumers as reported.

Future research should emphasize examining psychological factors such as self-efficacy, motivation and degree of involvement of the investors since it has been found to affect the response of the investors to different advertising messages (Lee and Aaker, 2004). Future studies may look into other financial products such as insurance, stocks and term deposits that might produce diverse findings.

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