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The impact of country-of-origin cues on consumer investment behavior: the moderating influence of financial brand strength and investment management style

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## **The Impact of Country-of-Origin Cues on Consumer Investment Behavior: The Moderating Influence of Financial Brand Strength and Investment Management Style**

### **Abstract**

**Purpose:** Choosing how to invest one's assets is one of the more important decisions consumers are faced with. However, determining the objective financial quality of complex investment products such as mutual funds is not an easy task for consumers. Against this background, this study aims to clarify the potential impact of one, not necessarily rational, cue on consumer perceptions of financial quality in the investment context: the country-of-origin (COO) of the mutual fund or stock.

**Design/methodology/approach:** Two web-based experiments are used to test the study's hypotheses

**Findings:** COO is found to impact investors' evaluation of the financial metrics of mutual funds, both in terms of perceived risk and potential return. Moreover, the results of experiment 2 show that while a strong financial brand can partially overcome the COO effect, the extent of this effect is moderated by whether the fund utilizes an active or passive management style.

**Research limitations/implications:** While mutual fund providers with a strong financial country image may leverage that image and build on their home country's brand, providers from countries with a poor financial country image may do well focusing on passive management to minimize negative COO influence.

**Originality/value:** The results highlight that COO can be an important source of sub-optimal investment decisions. These insights are of high importance for efforts to improve consumer decision-making and for individual service providers.

**Key words:** Investment behavior, Consumer behavior, Country-of-origin, Mutual funds, Financial quality, Cue-utilization

**Article Classification:** Research paper

## INTRODUCTION

In terms of personal financial welfare, choosing how to invest one's assets is one of the more important decisions consumers<sup>1</sup> are faced with. Consider, for example, the case of retirement savings, where many countries now allow individuals to choose among mutual funds within a public pension framework (e.g., Dahlquist and Martinez, 2012). For many people, these investments compound over multiple years, resulting in a potentially large impact on the consumer's welfare at retirement. It is not surprising, then, that at least part of the wealth dispersion in retirement among people of similar income has been attributed to the investment decisions individuals make (e.g., Venti and Wise, 2001).

Given the increased responsibility borne by the individual, there have been frequent calls for more research that aims to understand and aid consumers in their investment decision-making (Kozup and Hogarth, 2008; Nenkov et al., 2009). As a response to these calls, consumer behavior research has recently started to turn attention towards understanding the nature and biases involved with making investment decisions (e.g., Aspara, 2013; Aspara and Chakravarti, 2015; Aspara, et al., 2015; Devlin, 2011; Disatnik and Steinhart, 2015; Duclos, 2015; Duclos et al., 2013; Hadar et al., 2013; Lee and Andrade, 2011; Morrin, et al., 2012; Raghubir and Das, 2010; Strahilevitz, et al., 2011). In this paper, we build and expand upon this recent tradition of consumer behavior research on investment decision-making. We apply cue-utilization theory (Olson, 1972) to better understand consumer investment decision-making, and we suggest that one, not necessarily rational, cue used by non-professional investors to determine the quality of an investment object is the country-of-origin (COO) of the mutual fund or stock. In the consumer research domain, COO is a frequently studied phenomenon, and COO effects have been thoroughly studied in a variety of empirical contexts (Verlegh and Steenkamp, 1999). However, whether and how country-of-origin in the financial sector impacts how consumers make investment decisions is still a highly unexplored area (Gerrath and Leenders, 2013). Because COO is not necessarily a good cue to follow from a financial standpoint (consider, for example, the financial trouble that many companies from countries with a high financial country image found themselves in during 2008 and 2009), documenting possible COO effects in consumer investment behavior is of high importance. Moreover, because mutual fund providers increasingly export their funds across national borders, and because it is now possible for non-professional investors to easily purchase stocks and funds listed on foreign stock markets through new electronic trading platforms, this question is more relevant than ever before.

Against this background, the aim of the current paper is to examine whether the COO of an investment object (mutual fund or stock) impacts consumer evaluations of its key financial metrics, such as the potential for financial return and level of risk. Across two experiments, we indeed find that COO significantly impacts consumer evaluations of financial metrics in mutual funds. Furthermore, when proceeding with an in-depth exploration of the COO effect, experiment 2 shows that while a strong financial brand can partially overcome the COO effect, the size of this effect is moderated by whether the fund utilizes an active or passive management style. In documenting these effects in the investment context, our results hold important implications for both efforts to improve consumer decision-making in the investment arena and for financial services marketers based in countries with both strong and weak financial COO connotations.

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<sup>1</sup> Because investors in mutual funds are both consumers of the management service and investors in the underlying financial instruments, the terms investor and consumer are used interchangeably throughout the paper.

## THEORETICAL BACKGROUND

### **Consumer investment decision-making**

On an overall level, research on financial decision-making has evolved from a pure utility-maximizing exercise to a task considered to be open to many different types of influences, motivations, and decision-making styles (e.g., van Raaij, 2015; Statman, 2011). While early research, inspired by traditional economic ideas, generally focused on a rational decision-making approach, more recent research has documented many deviations from this perspective (e.g., van Raaij, 2015). Kahneman and Tversky (1979), for example, demonstrated a number of deviations from the axioms of rational choice theory. Recent research in the fields of behavioral finance, economic psychology, and consumer behavior has further highlighted “irrationalities” and “biases” such as the influence of emotions (e.g., Aspara and Tikkanen, 2011; Rubaltelli, et al., 2010; Strahilevitz et al., 2011), the influence of information format or presentation (e.g., Duclos, 2015; Morrin, et al., 2008; Nenkov, et al., 2009; Raghbir and Das, 2010), and the influence of type and quantity of personal savings goals (e.g., Aspara and Hoffmann, 2015; Soman and Zhao, 2011; Ülkümen and Cheema, 2011) on consumers’ investment and savings decisions.

A key component in the utility-maximizing paradigm is quality expressed as expected return and expected risk. In newer, more behaviorally oriented research, financial quality is similarly visible in the focus on subjective judgments of investment objects. This behavioral orientation has brought up at least two key characteristics of the investment decision that make the investment task difficult for consumers: the high level of complexity of the decision-making environment and the low level of financial literacy among investors. As for complexity, research has shown that a marked impact on consumer behavior, e.g., limited choice criteria employed (Devlin and Ennew, 1997), reliance on financial advisors (Söderberg, 2013) and the importance of the existing relationship (i.e., previous experience with the financial institution) (Devlin, 2007). The research on financial literacy, on the other hand, has confirmed that consumers are generally ill-equipped to deal with this complexity (e.g., Kozup & Hogarth, 2008; Lusardi and Mitchell, 2014). As a result, consumers low in financial literacy have been shown, e.g., to be unbanked to a larger extent (Grimes, et al., 2010), to insufficiently plan and save for retirement (van Rooij, et al., 2012) and to participate in stock market investing to a lesser extent (Calvet, et al., 2007). The combination of generally low levels of financial knowledge, with the underlying complexity of the decision-making environment, thus makes it difficult for consumers to accurately judge the quality of different investment offerings (Devlin, 2011; Lee et al., 2012).

### **The role of COO in consumer investment behavior**

Although several theoretical perspectives have been used to understand decision-making in an investment context, one of the most useful, due to its capacity to capture the complexity of the investment decision, is that of cue-utilization theory (Olson, 1972). In essence, cue-utilization theory was developed from the insight that consumers often find themselves in situations where it is difficult to accurately judge the quality of an offering (Hansen, 2005; Devlin, 2011). According to cue-utilization theory, consumers deal with these situations by selecting one or more cues or signals as a foundation for evaluating the quality of the offers at hand. Here, research has identified a vast number of both intrinsic and extrinsic cues that consumers use in their decision-making, one of which is that of COO (e.g., Pharr, 2005).

Within the COO domain, multiple studies have documented COO effects on how consumers evaluate the quality of products and services (Verlegh and Steenkamp, 1999). Here, the mental shortcuts associated with the COO effect are largely based on the positive or negative country images (CIs) consumers have towards specific countries in the context of the specific product. Thus, because consumers' CIs can vary across a product category, so too can COO effects (e.g., Brijs et al., 2011). While a country such as France, for example, can enjoy a positive country image for one category of products, such as fine wines (Bruwer and Buller, 2013), this may not necessarily be translated to other contexts, industries and products (Leclerc et al., 1994), such as investment services.

While COO has been found to impact consumer evaluations in many different settings (for a review, see Bloemer et al., 2009), research efforts on *financial* country images and their subsequent COO effects on consumer investment behavior are rare. A notable exception here, however, is a study by Brady et al. (2005), who show that "national reputation" is a more important cue in the mutual fund context than it is in more tangible offerings, such as hotels and computers. The potential importance of COO has also been shown in a handful of studies that focus on related industries such as banking and insurance. For example, in studying COO effects in services with different levels of perceived risk, Michaelis et al. (2008) show a positive COO effect on trust in the context of German and Polish insurance services. Berentzen et al. (2008) highlight similar COO effects for banking services in Switzerland, Germany and Poland. Further, Gerrath and Leenders (2013) also focus on banking services and show that country images (of Greece, the US, and Switzerland) likewise had an impact on overall perception of the bank.

In all, the previous research reported above indicates that COO can potentially play an important role in consumer evaluations of quality in investment services. Moreover, external cues (such as COO) have been shown to be more important in situations with high risk and high levels of uncertainty (Brady et al., 2005). Because investment services in general, and purchasing mutual funds in particular, are activities with both a high level of perceived risk and a high level of uncertainty, consumers may be more likely to rely on COO for judgment of quality in than in more tangible contexts. Against this background, we assume that the COO of an investment object impacts consumers' financial perceptions of this object, and we state our first hypothesis:

*H<sub>1</sub>: Consumers will evaluate a mutual fund from a country with a more favorable financial country image as having (a) potential for a higher future financial return and (b) a lower level of perceived risk compared to a mutual fund with a less favorable country image*

### **Overcoming (or leveraging) the COO effect: the influence of financial brand strength and management style**

According to H<sub>1</sub>, the COO cue is likely to influence the consumer investment decision-making process. If this is the case, this would represent a major concern for financial service providers from countries with a poor financial country image, as it would imply that these companies would have an innate disadvantage even before presenting information regarding the investment service. Although there may be no straightforward way to get around this negative COO effect, one strategy that may be appealing to companies could be to develop other cues that signal a high-quality investment service. In the case of investment services, developing a strong financial brand that signals expertise, competence and trustworthiness

may be particularly relevant (e.g., de Chernatony and Cottam, 2006; Devlin and McKechnie, 2008).

In the investment decision-making context, brands have traditionally not been of focal interest. It could, however, be argued that due to an increased digitalization of financial consumption, the importance of a strong brand is exacerbated: the on-line consumer connects with a multitude of brands through channels not controlled by producers/retailers (or in a financial context, banks and fund companies) and subsequently iterates between them towards a purchase decision (Edelman, 2010). Recent research has accordingly highlighted the importance of brands to consumer investment behavior and has shown, for example, that consumers who have a more positive view of the company brand also give more attention to, and are more willing to invest in, the stock for reasons unrelated to financial return (Aspara, 2013; Aspara and Tikkanen, 2010). One of the primary reasons the brand is important in the investment and financial services context is its connection to trust (e.g., Dawes Farquhar and Robson, 2015). Because investment services are notoriously difficult for the average investor to evaluate and involve the often uncomfortable notion of taking on financial risk (e.g., Hansen, 2012; Sekhon et al., 2014), trust in the investment provider can reduce anxiety and constitute an important facet of loyalty (e.g., Hansen, 2014). Thus, developing a strong financial brand that signals expertise and competence and thereby instills trust among retail investors is likely to be an important task for investment providers.

However, while a strong financial brand is a likely key to overcoming (or leveraging) COO effects, one factor that may influence its potential to do so is *how* the fund is managed. Generally, mutual funds differ in their management style. Two different categories are usually considered: the *actively managed* mutual fund and the *passively (indexed) managed* mutual fund (e.g., Bird, et al., 2013; Boldin and Cici, 2010; Guercio and Reuter, 2014; Müller and Weber, 2010). Here, passive management is generally a structured process with more-or-less set rules, or even automatic trading, usually in connection to following an underlying stock market index (Bogle, 2014; 2016). In these types of mutual funds, the standardization of the offering means that the investment provider of the mutual fund has a limited influence on the investment process, as most activities the mutual fund performs are highly regulated and automated (Lichtenstein, et al., 1999). In active management, on the other hand, the investment provider (particularly the manager or management team) of the mutual fund is a key actor (e.g., Haslem, 2013; Lichtenstein et al., 1999). Here, financial competence to pick stocks and other financial instruments is necessary in order to “beat the market” or achieve a “better-than-average” return (e.g., Gort, 2009). Thus, in essence, management style (active or passive) could be seen as the liberty or freedom that is given to the service provider by the investor to manage the fund in a manner it deems appropriate. In an actively managed situation, freedom is given to providers to use their judgment and pick stocks to create a portfolio that is hoped to perform better than the stock market, while a passively managed mutual fund has limited freedom to deviate from the underlying index.

We suggest that the possibility to overcome or leverage the COO effect using a strong financial brand will depend on this freedom given to the mutual fund provider. For companies working within the context of a less favorable financial country image, this poor CI is likely to also reflect upon the confidence in the manager and mutual fund. Therefore, it is likely that the primary positive effect of developing a strong financial brand will occur in cases with passive management, where it is possible to rely on standardization, indexing and computer algorithms as opposed to cutting-edge investment skills (e.g., Lichtenstein et al., 1999). On the other hand, for companies coming from countries with a favorable financial

CI, a strong brand will likely leverage the already existing positive COO effect. Thus, in this case, the largest effect of introducing a strong financial brand is likely to occur under the condition of active management, where the full financial expertise and competence of the company is likely to be perceived to come of use.

Against this background, we formulate the following hypotheses regarding the future financial return ( $H_2$ ) and perceived risk ( $H_3$ ) of a mutual fund offering:

*H<sub>2</sub> (a) There will be a direct effect of financial brand strength on consumer evaluations of the potential of future financial return of a mutual fund offering; however,*  
*(b) for providers from a country with a less favorable CI, this positive effect of a strong financial brand will be stronger in the case of passive management, and*  
*(c) for providers from a country with a more favorable CI, this positive effect of a strong financial brand will be stronger in the case of active management*

*H<sub>3</sub> (a) There will be a direct effect of financial brand strength on consumer evaluations of the perceived level of financial risk of a mutual fund offering; however,*  
*(b) for providers from a country with a less favorable CI, this positive effect of a strong financial brand will be stronger in the case of passive management, and*  
*(c) for providers from a country with a more favorable CI, this positive effect of a strong financial brand will be stronger in the case of active management*

## THE EMPIRICAL STUDIES

To test the hypotheses, two web-based experiments were carried out. The first experiment explicitly focuses on  $H_1$ , the impact of the mutual fund provider's COO on consumer perceptions of financial risk and return. The second experiment includes the moderating variables of management style and financial brand strength ( $H_2$  and  $H_3$ ). The two experiments are presented below.

### Experiment 1: The influence of COO on perceived financial risk and return

#### *Design and objective*

To test hypotheses 1a and 1b, a between-group experiment (Financial CI: Low/High) focusing on the influence of COO in the financial context was designed. As financial quality of an investment offerings usually is thought of as a function of financial risk and return (variables used in, e.g., Hoffmann et al. (2013) as indicators of investor behavior), the respondents' estimation of risk and potential return of the investment offering were used as dependent variables. The experiment was conducted in Sweden, a country that has a large mutual fund industry given the size of population (e.g., Khorana et al., 2005) and where stock market participation (via mutual funds) is among the highest in Europe (Guiso et al., 2003).

#### *Development and pre-test*

To test for the COO effect, two fictional mutual fund providers were created, one from a country with a high financial CI and one from a country with low financial CI. In order to find appropriate countries, a pre-study on 34 participants was performed, where six different countries with mutual fund providers easily accessible by Swedish mutual fund investors (USA, Switzerland, UK, Italy, Spain and Finland) were rated on general country image (adapted from Martin and Eroglu, 1993), people affect (adapted from Laroche et al., 2005), and product image (adapted from Nagashima, 1970). A ranking of countries was obtained,

with Switzerland as the country with the highest-ranking financial CI (mean 5.65 of 7) and Spain as the country with the lowest-ranking financial CI (mean 3.54 of 7). Even with this small sample, the difference was large enough to render statistical significance between the means ( $t = 12.282$ ;  $p < .01$ ). Based on this pre-test, Switzerland was chosen to represent a country with high financial CI and Spain was chosen to represent a country with low financial CI.

Following from the pre-study, two sets of fund materials were prepared: one advertisement and one fact sheet each for a fictional Swiss and Spanish mutual fund provider. The ad contained a flag for the country in question, a name (“Switzerland funds” or “Spain funds”) and the following text: “...one of Switzerland’s/Spain’s most prominent fund managers. Headquarters in Geneva/Madrid, appreciated by Swiss/Spanish savers since the 1960’s, contacts all over the world. Now for the first time available to Swedish savers”.

With the exception of the name and flag, the fund fact sheet was identical for the two mutual funds. It was designed to mimic the information material of a real-world mutual fund with a global investment focus. Texts described the overall investment objective, and a graph showed that, in correspondence with its global investment focus, the fund was geographically well diversified and had most of its assets in North America, followed by Europe and Asia. The mutual fund was described as having a medium to low level of risk (in accordance with its global investment strategy), and figures on previous returns that were judged plausible were presented. Finally, the mutual fund was described to have a four star Morningstar rating and to be listed in Swedish currency.

### ***Procedure***

The experiment was performed using a web survey administered to a representative sample of the Swedish working population ( $n=205$ , mean age 39.3, 48% female). During the web survey, the participants were shown the ad and fund fact sheet for one of the fictional companies and were subsequently asked to evaluate the offering in terms of both financial risk and expected financial return. To measure the dependent variables, two separate indices with three items each were developed (see Table 1).

*[Please insert Table 1 about here]*

### ***Manipulation check***

To investigate the validity of the COO manipulation, we asked for a general evaluation of the two countries after all other questions had been asked: “Generally, I think mutual funds from Switzerland/Spain have a reputation that is...”, with answers on a 5-point scale anchored by very good/very poor. The results confirmed the validity of our manipulation, as the means were significantly different from each other ( $M_{\text{Switzerland}} = 3.00$ ,  $M_{\text{Spain}} = 2.50$ ,  $t = -3.577$ ,  $p < .01$ ).

### ***Hypothesis tests***

In order to test the influence of COO on the perception of financial quality, a MANOVA was performed with country of origin as the independent variable and the indicators of financial quality (perceived risk and return) as dependent variables. In accordance with our expectations, the results of the multivariate analysis indicate a significant impact of COO on both dependent variables: perceived risk ( $F(1, 205) = 6.411$ ,  $p < .05$ ) and expected financial

return ( $F(1, 205) = 6.269, p < .05$ ), as illustrated in Figure 1. Thus, both  $H_{1a}$  and  $H_{1b}$  were supported by the data.

*[Please insert Figure 1 about here]*

### ***Discussion of experiment 1***

The results of experiment 1 provide support for the idea that the COO of investment objects impacts the decision-making process of retail mutual fund investors. In line with our expectations, COO influenced both the perceived riskiness as well as the perceived potential for a good financial return of the investment offering, despite respondents being exposed to identical “objective” data on risk and return. With regard to risk, for example, the fund fact sheet gave information on objective risk (as is customary on fund fact sheets). However, despite this objective measurement of fluctuation in standard deviations, investors viewed risk to be significantly different when COO was highlighted. A similar point could be made about the financial return, where both funds displayed a four star Morningstar ranking. Yet, when COO was highlighted, investors had significantly different perceptions of potential financial return. Thus, despite being provided with objective financial metrics, COO mattered and influenced the way consumers interpret the objective financial facts.

Overall, experiment 1 lends support to the general notion that COO is important in consumer decision-making (e.g., Brady et al., 2005). In confirming hypotheses 1a and 1b on a general sample of the Swedish population, we also show that COO also matters in the investment context. However, experiment 1 does not consider perhaps the most important competitive factor when it comes to selling mutual funds, that of being perceived as having the financial expertise to be successful in the complex investment arena. Moreover, mutual funds differ significantly in their management, where some rely on passive index management and others on active stock-picking. In experiment 2, we thus aim to investigate the relationship among COO, financial brand strength, and management style.

## **Experiment 2: The moderating role of financial brand strength and fund management style**

### ***Design and objective***

Experiment 2 was designed with the objective to investigate the relationship between COO, financial brand strength, management style, and perceived financial risk and return ( $H_2$  and  $H_3$ ). To test how COO interacts with financial brand strength and management style and impacts consumer perceptions of fund quality, a 2x2x2 between group design experiment (Country CI: Low/High, Financial brand strength: Strong/Weak, and Management style: Passive/Active) was performed. As in experiment 1, mutual fund quality was defined in terms of perceived risk and return of the investment offering.

### ***Development and pre-test***

In experiment 2, three separate manipulations were developed. First, to test the COO effect, the same fictional mutual fund providers were used again (Spain funds/Switzerland funds). In addition, two separate fund fact sheets were created, showing the Swiss and Spanish global investment funds' risk level, previous financial return, geographical diversification and Morningstar rank. Adding to this, a description of the fund company, depicting either strong

or weak financial brand strength, was provided. In the strong brand condition, the fund company was introduced by a quote from a fictitious business magazine as a stable financial company, having succeeded in its strategic choices. A subsequent information sheet further described the company as both reliable and safe, using such words as “award-winning analysis department” and “world-class asset management capacity”. The weak brand condition contained an introduction by the magazine presenting the fund company as having had problems with previous investments and where the current offer is not seen as stable or reliable. This was followed by an information sheet describing the asset management capacity and analysis department without any superlatives.

Type of management (active/passive) was presented separately, depicting either the mechanisms behind a passive management style (c.f. underlying benchmark, computer algorithms and daily rebalancing) or the process of an actively managed fund (analysis team, current view on markets and companies, large deviations from benchmark).

### ***Procedure***

The experiment was performed using a web survey where participants were recruited from the student population of a large public Swedish university ( $n=491$ , mean age 28, 54.9% female). During the web survey, the participants were shown the fund material depicting COO, financial brand strength and management style and were subsequently asked to evaluate financial risk and expected financial return. The same measures used in experiment 1 for both perceived risk (3 items, Cronbach alpha .77) and financial return (3 items, Cronbach alpha .74) were also used here.

### ***Manipulation checks***

The COO manipulation from study 1 was verified in study 2 ( $M_{\text{Spain}} = 2.38$ ,  $M_{\text{Switzerland}} = 3.55$ ,  $t = -11.082$ ,  $p < .01$ ). The manipulation of financial brand strength was also successful ( $M_{\text{Strong}} = 2.71$ ,  $M_{\text{Weak}} = 2.23$ ,  $t = 5.354$ ,  $p < .01$  using responses to the statement “Generally, I think the brand Spain Funds/Switzerland Funds is strong”). The manipulation of management was also perceived correctly by the respondents. The statement “To what degree do you perceive that Spain Funds/Switzerland Funds themselves decide which shares to include in the fund” yielded significant differences depending on description of management style ( $M_{\text{Active}} = 3.37$ ,  $M_{\text{Passive}} = 2.40$ ,  $t = 10.143$ ,  $p < .01$ ).

### ***Hypothesis tests***

Having first evaluated the descriptive results of the experiment, as displayed in Table 2, a MANOVA was performed with country of origin, financial brand strength, and management style as independent variables and the indicators of financial quality (perceived risk and return) as dependent variables. The results of this analysis can be seen in Tables 3 and 4, where direct effects, two-way interactions, and three-way interactions are displayed.

*[Please insert Table 2 about here]*

Turning first to the direct effects, the COO effect described in experiment 1 was verified in experiment 2 (for perceived risk  $F(1, 486) = 14.745$ ,  $p < .01$  and for expected financial return  $F(1, 486) = 23.096$ ,  $p < .01$ ). Along with our expectations, a significant direct effect of financial brand strength was also observed for both perceived risk ( $F(1, 486) = 21.212$ ,  $p < .01$ ) and expected financial return ( $F(1, 486) = 61.004$ ,  $p < .01$ ). For management style, we observed a direct effect for perceived risk ( $F(1, 488) = 11.887$ ,  $p < .01$ ), but not for financial

return ( $F(1, 486) = 2.052, p = .153$ ). As management style actually impacts objective measures of risk, this result is intuitively logical.

*[Please insert Table 3 about here]*

*[Please insert Table 4 about here]*

The direct effects thus showed that COO still was a strong influence on the evaluation of financial quality, despite the introduction of other factors such as financial brand strength and management style. Moreover, as financial brand strength is shown to have a significant positive effect, both  $H_{2a}$  and  $H_{3a}$  are supported by the data.

*[Please insert Figure 2 about here]*

Having evaluated the direct effects of the independent variables, we now turn to the interaction effects and combined impact of COO, financial brand, and management style on perceived financial quality. Looking first at expected return, Table 2 highlights that none of the three two-way interactions were significant. Thus, neither brand strength nor management style moderated the effect of COO on perceived quality. Thus, overcoming the COO effect with regard to perceived potential for financial return may not be accomplished simply by developing a strong brand or developing funds with a specific management style. As can be seen in Table 3, this was also the case for perceived risk, as all the two-way interactions proved to be non-significant also here.

Turning to the three-way interactions, we obtained mixed results. According to  $H_{2b}$ ,  $H_{2c}$ ,  $H_{3b}$ , and  $H_{3c}$ , we expected to find interaction effects between COO, financial brand strength, and management style for both dependent variables. As for perceived risk ( $H_3$ ), the three-way interaction was not significant, indicating that both  $H_{3b}$  and  $H_{3c}$  are rejected. However, as can be seen in Table 2, the three-way interaction was significant for expected return. For the company from the country with a favorable CI (see Figure 3), the expectation regarding return from the passively managed fund is nearly unaffected by brand strength, whereas the actively managed fund is highly affected. This implies that  $H_{2c}$  is supported.

*[Please insert Figure 3 about here]*

The opposite is true for the company from the country with an unfavorable CI (Figure 4): the actively managed fund is unaffected by brand strength, whereas the expectations regarding future returns for the passively managed fund vary significantly with brand strength. This implies that  $H_{2b}$  is supported by the data.

*[Please insert Figure 4 about here]*

### ***Discussion of experiment 2***

Having assessed the direct effects of COO on perceived risk and expected return in experiment 1, experiment 2 aimed to validate and extend these findings by focusing on the importance of financial brand strength and management style in relation to COO and quality perceptions. In general, the experiment confirms the importance of COO for both dependent variables. Thus, even when respondents were confronted with factors such as brand strength and management style, COO proved to be important for the evaluation of quality of the investment offering.

Further analysis of these variables also extends previous understanding of COO in the financial setting by highlighting the moderating role of brand strength and management style. Here, the results differed for the two dependent variables. Regarding perceived risk, there was a direct effect of both brand strength and management style. Thus, the results indicate that the respondents (sensibly) connected actively managed funds with higher risks. Moreover, being perceived as financially competent also reduced the perceived riskiness of the investment offering. For expected return, a similar direct effect of brand competence was observed. However, as expected, there was no direct effect of management style. Instead, a three-way interaction highlighted that the impact of COO depends on the management style used and the perception of the brand.

For a company from an unfavorable CI, the lack of significant two-way interactions highlights that overcoming a negative COO effect may not be as easy as developing a strong financially oriented brand. In fact, the negative connotations from a low financial CI may impact consumer evaluations despite positive financial brand associations. This is in line with previous research that has highlighted that a strong brand does not necessarily make up for a negative CI (e.g., Ahmed et al., 2002). However, in highlighting the moderating effect of active or passive management, our results also extend these previous findings. In cases such as active management, where consumers are asked to trust the competence of the manager, consumers may fall back on their underlying perceptions of COO and evaluate the offering as being of poor quality. Relying on standardized underlying indices and algorithms, where less faith in the abilities of the manager is required, may be a better strategy.

## **GENERAL DISCUSSION**

This study utilized a cue-utilization perspective to gain a better understanding of consumer decision-making in the investment context. The primary goal of the current research was to investigate whether the effects of country-of-origin, documented in numerous contexts (e.g., Bloemer et al., 2009), had an impact also on the financial consumer choosing among mutual funds from different countries. Here, the study largely verifies the results established in areas close to mutual fund offerings such as insurance (Michaelis et al., 2008), banking (Berentzen et al., 2008) and high uncertainty situations in general (Brady et al., 2005). COO displayed a direct impact on the financial variables of expected future return and perceived investment risk.

These findings shed light on the investment behavior of retail investors, who through the COO cue may feel that investing in Swiss, American, or German mutual funds is accompanied by lower risk and higher potential returns. Moreover, although the study focused

empirically on mutual funds, it is not inconceivable that these results would also hold for individual stocks. Given that it is now easy for retail investors to invest in other stock markets through new electronic trading platforms, the COO effect may lead consumers to move towards stock markets with high levels of financial CI. Whether following the COO cue is a good thing for investors, however, may be debatable. Different perspectives exist here, and these may argue somewhat opposing standpoints. On the one hand, using insights from modern portfolio theory, investors would be encouraged to disregard COO, since it is not part of the fundamental risk and return framework. COO is, from this perspective, irrelevant, as long as it does not affect the fundamentals of the investment. On the other hand, a contrasting stance is to consider COO to be a summary of risk-related assumptions regarding a specific country. The expected higher level of perceived risk and lower expected future returns for a low-COO country would then be a proxy for issues such as legal or political risks (including events such as probability of assets being confiscated or insider trading hampering equity market performance). However, empirically, it should also be added that much of the financial growth in the future could stem from developing countries that, in many cases, do not have as strong a financial CI. Following the COO cue, and abstaining from investments in these areas, may not always be beneficial for investors.

On top of documenting direct COO effects, however, the current study further aimed at relating the direct positive COO-effect to the financial brand, a variable that in itself has proven to influence the consumer (e.g., Sekhon et al., 2014). Here, the results of the study highlight the interaction between COO and perceived quality in a way that could be of both theoretical and practical use. Given that brand strength is, as in the present case, operationalized with components depicting (among other facets) the competence of the counterpart, and given that competence is one contributor to level of trust held in a financial service provider (Ennew et al., 2011), the outcome of interest becomes not only consumers' reaction as regards perceptions of quality but also the degree to which the consumer is willing to trust the financial institution and is hence willing to increase the freedom under which the service provider operates. The financial services environment contains an inherent variable perfectly enabled to measure this willingness to trust the counterpart with a high degree of managerial freedom: the co-existence of passively and actively managed mutual funds. In a situation where the fund company is not trusted to make the right decision, the consumer has the obvious choice of investing in a passive fund, whereas the opposite is true for a trusted provider. The management variable of passive versus actively managed funds in our research becomes the lever to pull after the direct effects of COO and brand strength have been determined.

## **CONTRIBUTION, IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH**

In all, this study contributes to the literature in at least three ways. First, by highlighting the impact of COO on consumer investment behavior, this study makes an empirical contribution in an area of practical importance to both providers of investment services and policy makers. Second, in doing this, the study also makes a more theoretical contribution to the area of investment behavior in general, particularly on the important topic on how subjective perceptions of risk and return of investment offerings are formed. Finally, this study makes a contribution to the literature in highlighting the effects of active/passive dimensions of the service. Previous literature on COO has not included such measures on confidence in the

provider. However, given our results, this dimension of standardization may be something that could impact the nature of the COO effect in many other complex services.

### **Practical implications**

In highlighting the important effect of COO in the investment context, this study holds several practical implications both for companies who market investment services towards consumers and public efforts to improve consumer decision-making. For companies within the finance sector, this study highlights that COO matters to investors. Thus, while companies from a strong financial CI can leverage this effect by highlighting COO in communication and advertising, companies from countries with a less favorable CI would do well in minimizing the COO connections in their advertising, brand name, and other communications. Moreover, for companies with a less favorable CI, this study highlights that it may be worthwhile to focus on various passively managed investment offerings, as these give the investor the opportunity to rely on standardized factors such as computer-based algorithms and underlying indices. For companies from a strong financial CI, and in possession of a strong financial brand, on the other hand, there may be a good market for actively managed products.

### **Limitations**

While this study contributes in many ways, it also has important limitations. One is naturally the experimental approach. Here, we have designed the manipulations to be strong. However, in reality, there are rarely such strong cues regarding financial brand or COO. Another limitation could be the use of a student sample for one of the experiments. Although the phenomenon is generally captured well with a student sample, the results may not be as generalizable as the results of studies on investor populations.

### **Future research**

While investment behavior has not traditionally been of focal interest in marketing and consumer research, the last few years have seen a great increase the number of studies performed from a consumer behavior perspective. However, in general, more research is needed to fully understand the complexities of consumer investment behavior. Concerning the specifics of COO, future research could focus on aspects such as confirming our results for individual stocks or evaluating interaction effects with different cues. A decomposition of the concept of brand strength could also be of both theoretical and practical interest. Finally, this study looked specifically at how consumers form perceptions of financial quality. Future studies could expand these insights by focusing on downstream factors such as willingness to invest and actual investment behavior.

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## List of Tables:

Table 1: The dependent variables

	Cronbach's Alpha
<b>Perceived investment risk</b>	0.71
1. I would categorize (Switzerland/Spain) funds global as a mutual fund with [ <i>very low – very high</i> ] risk	
2. I believe that (Switzerland/Spain) funds global will experience a year with negative returns [ <i>once every 50 years/every 20 years/every 10 years/every 4 years/every other year</i> ]	
3. In my eyes, (Switzerland/Spain) funds global is an investment that is too risky [ <i>completely disagree – completely agree</i> ]	
<b>Expected financial return</b>	0.65
1. I believe that (Switzerland/Spain) funds global will generate a [ <i>very poor – very good</i> ] financial return	
2. I believe that (Switzerland/Spain) funds global could generate a financial return exceeding 25% [ <i>once every 50 years/every 20 years/every 10 years/every 4 years/every other year</i> ]	
3. In my eyes, (Switzerland/Spain) funds global is an investment with good prospects for a good financial return [ <i>completely disagree – completely agree</i> ]	

Table 2: Cell means and standard deviations for both dependent variables

Country	Brand strength	Management style	Return (mean)	Return (sd)	Risk (mean)	Risk (sd)
Favorable CI	Strong	Active	3.16	0.67	3.16	0.66
		Passive	3.04	0.70	3.01	0.77
	Weak	Active	2.58	0.84	3.84	0.73
		Passive	2.91	0.68	3.52	0.57
Unfavorable CI	Strong	Active	2.57	0.68	3.57	0.81
		Passive	2.89	0.78	3.28	0.72
	Weak	Active	2.50	0.70	3.99	0.62
		Passive	2.43	0.78	3.76	0.78

Table 3. Main and interaction effects for expected return

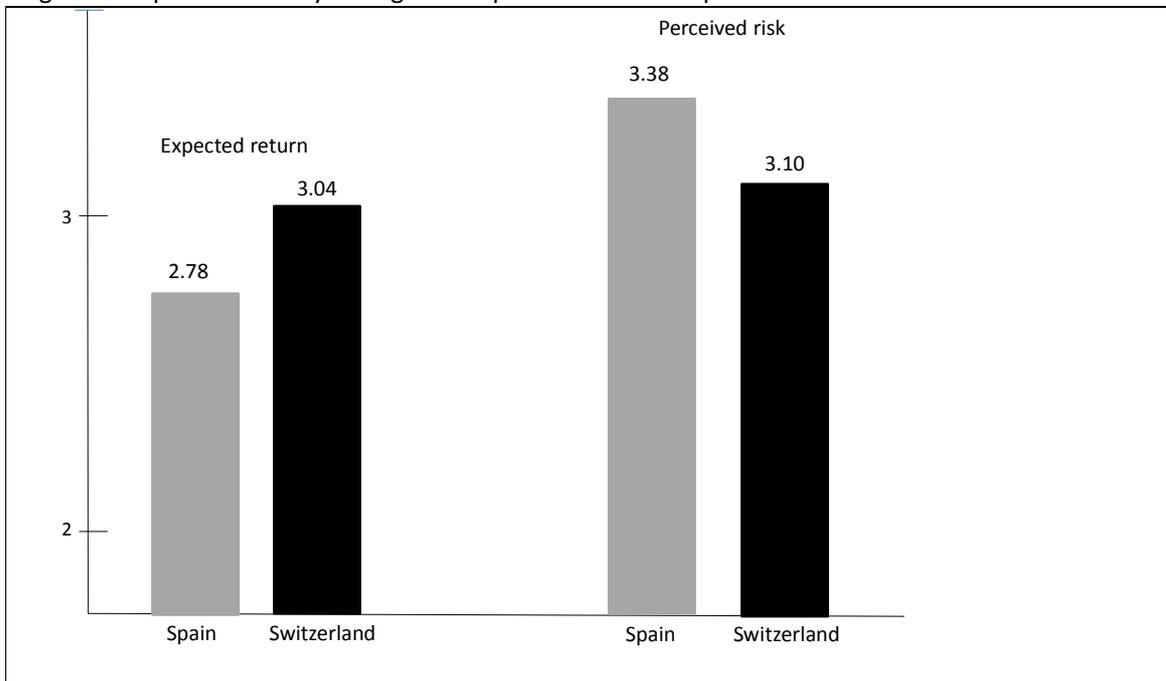
		<i>M (SD)</i>	<i>F (df1, df2)</i>	<i>p</i>
<b>Main effects</b>				
Country of origin	Favorable CI	2.92 (0.76)	23.096 (1, 486)	< 0.001
	Unfavorable CI	2.59 (0.75)		
Financial brand strength	Strong brand	2.91 (0.74)	21.212 (1, 486)	< 0.001
	Weak brand	2.60 (0.77)		
Management style	Active	2.71 (0.77)	2.052 (1, 486)	0.153
	Passive	2.81 (0.77)		
<b>Two-way interactions</b>				
Country x brand			0.646 (1,486)	0.422
Country x mgmt. style			0.001 (1,486)	0.970
Brand x mgmt. style			0.000 (1, 486)	0.996
<b>Three-way interactions</b>				
Country x brand x mgmt. style			9.758 (1, 486)	0.002

Table 4. Main and interaction effects for perceived risk

		<i>M (SD)</i>	<i>F (df1, df2)</i>	<i>p</i>
<b>Main effects</b>				
Country of origin	Favorable CI	3.39 (0.76)	14.745 (1, 486)	< 0.001
	Unfavorable CI	3.65 (0.78)		
Financial brand strength	Strong brand	3.26 (0.77)	61.004 (1, 486)	< 0.001
	Weak brand	3.78 (0.70)		
Management style	Active	3.63 (0.77)	11.887 (1, 486)	< 0.001
	Passive	3.40 (0.77)		
<b>Two-way Interactions</b>				
Country x brand			1.684 (1, 486)	0.195
Country x mgmt. style			0.032 (1, 486)	0.857
Brand x mgmt. style			0.135 (1, 486)	0.714
<b>Three-way Interactions</b>				
Country x brand x mgmt. style			1.032 (1, 486)	0.310

**List of Figures:**

**Figure 1: Impact of country of origin on expected return and perceived risk**



**Figure 2. Country of origin and financial brand strength**

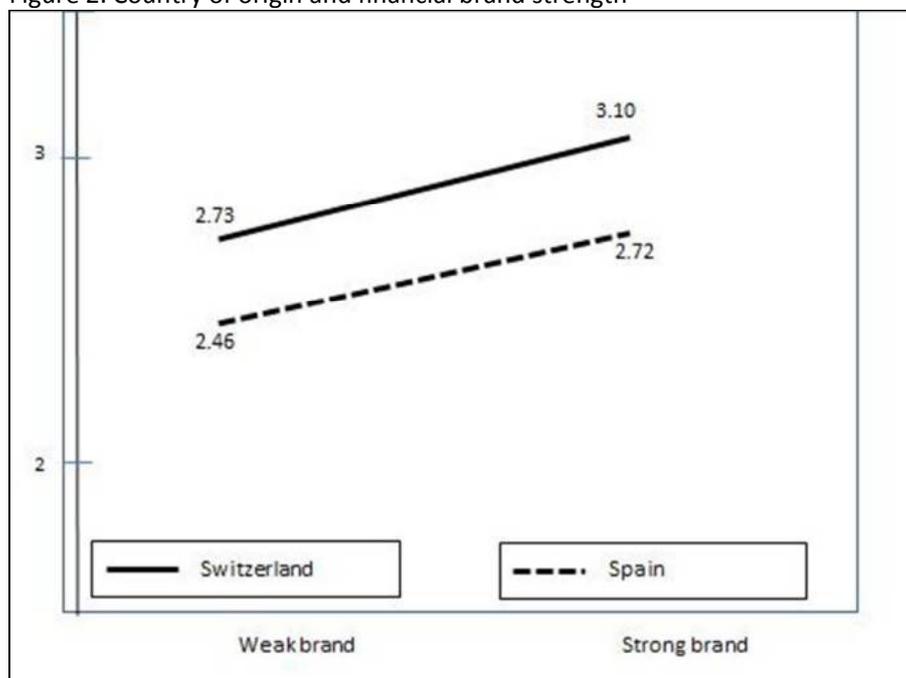


Figure 3. Interaction between financial brand and management in a favorable CI setting

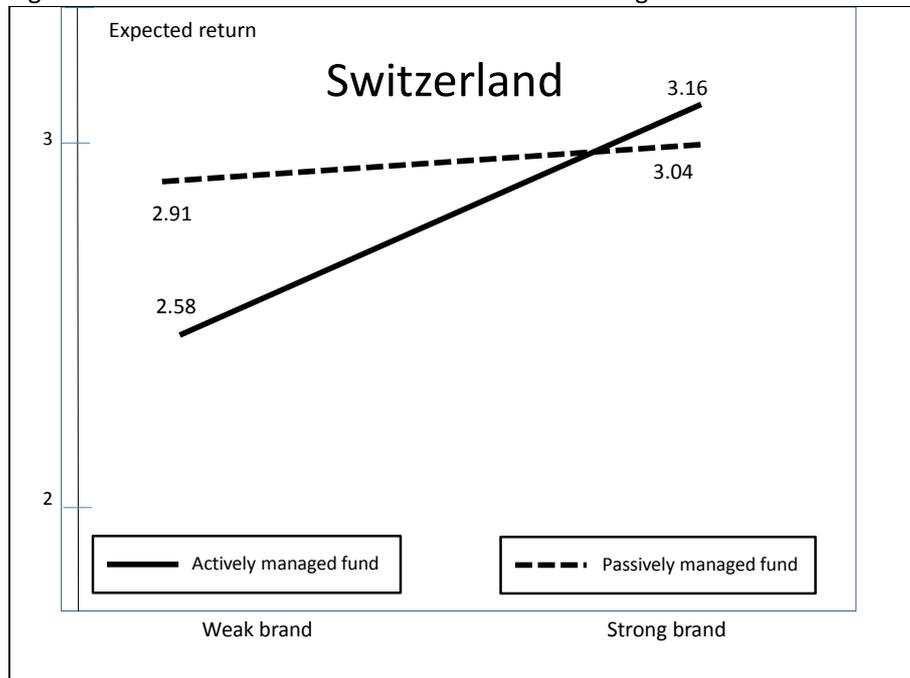


Figure 4. Interaction between financial brand and management in an unfavorable CI setting

