Attitude and investment intention towards mutual fund: the mediating role of financial literacy and risk perception

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Abstract

Purpose- The purpose of this study is to examine the role of attitude (ATD) on investment intention (IINT). Further, the authors ascertained if financial literacy (FL) and risk perception (RP) acted as a mediating mechanism on relationship between ATD and IINT.

Design/methodology/approach- The present study uses the quantitative approach for the data collection from the 342 Indian investors investing in mutual fund. Bootstrapping techniques are used to examine the mediating role of FL and RP that transmit the effect of ATD onto IINT.

Findings- Research findings provide empirical evidence on significant impact of ATD on IINT, FL and RP. Results also showed that FL has a significant impact on RP and IINT. Further, FL and RP mediates between ATD and IINT.

Originality/value- First this paper consider the impact of ATD on IINT. Second, it examines the mediating role of two mediators (FL and RP) linking ATD and IINT.

1. Introduction

A mutual fund is a most common investment strategy that pool funds from a variety of investors and make them available in the form of shares in business avenue such as bonds, securities and other financial instruments (Saleem et al, 2021). Investment in mutual funds is popular as its offers low investment risks and professionally managed portfolios (Mwanza et al. 2021). In this regard, mutual funds are one of the most desirable financial instruments because investors with low savings can diversify their portfolios at low cost (Aman et al. 2024). Therefore, the growth rate of investment in mutual funds is the one of the most significant phenomenon of present financial markets (Paul et al. 2023). According to Mohan (2023) the Indian mutual fund industry has grown rapidly from 11 lakh crore assets to 47 lakh crore assets under management, and reflects 18-20% growth every year. This shows that how mutual funds are gaining popularity in Indian market. Based on the article published on Jupiter.money.com, over 46 million households have invested in mutual funds in India. Despite this growth, the mutual funds remain a small player in Indian financial markets (Kale and Panchapagesan, 2012). This is due to facts that investors may not be fully aware of their benefits or may have misconceptions about their functioning. This lack of understanding can influence investors to be hesitant or skeptical about considering mutual funds as viable investment options. Therefore, the understanding of ATD and IINT towards mutual funds is important.

Drawn on theory of planned behaviour (TPB), ATD of investor has the greatest impact on IINT (Ajzen, 1991). The relationship between ATD and IINT has been widely investigated (Mwanza et

al. 2021; Sourirajan and Perumandla, 2022; Che Hassan et al. 2023; Mishra et al. 2023). However, the mediating role of FL and RP on ATD and IINT is missing in previous literature. Previous studies claimed that investors with good ATD, will have a good FL. While those who have a lack of ATD, will have a low FL (Ameliawati and Setiyani, 2018; Rai et al. 2019; Banthia and Dey, 2022). Scholars have paid attention towards the FL but the literature still lacks consensus on how to work with it. Several studies have operationalized that FL is concerned with financial knowledge and a significant predictor of ATD (Raut, 2020). In this regard, this brings into debate the relevant role that ATD may play in shaping FL. On the other hand, previous studies also acknowledged that RP is an important factor that influence IINT (Deb and Singh, 2016). Furthermore, the level of risk tolerance, a key component of investor ATD, significantly shapes how investors view the inherent volatility of mutual funds. Therefore, understanding of relationship between ATD and IINT without considering the mediating role of FL and RP is distorted.

Accordingly, our contribution is to increase understanding of relationship of ATD and IINT mediated by FL and RP. Therefore, empirical research is needed to substantiate the presumed mediation role of FL and RP on relationship between ATD and IINT. Previous studies are failed to explain under which condition FL and PR mediates on relationship between ATD and IINT. To overcome these shortcomings, we build and evaluate a model that elucidates the importance of FL and RP as a mediator for understanding how ATD can influence IINT. Additionally, the study address the following research questions: (1) Is there a direct effect of ATD on IINT? (2) Does the ATD has a direct effect on FL and RP? (3) Does the FL has a direct effect on RP and IINT? (4) Is there a direct effect of RP on IINT? (5) Does FL and RP mediates on relationship between ATD and IINT? (6) Is there a direct effect of FL on RP? The answer of these research questions offer theoretical and managerial implications which are useful for policymakers.

2. Literature review and hypotheses development
2.1 Attitude and investment intention
TPB supports that behaviour is influenced by intention (Ajzen, 1991). ATD refers to how investors evaluates whether the behaviour will be beneficial or not (Singh et al. 2021). Bajracharya (2017) revealed that ATD means investor's intention to invest in mutual funds. Positive ATD means investors have an intention to invest in mutual funds. An investor's ATD has a significant impact on his intentions and actions. In this context, previous studies discovered that positive ATD significantly influence IINT to invest in mutual funds (Kumaraguru and Geetha, 2021; Hapsari, 2021; Sari et al. 2023). However, the study of Yuvaraj and Venugopal (2023) found that ATD negatively influence IINT. Thus, there is a need to verify the association between ATD and IINT. Further, based on above discussion, we propose that
H1. ATD positively influence IINT

2.2 Attitude and financial literacy
Financial ATD is an investor inclination towards financial matter (Rai et al. 2019). In the words of Mustafa et al. (2023), financial ATD reflects the opinion of financial matters. Through good financial ATD investor plan ahead and maintain a savings account for future (Xu et al. 2022). Molina-García et al. (2023) concluded that in order to enhance FL, the focus is must be on developing financial ATD. Both negative and positive ATD affects the FL. Lusardi and Messy (2023) stated that through good financial knowledge investors take meaningful financial decisions.

Prior studies stated that investors with good ATD have higher FL and investors are likely to participate in financial behaviour such as mutual funds, deposits and stocks (Yang et al. 2022). In addition to FL, investors must have financial ATD to cope with the financial needs in a life (Koskelainen et al. 2023). Further, based on above discussion, we propose that
H2. ATD positively influence FL

2.3 Attitude and risk perception

The overall ATD of an investor toward risk influences their RP. An individual with a more optimistic and daring ATD may be more risk tolerant and more at ease with the market's possible ups and downs (Mishra et al. 2023). On the other hand, a reduced risk tolerance could result from a more conservative outlook (Mathew et al. 2023). Decision-making can be biased by ATD. For instance, people who are overconfident could underestimate the hazards involved with investing in mutual funds, whereas people who are more cautious might exaggerate such risks (Mushafiq et al. 2023). These biases have the potential to affect how danger is perceived and how decisions are made. Investment objectives and personal ATD are strongly related (Almansour et al. 2023). An investor's financial ambitions will depend on their ATD toward risk. For example, an optimistic person, for instance, would set more ambitious growth objectives and take on greater risks (Waheed et al. 2020). Further, based on above discussion, we propose that
H3. ATD positively influence RP

2.4 Financial literacy and risk perception

RP plays an important role in financial decision. The association between FL and RP has gained significant attention from researchers. In this context, previous studies discovered that RP is also affected by FL (Aren and Zengin, 2016; Hermansson, C., & Jonsson). Tavares et al. (2020) noted that RP is a critical factor which may impact the whole investment decision, even when FL is present. RP mostly affects investors with low income level. The study of Shehata et al. (2021) revealed that RP is a part of cognitive bias which influences human behaviour and decision making. Earlier studies have claimed that there is a relationship between FL and RP (Khan, 2016; Aren and Canikli, 2019). Further, based on above discussion, we propose that
H4. FL positively influence RP

2.5 Financial literacy and investment intention

FL has gained significant attention for financial decisions (Yang et al. 2021). FL enable investors to make informed decision for investment (Garg and Singh, 2018). Moreover, FL affect decision in many ways such as stock holding and wealth management (Sadiq and Khan, 2019). Prior studies have concluded that FL significantly and positively influence IINT (Sobaih and Elshaer, 2023; Raut, 2020; Tanuwijaya and Setyawan, 2021; Herawati and Dewi, 2020; Agha and Khan, 2023). Many studies also discovered that investors with high level of FL are likely to have high IINT. In addition some studies concluded that investors who have higher level of FL are better educated and involved in financial behaviour. On the other hand, lack of FL results in low participation in financial markets (Xu et al. 2022). Thus, based on previous findings, we propose that
H5. FL positively influence IINT

2.6 Risk perception and investment intention

Financial decisions are associated with RP, especially in the sale and purchase of investment (Ahmed et al. 2022). Almansour et al. (2023) revealed that RP is a critical aspect related to investment decision making. Higher risk is connected with higher returns in investment (Rehan et al. 2018). On the other hand, higher RP lowers the IINT. However, the study of Ishfaq et al. (2017) and Mallik et al. (2017) found that RP positively induce the investment decisions. Aren and Zengin (2016) found that RP affects the investor intention. Thus, based on previous findings, we propose that
H6. RP positively influence IINT

2.7 Mediation role of financial literacy on attitude and investment intention
The presence of FL in mediating the relationship between ATD and IINT highlights the significant impact of financial knowledge and comprehension on individuals' inclination to invest. FL acts as a crucial intermediary factor, regulating the connection between ATD and predispositions towards investment as well as their intention to invest. FL enhances understanding of investing possibilities, risk management, and decision-making skills through its diverse influence (Mustafa et al., 2023). FL enhances individuals' competence and self-assurance in making financial decisions by providing them with the essential information and abilities to traverse the intricate nature of financial markets (Sobaih and Elshaer, 2023). Individuals with higher levels of FL are more inclined to develop favorable attitudes towards investing. This is influenced by their educated evaluations of risks and returns, leading to a stronger propensity to participate in investment activities (Jain et al., 2023). Thus, based on previous discussion, we state
H7. FL mediates between ATD and IINT

2.8 Mediation role of risk perception on attitude and investment intention
RP acts as a critical mediator that impacts the connection between ATD and IINT. RP has a significant impact on people's desire to participate in investing activities by changing their perceptions of the risks and uncertainties associated with investment possibilities (Khan et al. 2021). Individuals who perceive higher levels of risk are more likely to adopt cautious attitudes towards investment, whereas those with lower risk perception tend to display more positive attitudes (Vimala and Alamelu, 2018). The variation in how risk is perceived can have a substantial influence on individuals' investing intentions, as those who perceive lower risk are more likely to be willing to invest (Holzmeister et al. 2020). Furthermore, the perception of risk is closely connected to how individuals evaluate their own willingness to take risks and financial objectives, which in turn influences their investing attitudes and intents (Waheed et al. 2020). Understanding the significant impact of how people perceive risk on their investment choices highlights the need to equip individuals with the necessary resources and understanding to effectively assess and control investment risks. This will enable them to make well-informed decisions that align with their financial goals. Thus, based on previous discussion, we state
H8. RP mediates between ATD and IINT

3. Research methodology
3.1 Population, sampling and data collection
To examine the conceptual framework as shown in Figure 1, structured questionnaire has been developed and survey has been conducted. A cross-sectional method was employed to collect the data from the respondents who were the active investors residing in Delhi/NCR. Non-probability

convivence sampling technique was used to collect the data because accessing respondents are easy who are willing to participate in the survey. The survey data were collected from Oct to Dec 2023. Self-administered questionnaires were distributed to 456 investors from which 342 responses were received which was used for data analysis. The demographic summary is shown in Table 1.
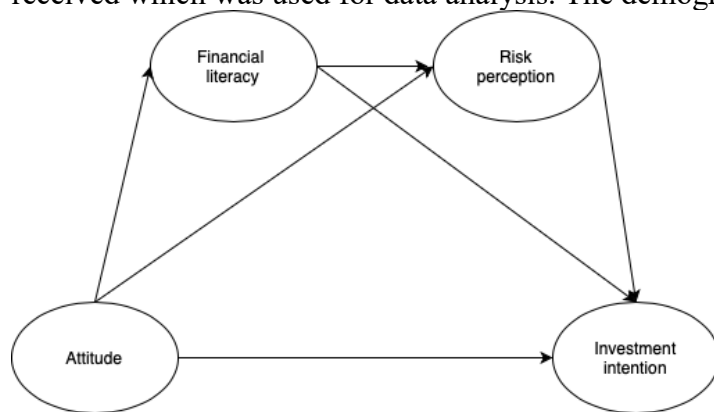

Figure 1. Conceptual model

Table 1. Demographics summary

Variable	Frequency (%)
Gender (n=342)	
Male	233(68.1)
Female	109(31.8)
Age (n=342)	
28-35	142(41.5)
36-43	121(35.3)
Above 43 years	79(23.1)
Marital status (n=342)	
Married	281(82.1)
Unmarried	61(17.8)
Education (n=342)	
Diploma	49(14.3)
Bachelor	151(44.1)
Masters	119(34.8)
Doctorate	23(6.7)
Occupation (n=342)	157(45.9)
Serviceman	103(30.1)
Businessman	82(23.9)
Self-employed	

3.2 Measures

In this study, all instruments were adapted from the existing literature. All the items were based on five points Likert scale.

Attitude was measured by adopting three-items from the study of Raut (2020). A sample item includes as "*Investment in mutual fund is a good idea*".

Investment intention was measured by adopting three-items from the study of Raut (2020). A sample item includes as "*I will invest in mutual fund frequently*".

Financial literacy was measured by adopting four-items from the study of Raut (2020). A sample item includes as "*Considering a long-term period (e.g. 10–20 years) mutual fund normally give the highest return*".

Risk perception was measured by adopting six-items from the study of Ahmed et al. (2020). A sample item includes as "*I associate the word "risk" with the idea of "opportunity"*".

3.3 Statistical analysis technique

Proposed hypothesis was tested using PLS algorithm along with Bootstrapping method. The data analysis was done in two steps. In first step, model assessment has been done and in second step hypothesis testing was done.

4. Findings
4.1 Model assessment

Reliability and convergent validity have been checked of selected constructs as per Hair et al. (2012) through Reliability (Cronbach alpha, composite reliability (CR)) and convergent validity (average variance extracted). Table 2 depicts that Cronbach alpha and composite reliability are all greater than 0.7. Thus, scale is reliable as per Fornell and Larcker (1981) criterion. To evaluate convergent validity, AVE values are considered which are greater than 0.5 cut-off values which ensures convergent validity. Further, to assess discriminant validity, this study takes into consideration the Fornell and Larcker (1981) criterion which suggest that the square root of AVE of each variable is higher than the correlation of variables which indicates acceptable discriminant validity (Table 3). Further, Table 3 depicts that inter-item correlations among the constructs are less than 0.9 which also ensures the presence of discriminant validity among the constructs.

Table 2. Measurement model assessment

Variable	Items	Loadings	Cronbach alpha	CR	AVE	VIF
Attitude (ATD)	ATD1	0.869	0.821	0.893	0.736	1.936
	ATD2	0.846				1.723
	ATD3	0.860				2.021
Investment intention (IINT)	IINT1	0.841	0.772	0.868	0.687	1.893
	IINT2	0.810				1.870
	IINT3	0.835				1.993
Financial literacy (FL)	FL1	0.866	0.770	0.867	0.687	1.336

	FL2	0.886			2.208
	FL3	0.724			1.614
Risk perception (RP)	RP1	0.753	0.881	0.910	0.627	1.527
	RP2	0.806			1.785
	RP3	0.820			2.278
	RP4	0.792			1.882
	RP5	0.786			1.687
	RP6	0.794			1.915

Table 3. Discriminant validity

Constructs	ATD	FL	IINT	RP
ATD	*0.858*			
FL	0.693	*0.829*		
IINT	0.668	0.743	*0.830*	
RP	0.686	0.769	0.785	*0.792*

Note: Correlation is significant at 0.05, figures in italics represent square root of AVE

4.2 Structural model

In our study as per Richter et al. (2016), we employed the PLS-SEM to test the hypothesis along with boot strapping technique. Before, testing our hypothesis, we check the multicollinearity issues by examining variance inflation factor (VIF). As shown in Table 2, the VIF values of each item is less than cut-off value of 0.3 as recommended by Kock and Lynn (2012), indicating the absence of multicollinearity in the data. Later we examine the conceptual framework.
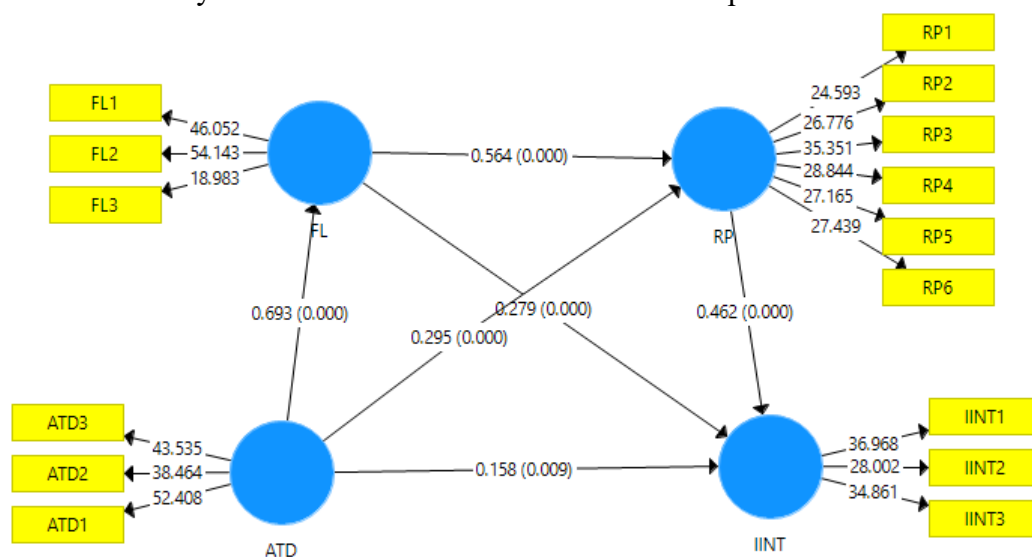
Figure 2. SEM model

Table 4. Outcome of hypothesis testing

Hypotheses	Path	β	t-value	p-value	Supported
1	ATD→IINT	0.158	2.612	0.009	Yes
2	ATD → FL	0.693	21.119	0.000	Yes
3	ATD → RP	0.295	4.924	0.000	Yes
4	FL → RP	0.564	8.916	0.000	Yes
5	FL → IINT	0.279	3.652	0.000	Yes
6	RP → IINT	0.462	8.916	0.000	Yes
7	ATD → FL →IINT	0.193	3.642	0.000	Yes
8	ATD → RP →IINT	0.261	4.827	0.000	Yes

From the Table 4, it was observed that ATD has a positive and significant impact on IINT ($\beta = 0.158, t = 2.612, p = 0.009$), FL ($\beta = 0.693, t = 21.119, p = 0.000$) and RP ($\beta = 0.295, t = 4.924, p = 0.000$). This confirms H1, H2 and H3. The impact of FL on RP ($\beta = 0.564, t = 8.916, p = 0.000$) and IINT ($\beta = 0.279, t = 3.652, p = 0.000$) is also positive and significant. This confirms H4 and H5. Moreover, RP has also a positive and significant impact on IINT ($\beta = 0.462, t = 8.916, p = 0.000$). On the basis of mediation results, FL ($\beta = 0.193, t = 3.642, p = 0.000$) and RP ($\beta = 0.261, t = 4.827, p = 0.000$) mediates between ATD and IINT.

5. Discussion and conclusion

On testing the hypotheses 1, the results revealed that ATD has a positive and significant impact on IINT. This implies that ATD plays a crucial role in shaping IINT. A positive ATD towards mutual fund seeks investment opportunities. In this context, previous studies discovered that positive ATD significantly influence IINT to invest in mutual funds (Kumaraguru and Geetha, 2021; Hapsari, 2021; Sari et al. 2023). However, the study of Yuvaraj and Venugopal (2023) found that ATD negatively influence IINT. This suggest that investors with good ATD have higher FL and investors are likely to participate in financial behaviour. The results of hypotheses 2 confirms the ATD has a positive and significant impact on FL. Our findings are aligned with the study of Yang et al. (2022); Koskelainen et al. (2023). The results of hypotheses 3 also confirms that ATD has a positive and significant impact on RP. This implies that ATD influences how investors perceive investment risks. A positive ATD making investors more willing to accept risk associated with investment. This is in line with the study of Chandrakala and Suresh (2017).

The results of hypotheses 4 confirms the FL has a positive and significant impact on RP. This implies that FL quips investors to take risk and assess the level of risk associated with the investment. Overall, FL plays a crucial role in shaping RP by imparting skills, knowledge and confidence to access the level of risk. Our findings are aligned with the study of Tavares et al. (2020); Shehata et al. (2021); Khan, (2016); Aren and Canikli, (2019). The results of hypotheses 5 confirms the FL has a positive and significant impact on IINT. This implies that FL impart skills,

confidence and knowledge to make informed decisions for investment. Further, financially iterate investors have a better understanding of investment products and associated risk. Prior studies have concluded that FL significantly and positively influence IINT (Sobaih and Elshaer, 2023; Raut, 2020; Tanuwijaya and Setyawan, 2021; Herawati and Dewi, 2020; Agha and Khan, 2023).

The results of hypotheses 6 confirms the RP has a positive and significant impact on IINT. This suggest that RP of investors influence their decision to make investments. Further, those have higher risk tolerance more aggressive they are for investment, seeking higher investment. The results of this study are aligned with the study of Ishfaq et al. (2017); Mallik et al. (2017); Aren and Zengin (2016). On the basis of mediation results, FL and RP mediates between ATD and IINT. This implies that FL act as bridge linking ATD and IINT by empowering investors with skills and knowledge to make informed decisions. A high level of FL enhance positive ATD towards IINT. Similarly, RP mediates between ATD and IINT by helping investors in accessing the level of risk associated with investment and promoting financial well-being.

6. Implications
6.1 Theoretical
The findings of the present study have several theoretical implications. First, based on author's knowledge there is scarcity of research on mediation role of FL and PR on relationship between ATD and IINT. Thus, this study advance our knowledge on FL and PR acting as a mediator linking ATD and IINT. As mentioned earlier investors with higher levels of FL are more likely to develop positive ATD towards investing, driven by informed assessments of risks and returns, and exhibit a stronger intention to engage in investment activities. On other side, RP help investors in accessing the level of risk associated with investment and promoting financial well-being. Second, the findings of this study showed the direct effect of ATD on INT, FL and RP. This shows that a positive ATD favours IINT. Beside this, a positive ATD will also enhance investor's engagement in improving their FL. Those with positive ATD will improve their financial learning. Moreover, ATD also influence RP. This suggest that investors with positive ATD may perceive risk as an opportunity to make higher returns. Overall, ATD shape IINT by investor beliefs, motivations and perception. Third, the findings of this study showed the direct effect of FL on RP and IINT. This showed that FL positively influences IINT by providing individuals with the knowledge, skills, and confidence to make informed investment decisions. Individuals who are financially literate are better equipped to understand various investment options, assess their risk-return profiles, and align investments with their financial goals. FL also plays a crucial role in shaping individuals' perceptions of investment risk. A higher level of FL enables individuals to understand and evaluate investment risks more accurately. They can recognize different types of risks associated with investments, such as market risk, inflation risk, and liquidity risk, and employ appropriate risk management strategies to mitigate them.

The current study also demonstrated that RP has a beneficial effect on IINT. This demonstrates that RP has a major impact on investor's IINT by altering their attitudes regarding investing prospects. Elevated levels of perceived risk can discourage individuals, causing them to display reduced investment inclination as a result of apprehensions around prospective losses or uncertainty. On the other hand, people who believe that the risk is modest are more likely to have a greater interest in investing, since they see it as a chance to make profits. RP affects individuals' willingness to take

risks and their desire to invest, which in turn affects their readiness to spend resources towards investing activities.

6.2 Managerial

Policymakers have a crucial role to play in promoting positive attitudes towards investing, improving financial literacy levels, and fostering balanced risk perceptions among individuals. By implementing targeted initiatives and leveraging collaborative partnerships, they can empower individuals to make informed investment decisions and achieve long-term financial success. Financial advisors and professionals should engage in transparent and open communication with clients to address their concerns and provide realistic assessments of investment risks.

7. Limitations and suggestions for future research

The current study has several limitations. First. the sample population of current study is limited to Delhi/NCR which does not represent the entire population of India. To deal with this issue future study can be conducted across different locations of India. Second, this study is based on cross-sectional research design, future study can be conducted by incorporating longitudinal research design. Finally, it would be interesting if future research incorporates other mediator variable between attitude and investment intention.

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