



Investors' Experience-Expectation Gap & Mental Accounting – The Unexplained Relationship

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ABSTRACT

The present paper examines the association between the mutual fund investors' state of mental accounting and level of the gap between their perceived experience and their future expectation in respect of customer solution dimension of mutual fund marketing. The study observed that the association between mental accounting and the level of gap is not explained by the relationship between the two. The association between mental accounting and level of gap in respect of customer solution is better explained by the association between investors' level of past experience and state of mental accounting; and the association between investors' state of mental accounting and level of expectation.

KEYWORDS : Customer experience, customer expectation, state of mental accounting.

INTRODUCTION

Experience of a person influences his future expectation (Kolb, 1984). Experience take place in the human mind and expectations are the outcome of mental processing of information (Paul, 2014). Both expectation and experience relates to the psychological aspect of customer behaviour. Expectations are formed from various sources including a person's past experience. Robledo (2001) stated that past experience act as the main source of information which is used for processing by a human mind. Customers always experience something whenever they come across with a product or service. Expectation keeps on changing with every experience due to the addition of input to the existing stock of information (Paul, 2014). Customers' perceived experience has significant impact on their future expectation. Mutual fund houses are providing solution of the investment needs of the investor through the various products (Paul, 2012). The investors' expectations are important for the success of the fund houses. Meeting expectations leads to customer satisfaction which is essential for retention and loyalty of customers (Anerson & Sullivan, 1993). The marketing strategy used for existing mutual fund investors should be different from the new customers. The existing customers possess certain level of experience that shapes their expectation. Every investment is done with certain expectation based on their perceived experience. Investors' use their perceived experience as information for meaningful interpretation through processing of these information. The process categorises the information in a meaningful manner through the complex network of brain. This process is highly personal in nature and therefore varies from person to person. Thaler (1990) termed the categorisation process as mental accounting while explaining the mental categorisation of economic outcome. The mental accounting concept explains how the economic outcomes are categorised by the based on their sources. Paul (2009) explained how mental accounting influences the investment decisions of a person. In this paper, the concept of mental accounting is used from marketing perspective by using Bloom's (1956) taxonomy of cognitive domain of learning. The paper considered mutual fund products as customer solution which represents an alternative view the product dimension of 4P marketing mix. The use of customer solution concept in measuring the level of customers' experience and level of expectation makes the study a customer centric study (Bhowal & Paul, 2012).

Expectation and experience of the customer have been dealt in the area of services marketing to measure the satisfaction of the customers through gap analysis (Bhowal & Paul, 2014). This study considered mutual fund investors' experience as their source of future expectation. Theoretical evidences are available for role of cognition in experience – expectation network. But, limited studies deal with customers' mental accounting accounting dimension from marketing view point. The study attempted to analyse the view point of the existing mutual fund investors' perceived experience level and future expectation level in respect of customer solution. The gap between expectation and experience was measured to see its association with investors' state of mental accounting.

OBJECTIVE

The objective of the study is to measure the association between the

state of mental accounting and the level of the gap in respect of customer solution as perceived by the retail investors of mutual fund.

HYPOTHESIS

The analysis of the customers' experience and expectation are dominant in the area of consumer psychology (Bhowal & Paul, 2013). Experience influences the expectation through a complex network of information processing (Paul & Bihani, 2014). Paul (2014) highlighted the role played cognitive psychology in customers' expectation formation. Thus, the hypothesis considered in this study is - there is no significant association between 'the state of mental accounting' and 'the level of the gap' in respect of customer solution as perceived by the retail investors of mutual fund. To measure the level of gap in respect of customer solution, the study used the differences between the scores of perceived experience level and future expectation level from mutual fund investment.

METHODOLOGY

The study is mainly based on primary data. Secondary sources were used to develop the scales used in the study. The primary data was collected through a structured questionnaire. A list of 11 items was developed to measure the perceived experience level and future expectation level in respect of customer solution. Similarly, a list of 24 items was developed to measure the investors' state of mental accounting in respect of customer solution. These items were measured in a five point scale. 398 existing mutual fund investors were selected with the help of snowball sampling for data collection in Guwahati city. Reliability of scales was tested with Cronbach's alpha and the hypothesis was test with the help of Spearman's rho. Bootstrap analysis was done to know the upper limit and the lower limit of Spearman's rho of the population.

ANALYSIS & INTERPRETATION

To measure the reliability dimension of the scales, Cronbach's Alpha test of internal consistency has been used to the data generated by scale. The result of Cronbach's Alpha is shown below

Table 1: Reliability Statistics

Scales Used	Cronbach's Alpha
State of Mental Accounting in respect of customer solution	0.965
Perceived Experience Level in respect of customer solution	0.807
Future Expectation Level in respect of customer solution	0.799
Level of Gap in respect of customer solution	0.710

Source: Survey data.

The Cronbach's alpha results in respect of the scales used are reliable and internally consistent as the alpha coefficient for all the scales are more than 0.70 (see Table 1).

Association between State of Mental Accounting and Level of Gap

Spearman's rho used to measure association between the retail investors' state of mental accounting and the level of the gap in respect of customer solution from mutual fund is as follows:

Table 2: Association between State of Mental Accounting and Level of Gap

Spearman's rho	Std. Error	95% Confidence Interval		Type of Association	Sig. (2-tailed)
		Lower	Upper		
(a)	(b)	(c)	(d)	(e)	(f)
0.031	0.014	-0.009	0.070	Very weak	0.169

Source: Survey data

Spearman's rho showed weak association between the retail investors' state of mental accounting and the level of the gap in respect of customer solution from mutual fund investment as the value of rho is 0.031 with a limit of -.009 (lower limit) to 0.070 (upper limit). The Spearman's rho test could not reject the hypothesis i.e. there is no significant association between the 'state of mental accounting' and the level of the gap in respect of customer solution as perceived by the retail investors of mutual fund.

There are studies which evidenced the association among past experience, cognition and future expectation of customers. But, the above analysis failed to explain the relationship that the study is intended to measure. Therefore, the study adopted the following model to explain the association between level of gap and state of mental accounting.

Model 1: RELATIONSHIP MODEL – PE, SMA and FE



The above model represents a relationship model by incorporating the mental accounting dimension in the experience based expectation process of the mutual fund investors. The model suggests that the association between state of mental accounting and level of gap is better explained by- (a) association between perceived experience level and state of mental accounting; and (b) association between state of mental accounting and future expectation level.

Table 3: Association between Perceived Experience Level and State of Mental Accounting

Spearman's rho	Std. Error	95% Confidence Interval		Type of Association	Sig. (2-tailed)	Decision
		Lower	Upper			
0.702	0.035	0.633	0.769	Strong	0.000	Significant

Source: Survey data.

Spearman's rho (see Table 3) showed that the association between the experience level and the state of mental accounting in respect of customer solution is strong (positive) as calculated value of Spearman rho is 0.702. The association between the two is found significant at 95% confidence limit. Bootstrap analysis, at 95% confidence limit showed that, in the population, the Spearman's rho between the state of mental accounting and the experience level in respect of customer solution ranges between 0.633 [lower limit] and 0.769 [upper limit].

Table 4: Association between State of Mental Accounting and Future Expectation Level

Spearman's Rho	Std. Error	95% Confidence Interval		Type of Association	Sig. (2-tailed)	Decision
		Lower	Upper			
0.61	0.039	0.527	0.683	Strong (+ve)	0.000	Significant

Source: Survey data.

Spearman's rho (see Table 4) showed that there is significant association between the state of mental accounting and level of future expectation in respect of customer solution. The type of association between the two is found strong (positive). Bootstrap analysis, at 95% confidence limit, showed that in the population, the Spearman's rho between the state of mental accounting and expectation level in respect of customer solution ranges between 0.527 [lower limit] and 0.683 [upper limit].

CONCLUSION

The study observed that the association between 'the level of gap used in the study' and 'the state of mental accounting' in respect of customer solution fails to explain the relationship between the two. This is due to the fact that mental accounting of the mutual investors plays a dominant role in their experience and expectation network system. The model followed by the study clearly explained the association between mutual fund investors' mental accounting and their perceived experience in one hand and the association between mutual fund investors' state of mental accounting and their future expectation on the other. Thus, future expectation based on previous experience is an outcome of the human cognitive process represented by mental accounting of the investors. The study is supported by the views of Paul (2014) who also highlighted the role of cognitive psychology in expectation formation of the customers.

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