PSİKOLOJİK UZAKLIK VE ALGILANAN YATIRIM YETERLİLİĞİNİN YATIRIM YAPMA İSTEĞİNE ETKİSİ: TÜRKİYE'DE DENEYSEL BİR ÇALIŞMA*

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ÖZ

Kesinlik Düzeyi Teorisi'ne (Construal level of Theory) göre bir birey, bir objeyi psikolojik olarak daha uzak olarak algıladığında, o obje hakkındaki yapılan zihinsel yorum düzeyi daha soyut olmaktadır. Yatırım perspektifinden bakıldığında bir firma eğer yatırımcılar tarafından psikolojik olarak uzak algılanırsa, yatırımcıyı çekemeyebilir. Bu çalışma, bir psikolojik uzaklık boyutu olan sosyal yakınlık ile algılanan yatırım yeterliliğinin, yatırımcıların yatırım yapma isteklerini etkileyip etkilemediğini test etmektedir. Sonuçlara göre; sosyal yakınlık ve yatırım yapma istekliliği arasında pozitif bir ilişki yer almaktadır. Ayrıca, algılanan yatırım yeterliliği ile yatırım yapma istekliliği arasında güçlü bir ilişki bulunmuştur. Diğer taraftan, algılanan yatırım yeterliliğinin; sosyal yakınlık ile yatırımcıların yatırım yapma istekliliği arasındaki pozitif ilişki arasında aracı değişken olarak görev yaptığı bulunmuştur.

Anahtar Kelimeler: Psikolojik Uzaklık, Yakın Hissedilen Şirketlere Yatırım Önyargısı, Yatırım Yeterliliği.

JEL Sınıflandırması: M41 D81 C91 G02.

THE EFFECT OF PSYCHOLOGICAL DISTANCE AND PERCEIVED INVESTING COMPETENCE ON WILLINGNESS TO INVEST? AN EXPERIMENTAL STUDY IN TURKEY

ABSTRACT

Construal level of Theory suggests when an individual feels more psychological distant about an object, the level of mental construal about the object becomes more abstract. From the perspective of the investment, when a firm is perceived psychological distant by investors, it might not be subject to investment. This study tests whether the psychological distance in terms of social familiarity and perceived investing competence affect the willingness of invest of the investors. The results indicated that

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there was a positive relationship between social familiarity and willingness to invest. Nevertheless, the positive relationship was stronger between perceived investing competence and the willingness to invest. The results also indicate that perceived investing competence acts as a mediator through the positive relationship between the social familiarity and the investors' willingness to invest.

Keywords: Psychological Distance, Home Bias, Investor Competence.

JEL Classification: M41 D81 C91 G02.

1. INTRODUCTION

The investors tend to trade more often and invest in more diversified international portfolios when "the perceived investing competence" increase (Heath and Tversky 1991; Graham et al. 2009). As Construal level of Theory (CLT) suggests when an individual feels more psychological distant about an object (in terms of time, space, social distance, and hypotheticality), in other words, feels farther from the reference point which is "the self in here and now", the level of mental construal about the object becomes more abstract (Trope et al. 2007; Trope and Lieberman 2010; Stephan et al. 2011; Elliott et al. 2015). So, it is likely that when a firm is perceived psychological distant by investors, it might not be subject to investment. There is also supporting evidence that as foreign firms listed in U.S. stock exchanges have more geographically distance than their U.S counterparts and differences in their home country's accounting standards, they tend to present clearer and more concrete disclosures, probably to cope with psychological distance (Lundholm et al. 2014). This is particularly interesting because previous research shows that the weight of equity portfolio significantly has gained dominance in domestic markets of investors (French and Poterba 1991; Coval and Moskowitz, 1999, 2001). Even though some findings provide some rational explanations for this "home bias" such as the information advantage of investors in local markets, the risk of variance in the predictive distribution in foreign markets, the lesser information processing capacity of local investors or optimism in U.S. market for local U.S. investors (Kang and Stulz 1997; Coval and Moskowitz 2001; Ivković and Weisbenner 2005; Graham et al. 2009); there seems no single explanation to clearly define the root cause of home bias (Lewis 1999; Grinblatt and Keloharju 2001; Jeske 2001). This apparently makes it as a "challenging puzzle". This study tests whether psychological distance affects the perceived investing competence and investors' judgment about a potential investment.

The research used the methodology of Elliott et al. (2015) and tested the hypotheses with an experiment. The experiment used graduate business students from Adnan Menderes University located in Soke/Aydin and they were asked to assume themselves as investors who were considering a hypothetical firm as an investment. The case firm was located in Gaziantep and selling its stock in market. The respondents were provided information about firm's operations, strategy and brief financial performance. The respondents were asked to indicate the social familiarity with this city in order to measure psychological distance by social dimension. They were also asked to indicate their perceived investing competence along with information provided about the case firm.

This study tested whether "social familiarity" (in other words; social distance) that has been used a proxy to measure psychological distance and "perceived investing competence" might effect on the judgment of investors. Also, the study tested whether the perceived investing competence acted as a mediator of the positive relationship between the social familiarity and willingness to invest.

The results indicated that there was a positive relationship between social familiarity and willingness to invest. Nevertheless, the positive relationship was stronger between perceived investing competence and the willingness to invest. Also, the indirect affect test to test the mediation effect of perceived investing competence through the positive relationship between the social familiarity and the investors' willingness to invest indicated significant results. In other words, the "perceived investing competence" (an intermediate variable) explains the effect of the "social familiarity" (the independent variable) on the "willingness to invest" (dependent variable).

This study has some contributions. First, it contributes previous literature that expresses how investors' perceived competence also affects the judgment of investors for firms that are felt psychologically distant. Although prior research presents a substantial evidence for the strong bias of investors in favor of domestic securities in international investment portfolios while usually ignoring the principles of portfolio theory, this "home bias" is not always related with higher returns (Tesar and Werner 1995; Coval and Moskowitz 1999; Grinblatt and Kolehorju 2001; Huberman 2001; Zhu 2002; Elliott et al. 2015).

Additionally, Zhu (2002) shows that individual investors are more likely to invest in distant companies that spend heavily on advertising. So, the results of this study are expected to give the managers' of distant firms an additional perspective to optimize their budgets when they make decision about their strategies for a foreign market.

The rest of this paper proceeds as follows. Section 2 reviews the literature and develops the hypotheses. Section 3 and Section 4 present the research design and result of the experiment, respectively. Section 5 concludes the study.

2. HYPOTHESIS DEVELOPMENT

2.1. Psychological Distance in Terms of Social Familiarity

Construal level theory (CLT) suggests that when an object is removed from the egocentric reference point which is "the self in here and now", it creates different physiological distance dimensions ("in terms of time, space, social distance, and hypotheticality") that influences mental construal of how information is processed (Trope et al. 2007; Trope and Lieberman 2010; Elliott et al. 2015). CLT explains how these dimensions of physiological distance affect individuals' thoughts and behaviors. Eventually, these distance dimensions influence predictions, evaluations and actions of individuals (Trope et al. 2007; Trope and Lieberman 2010).

Prior research shows that one of the most remarkable characteristic of international portfolio investment is its tendency to concentrate on domestic equity markets of investors (Cooper and Kaplanis 1994; Tesar and Werner 1995). The investors may feel psychological distant to a firm when they construe it as remote in temporal, spatial, social and hypothetical dimensions. Regarding the social distance (social familiarity), it is hypothesized that:

H1: There is a positive relationship between social familiarity and the willingness to invest.

2.2. Perceived Investing Competence

The previous literature shows some evidence that when perceived investing competence of an investor increases, the competence effect increases. This leads to more trading activities and more diversified portfolios (Heath and Tversky 1991; Graham et al. 2009).

Elliott et al. (2015) found a positive relationship between the investor comfort in their ability to evaluate firms and the willingness to invest. It is expected that as the perceived investing competence increases, the investors feel more comfortable about evaluating firms. This feeling of comfort about evaluating the firms and perceived investing competence may lead to an increased willingness to invest to those firms. Therefore, it is hypothesized that:

H2: There is a positive relationship between perceived investing competence and the willingness to invest.

2.3. Mediation Hypothesis

If there appears a positive relationship between social familiarity and willingness to invest, it is expected that the perceived investing competence should act as a mediator. Thus, perceived investing competence should be the variable that explains why there is a positive relationship between social familiarity and willingness to invest. Therefore, it is hypothesized that:

H3: Perceived investing competence explains why there is a positive relationship between social familiarity and the willingness to invest.

3. METHODOLOGY

3.1. The Characteristics of the Respondent and Research Design

The hypotheses in the study have been tested by *SEM (Structural Equation Modeling) analysis.* The literature defines the social familiarity (in other words; social distance) as a proxy to measure the psychological distance (Trope et al. 2007; Trope and Lieberman 2010; Elliott et al. 2015). To this end, brief information about operations, strategy and financial performance of a hypothetical firm located in Gaziantep has been presented to 122 graduate students in Adnan Menderes University which was located in Soke/Aydin. Then, the respondents were asked the social familiarity with this city in order to measure psychological distance by social dimension.

During the time of the experiment, participant completed six accounting courses and three finance courses. Thirty-four percent (41 of 122) of them have invested in common stocks and sixty-two percent (76 of 122) were either had invested or planned to invest in stocks markets in near future. This information confirmed that the randomly assigned respondents fit as the proxies for legitimate potential investors.

3.2. The Case Firm

As the respondents were assumed to be legitimate potential investors, they were asked to evaluate a hypothetical firm which was selling household appliances in Gaziantep/Turkey. The firm's shares were being sold in Borsa Istanbul (BIST). The respondents were first asked to read instructions then they were given brief information about operations, strategy and financial performance of the firm. Figure 1 gives this brief information about the case firm.

- With 20 factories in 8 countries (Turkey, Russia, China, Belgium, Germany, Wales, Columbia and South Africa), marketing and sales organizations in 30 countries and 30,000 employees, we provide household appliances and services in more than 135 countries.
- We provide 60% market share of Turkey with authorized 3,500 dealers and more than 700 after sales service points.
- We are historically the first appliances company established in Columbia and Romania having 40% and 35% market share, respectively.

We are Turkey's leading household appliances manufacturer, specialized in the production and marketing of consumer durable goods and consumer electronics. With our global joint ventures, we also offer small home appliances and kitchen accessories as well as in the arrangement of after-sales services in three continents. Our featured products mainly include washing machines, dishwashers, refrigerators, ovens and kitchen exhaust fans.

Figure 1. The Brief Information about the Case Firm

3.3. The Questionnaire Design

Previous evidence suggests that investors trade more often when they feel themselves competent (Heath and Tversky 1991; Graham et al. 2009). To this end, "perceived investor competence" was measured by asking respondents, "How competent do you feel about judging the case firm as a prospective investment?" Respondents asked to respond on a 101-point response scales with properly labeled endpoints, ranging from 0 = "Very incompetent" to 100 = "Very competent" (Koonce and Lipe 2010). Willingness to invest was measured with two separate questions. Firstly, respondents were asked, "How attractive is an investment in the case firm's stock?" ranging from 0 = "Very unattractive" to 100 = "Very attractive". Then, they were

asked, “How likely are you to invest in the case firm’s stock?” ranging from 0 = “Very unlikely” to 100 = “Very likely” based on a 101-point response scales previously used in other studies (e.g., Elliott et al. 2015).

Riskiness (e.g., Elliott et al. 2015) and difficultness to read (e.g., Lee et al. 2010; Rennekamp 2012) were also explained as additional measures that might have influence on the judgment of investors. Thus, respondents were asked to rate the riskiness of an investment in the case firm regarding an identical firm in the same industry ranging from 0 = “Very low risk”; 100 = “Very high risk” (e.g., Elliott et al. 2015), and in order to measure the difficultness to read of the information; they were asked how easy or difficult it felt to read the information they were given (e.g., Lee at al. 2010; Rennekamp 2012). Also, gender (e.g., McCrea et al. 2012) suggested as another measure might create some differences on the judgment of an investor. Therefore, respondents also were asked to indicate their genders. Each of these measures was simultaneously controlled in statistical analysis given in Section 4. Lastly, respondents were asked to answer some questions about their course and financial background.

4. RESULTS

4.1. Data Screening

SEM (Structural Equation Modeling) was used to test the hypotheses of the research. Before SEM analysis, some preliminary check for missing data, outliers and normality was performed on a univariate level (Perry et al. 2015).

17 missing values were found within the sample. However, no variables across the data set had greater than 5% missing values. The missing data was assumed to be completely random and therefore, missing values were replaced with the mean value for continuous scales and the median value for the ordinal scales (Hair et al. 2010).

There were some questions based on continuous scales, In order to check if there were outliers on continuous variables within the sample, a box plot for outliers was used and no outliers were observed.

Lastly, normality analysis was performed to check if skewness and kurtosis existed. A skewness and kurtosis examination were undertaken by investigating skewness and kurtosis values greater

than or less than +/- 1.00 (Bulmer 1979). Although some several items were found to have absolute skewness and kurtosis values between 1 and 2, they were considered to be within a fairly acceptable range (Sposito et al. 1983).

4.2. Tests of H1 and H2

Figure 2 presents the model of the research. H1 predicts a positive relationship between social familiarity and willingness to invest and H2 predicts a positive relationship between perceived investing competence and willingness to invest. In order to test H1 and H2 hypotheses, two questions were used that measure the attractiveness of the case firm as an investment and the likelihood that respondents would invest in that firm. The reliability analysis confirmed that these two measures could be used as one combined measure to express willingness to invest with Cronbach's alpha of 0,71 which was fairly above the recommended threshold of 0,70 (Nunnally 1978). So, by averaging the responses for these two questions, a single underlying combined measure was created. Table 1 exhibits some descriptive values (mean, and standard deviations) for these two questions and combined measure of willingness to invest.

Table 1. Descriptive Statistics about the Combined Measure of Willingness to Invest

	Investment Attractiveness	Investment Likelihood	Willingness to Invest (combined Measure)
Descriptive Statistics-means (standard deviations) for investment attractiveness, investment likelihood and willingness to invest (combined measure)			
The Case Firm	69,28 (21,25)	59, 93 (22,97)	64,56 (19,48)
Respondents rated (1) the attractiveness of an investment in the firm's stock and (2) the likelihood that they would invest in the firm's stock. The willingness to invest is a combined measure of these two items by taking the averages of these two items after conducting a reliability analysis (Cronbach's alpha=0,71).			

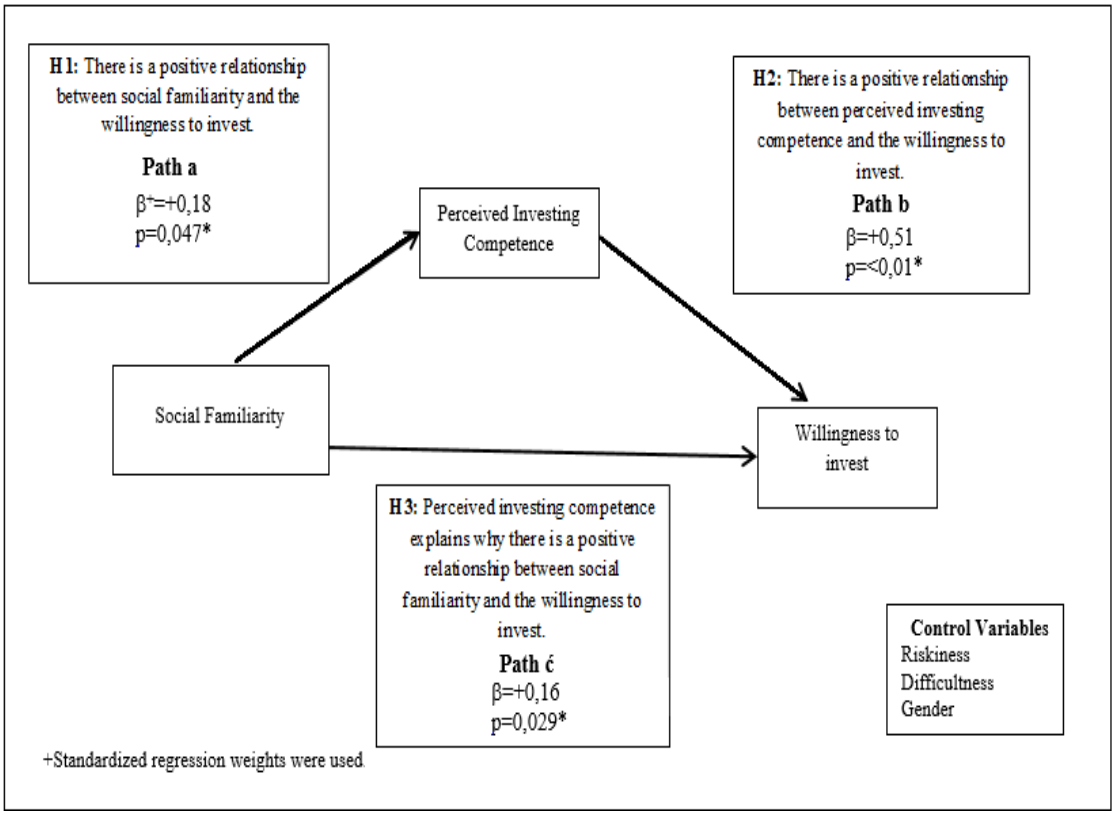

Figure 2. Proposed Model and the Findings

The goodness of fit statistics indicate that the model has a good fit for the data: $\chi 2/df$=1,023 (p=0,381); CFI=0.989; GFI: 0,992; SRMR=0,0413; RMSEA=0,014 (Guzman et al. 2015; Hu and Bentler 1999; Iacobucci 2009; 2010; Jarvis et al. 2003; Kline 2011; Maslowsky et al. 2015; Perry et al. 2015).

To test the multivariate assumptions of the model, firstly, outliers and influentials were investigated. Cook's distance test and the graphical display exhibited no abnormal cases where Cook's distance exceeded 1 (Heiberger and Holland 2004, 367). Secondly, on a multivariate level, multicollinearity was investigated by observing all Variable Inflation Factor (VIF) values for all of the exogenous variables simultaneously. The VIFs were all found to be less than 2,0 which confirmed that the exogenous variables were all distinct and independent variables and they explained unique variance in the dependent variable (O'Brien 2007).

Figure 2 shows the findings of SEM analysis. The results indicate that there is a positive relationship between social familiarity and willingness to invest (β=+0,16; p< 0,05). This finding supports H1. That means that respondents that have higher social familiarity with the city that the case firm was located in, indicated a higher willingness to invest. However, willingness to invest may or may not eventually end in investment.

Also, the results show that there is a strong positive relationship between perceived investing competence and willingness to invest (β=+0,51; p=<0,01). This finding supports H2.

4.3. Tests of H3

H3 that predicts the investing competence effect mediates the positive relationship between the social familiarity and the investors' willingness to invest. Therefore, in order to test H3; the structural equation modeling (SEM) was used. Recent literature (e.g., Iacobucci et al. 2007) shows some evidence that SEM performs better than the three series of regression models (namely: partial, full, and indirect) suggested by Baron and Kenny (1986). Nevertheless, some research shows that the mediation is simply present when there is an indirect effect (MacKinnon et al. 2007, Hayes 2009; Hayes, 2013).

Figure 2 shows the model of the study which includes a simple mediation. In this model, a is the coefficient for the independent variable (in this case, social familiarity) in a model predicting the mediator (in this case, perceived investing competence) from the independent variable and b and ć are the coefficients from both the mediator and the independent variable, respectively. Regarding the path analysis, ć quantifies the direct effect of the independent variable whereas a and b quantify the indirect effect of the independent variable on the dependent variable (in this case, willingness to invest) through the mediator. Assuming that all three variables are observed in the model, then

Total effect=ć (direct effect) +a x b (indirect effect) (Hayes 2009).

Prior to mediation analysis; the goodness of fit indices for the model[1] were investigated (Fig.2). Fit statistics indicated that (all control variables[2] were controlled simultaneously) the

[2] SEM analysis indicated that the only variable that had significance effect on willing to invest is the riskiness of the firm perceived by the respondents (β=-0,231, p<0,01*). Gender (β=+0.069, p=0,348) and

model had a good fit for the data. The mediation analysis was performed with an indirect effect test performed with 2000 bias corrected bootstrapping resamples (e.g., Hayes 2009; Hair et al. 2010). The results indicated that there was a significant indirect effect (a x b; p= 0,048). Thus, H3 was supported that predicted the mediation effect of perceived investing competence through the positive relationship between the social familiarity and the investors' willingness to invest in that firm. In other words, the *"perceived investing competence"* (an intermediate variable) explains the effect of the *"social familiarity"* (the independent variable) on the *"willingness to invest"* (dependent variable).

5. CONCLUSION

Construal level of Theory (CLT) suggests when an individual feels more psychological distant about an object (in terms of time, space, social distance, and hypotheticality), the level of mental construal about the object becomes more abstract (Trope et al. 2007; Trope and Lieberman, 2010; Stephan et al 2011; Elliott et al. 2015). So, it is likely that when investors perceive a high psychological distance about a potential firm, they might not be willing to invest in that firm. Nevertheless, previous evidence suggests that investors trade more often when they feel themselves competent (Heath and Tversky 1991; Graham et al. 2009). Thus, the previous literature suggests psychological distance and perceived investing competence as the important factors that might affect the investors' willingness to invest.

This study tested whether "social familiarity" (in other words; social distance) that has been used a proxy to measure psychological distance and "perceived investing competence" might effect on the judgment of investors. Also, the study tested whether the perceived investing competence acted as a mediator of the positive relationship between the social familiarity and willingness to invest. This also meant to investigate whether perceived investing competence explains why there is appositive relationship between social familiarity and willingness to invest.

The study has some contributions. It contributes to previous literature how psychological distance might affect the judgment of investors (Tesar and Werner 1995; Coval and Moskowitz 1999; Grinblatt and Kolehorju 2001; Huberman 2001; Zhu 2002; Elliott et al. 2015). The results

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difficultness to read (β=+0,039, p=0,597) were not found to have any significant effect on willingness to invest.

indicated that there was a positive relationship between social familiarity and willingness to invest. Nevertheless, the positive relationship was stronger between perceived investing competence and the willingness to invest. Also, the indirect effect test to test the mediation effect of perceived investing competence through the positive relationship between the social familiarity and the investors' willingness to invest indicated significant results. This meant that the "perceived investing competence" (an intermediate variable) explained the effect of the "social familiarity" (the independent variable) on the "willingness to invest" (dependent variable).

The study has also some limitations. Firstly, the social familiarity has been used as a proxy of psychological distance. As Construal level of Theory (CLT) suggests psychological distance can be expressed in terms of time, space, social distance, and hypotheticality (Trope et al. 2007; Trope and Lieberman 2010; Elliott et al. 2015), the study has not focused on other dimensions to measure the psychological distance.

Second, the components of the experiment may restrict the generalizability of the results. Because the graduate students with some previous experience in stock investment and some course-based financial knowledge are assumed as legitimate investors that evaluate a hypothetical firm. This may raise a question about whether the judgment of real investors should differ among the actual differences of real firms.

Finally, the results of this study consider a hypothetical firm with an entirely positive financial background. A new experiment design regarding a case firm with entirely or relatively negative information might help to increase the generalizability of the results.

Regardless of these limitations, the results of the study may be useful for firms that seek ways to attract investors' interest outside their home markets. Additionally, as evidence suggests that investors are more likely to invest in distant companies that spend heavily on advertising (Zhu, 2002), advertising campaign that enriches social familiarity of the investor with that firm might be a good way of increasing capital provided by investors from outside markets.

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Appendix

The Questionnaire

Section 1-Expremimental Study

Suppose that you are a trader who wants to invest in the stock market soon. In order to gather information about your investment, you are looking at the financial statements of companies (balance sheet, income statement, etc.). It is assumed that a footnote giving general information about this hypothetical firm you are interested in is given below. Please, read the information given below about this hypothetical firm located in Gaziantep/Turkey, the shares of which were being sold in Borsa Istanbul (BIST) and answer the following questions.

- With 20 factories in 8 countries (Turkey, Russia, China, Belgium, Germany, Wales, Columbia and South Africa), marketing and sales organizations in 30 countries and 30,000 employees, we provide household appliances and services in more than 135 countries.
- We provide 60% market share of Turkey with authorized 3,500 dealers and more than 700 after sales service points.
- We are historically the first appliances company established in Columbia and Romania having 40% and 35% market share, respectively.

We are Turkey's leading household appliances manufacturer, specialized in the production and marketing of consumer durable goods and consumer electronics. With our global joint ventures, we also offer small home appliances and kitchen accessories as well as in the arrangement of after-sales services in three continents. Our featured products mainly include washing machines, dishwashers, refrigerators, ovens and kitchen exhaust fans.

1. **How familiar are you with Gaziantep (Please answer regarding your past memories and/or experiences with the city)?**

   (0 = "Very unfamiliar" to 100 = "Very familiar") Please indicate…..

2. **How competent do you feel about judging the case firm as a prospective investment?**

   (0 = "Very incompetent" to 100 = "Very competent") Please indicate…..

3. **How attractive is an investment in the case firm's stock?**

   (0 = "Very unlikely" to 100 = "Very likely") Please indicate…..

4. **How likely are you to invest in the case firm's stock?**

   (0 = "Very unattractive" to 100 = "Very attractive") Please indicate…..

5. **Please, rate the riskiness of an investment in the case firm regarding an identical firm in the same industry**?

   (0 = "Very low risk"; 100 = "Very high risk") Please indicate…..

6. **How easy or difficult it felt to read the information about the case firm?**

   (0 = "Very easy"; 100 = "Very difficult") Please indicate…..

Section 2-Personal Information

1. Please indicate your gender ☐Male ☐Female
2. How many accounting courses have you completed so far? ☐Yes ☐No
3. How many finance courses have you completed so far? ☐Yes ☐No
4. Have you ever invested in common stocks? ☐Yes ☐No
5. Are you planning to invest in stocks markets in near future? ☐Yes ☐No