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A STUDY ON SERVICE QUALITY FACTORS INFLUENCING FOR INVESTMENT IN MUTUAL FUNDS WITH REFERENCE TO MADURAI DISTRICT

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Abstract

The study is analyze that the investors hesitate to invest in the equity fund when the market is down, but the marketing and distribution costs of these, incurred during this period, do not reflect a rise of investor's choice. The purchase decision of a mutual fund is largely depend upon investors' level of savings, investment pattern of the risk profile. As a product manager in the mutual fund market one ought to design mutual fund products which shall combine an optimal mix of return, risk, liquidity and safety for the small investors. Hence it is essential to analyze the profile of investors, investors' preferences and how they rate the mutual fund schemes and what significant factors influence their rating scheme. This study helps the mutual funds and other relevant agencies in designing the new schemes and their marketing.

Introduction

In case of mutual fund sales, service quality perception before service contact about specific mutual fund company is very crucial keeping in view of traditional investment behavior of small and medium class investor in India as they are more conventional friendly by investing through post office and well known insurance agent. The investors want to see the evidences of convenience before breaking traditional convenience barriers of investments. Measuring service quality of mutual funds is very challenging task for any service industry. It becomes tough for mutual fund industry. The five dimensions of service quality defined by Parasuraman as the base for the measurement of service quality.

Investors Expectation on Service Quality of Mutual Funds

The mutual funds industry is a fast growing sector of the Indian capital and financial markets. They have become major vehicle for mobilization of savings, especially from the small and household savers of investment in the capital market. Mutual funds offer varied benefits to small investors through professional and sound fund management. Thus mutual funds reduce the risk and yield comparatively high rate of return. Regarding the service quality, the investor's expectations from the mutual funds are too many. These may be related to safety, constant income, diversification and high return. The expectations from the mutual funds among the investors are drawn from the reviews. These are awareness of product, sponsor reputation, service behavior, performance of fund, advertisement, capital appreciation, product feature, safety of fund, performance guarantee, brokers recommendations, friends/relatives suggestion, problem freeness, exclusively for small investors, liquidity, delivery schedule, public/private sector

sponsorship, regular income technology, tax benefit, lock in period, transparency, assured return and brand name.

Need for the Study

The new mutual fund launches has seen many of the equity based funds in the market during this period, primarily to attract investors who would like to take advantage of the low price in the stock market, but majority of the funds launched were debt funds. The investors hesitate to invest in the equity fund when the market is down, but the marketing and distribution costs of these, incurred during this period, do not reflect a rise of investor's choice. The purchase decision of a mutual fund is largely depend upon investors' level of savings, investment pattern of the risk profile. As a product manager in the mutual fund market one ought to design mutual fund products which shall combine an optimal mix of return, risk, liquidity and safety for the small investors. Hence it is essential to analyze the profile of investors, investors' preferences and how they rate the mutual fund schemes and what significant factors influence their rating scheme. This study helps the mutual funds and other relevant agencies in designing the new schemes and their marketing.

Statement of the Problem

Mutual fund in itself is deemed to be an institutional entity that encompasses the commonly desired and/or schematically accumulated financial goals of the community of investors. The money collected form a plethora of sources is invested by the fund manager in various types of securities depending on their duly specified objectives. A mutual funds, therefore, in is rudimentary conceptualization, is a collection of stocks and/or bonds, where in an investors holds a share, which represents a part of the fund holding thereof. A proportionate sharing of income earned through such investors and capital appreciation witnessed by the schemes is duly carried out. It must however be mentioned that this proportional sharing by the unit holders is governed by the number of units owned by them. Mutual fund is therefore, the most suitable investment option available for a common man as it provides an opportunity to invest in a diversified, yet professionally managed portfolio at a competitive.

Objectives of the Study

- To examine the investors perception and expectation on service quality of mutual funds;
- To study the switching behavior and problems encountered by the investors in the mutual funds market;
- To offer valuable recommendations.

Research Methodology

The research methodology is the way of systematically solving the research problem. It is a science of studying how research is conducted scientifically. Under it, the researcher acquaints himself/herself with the various steps generally adopted to study a research problem, along with the underlying logic behind them. The research methodology consists of research design, locale of research, sampling procedure nature of data, data collection methods, framework of analysis and imitations.

Research Design

A research design helps to decide upon issues like what, when, where, how much, by what means etc., with regard to an enquiry or a research study. It is an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structures within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data.

Selection of the Study Area

The Madurai district was purposively selected as the study area by the researcher for the following reasons.

- The financial advisers who gave the address of investors are residing at Madurai district.
- There were no exclusive recent studies related to the investors' behavior in the Madurai district.
- The Madurai district is a growing district in Tamilnadu. Now only the investors are giving more importance in investing on mutual funds.

Nature of Data and Data Collection

Both primary and secondary data have been used for the present study. The secondary data are collected from the books journals and various reports related to mutual funds market in India. The data related to investors' behaviour in mutual fund market have been collected from the pre structured interview schedule.

Tools for Analysis

1. T-Test

The't' test has been used to find out the significant difference among the two means. It is calculated by

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{(n_1-1)\sigma s_1^2 + (n_2-1)\sigma s_2^2}{n_1+n_2-2}} \chi \sqrt{\frac{1}{n_1}+\frac{1}{n_2}}}$$

With the degree of freedom of (n_1+n_2-2) (chow, et al., 1995)

2. One-Way Analysis Of Variance

The one-way analysis of variance is used to find out the significant difference among the more than two groups regarding a particular criterion which is measured in interval scale (Sanjeev and Rust, 1997).

$$F = \frac{Greater\ Variance}{Smaller\ Variance}$$

3. Factor Analysis

The factor analysis is a multi-variate method. It is a statistical technique to identify the underlying factors among a large number of interdependent variables. It seeks to extract common factor variance from a given set of observations. It splits a number of attributes or variables into a smaller group of uncorrelated factors. It determines which variables belong together. This method is suitable for the cases with a number of variables having a high degree of correlation. (Aaker, 1997)[4].

4. Multiple Regression Analysis

The multiple regression analysis has been administered to find out the impact of independent variables on the dependent variable when both variables are in interval scale. The ordinary least square (OLS) has been followed to fit the regression model (Jacques, 1997) [5]. The fitted regression model is

$Y= a+b_1X_1+b_2X_2+.....b_nX_n+e$

5. Discriminate Analysis

The objective of discriminate analysis is to separate a population into two distinct groups or two distinct conditional ties. After such a separation is made, it should be able to discriminate one group against the other. For this purpose, a function called 'Discriminant function' is constructed. It is a linear function and it is used to describe the difference between two groups. If it is applied to identify the importance of discriminate variables among the two groups, it is called as 'two group discriminate analysis. If the groups are more than two, it is called as multi discriminate analysis.The un-standardized procedure has been followed to establish the two group discriminate function. It is

$$Z= a+b_1X_1 + b_2X_2+.....b_nX_n$$

Multi Discriminate Analysis

The multi discriminate analysis (Zafar et al., 1995)[7] have been administered to identify the important discriminate factors among Ranking –Driven Investors (RDI), active information investors (all) and advises influenced investors(ADI).

Confirmatory Factor Analysis (CFA)

The CFA is one of multi variate statistical tools which is applied to confirm the extracted variables in the factor by the exploratory factor analysis.

Section B: Analysis and Interpretation

Table 2.1 Investors Expectation on Service Quality of Mutual Funds

S.No.	Factors	Mean score among		T-statistics
		IDI	ILI	
1.	Awareness of product	3.8684	3.1034	2.1217*
2.	Sponsor reputation	3.1231	3.9676	-2.3099*
3.	Service behaviour	3.9094	3.0673	2.4541*
4.	Performance of fund	3.9186	3.2339	1.4631*
5.	Advertisement	3.9093	3.1142	2.4082*
6.	Capital appreciation	3.9142	4.1339	-1.1969
7.	Product feature	3.9697	3.2447	2.0427
8.	Safety of fund	4.1708	3.0668	2.8617*
9.	Performance guarantee	4.0684	3.3442	1.9443
10.	Broker/Agents recommendation	4.2144	3.1778	2.6508*
11.	Friends/Relatives suggestion	4.1946	3.0692	2.7317*
12.	Problem freeness	3.8089	3.1144	2.1126*
13.	Exclusively for small investors	4.2314	2.7646	2.9337*
14.	Liquidity	3.9903	3.0417	2.8108*
15.	Delivery schedule	3.6604	3.1778	0.4514
16.	Public/Private sector ownership	3.9917	2.8664	2.7889*
17.	Regular income	3.8508	3.2603	1.3387*
18.	Technology	2.9161	4.2311	-2.5996*
19.	Tax benefit	3.9710	3.2869	2.1087*
20.	Lock in period	3.0968	4.1144	-2.6981*
21.	Transparency	3.5654	3.1681	-0.7993
22.	Emergency need fulfillment	3.8862	3.2193	2.0086*
23.	Assured return	4.1987	3.0739	2.8017*
24.	Brand name	3.8684	3.0144	2.4463*

Significant at five per cent level

The important expectations among the individual investors are exclusively for small investors, brokers/agents recommendations and assured return since their respective mean scores are 4.2314, 4.2144 and 4.1987. Among the institutional investors, these expectations are technology, capital appreciation and lock in period since their respective mean scores are 4.2311, 4.1339 and 4.1144.

Association between the Profile of Investors and their Level of Expectation on SQFMFs

The one-way analyses of variance have been administered to find out the association between the profile of investors and their perception on key expectations. The results are presented in Table 2.2.

Table 2.2 Association between Profile of Investors and their Expectation from Mutual Funds

Sl.No.	Profile variables	F-Statistics				
		Core product	Investors expectation	Service behaviour	Persuasive Promotion	Investor Confidence
1.	Age	2.8684*	2.9193*	1.8489	1.4146	2.5616*
2.	Sex	1.9193	2.0681	3.1426	2.9133	3.2641
3.	Level of education	2.5142*	2.7336*	2.5089*	2.6308*	1.9194
4.	Occupation	2.6061*	2.4504*	1.9334	2.0842	2.7172*
5.	Personal income	2.9108*	2.3263*	2.7068*	2.4691*	2.5089*
6.	Family size	2.1142	1.8081	1.3542	2.0693	2.1427
7.	Number of earning members per family	2.2087	2.1447	1.9097	2.0708	2.5607*
8.	Family income	2.4048*	2.9029*	2.4402*	2.1141	1.8908
9.	Monthly savings	2.5636*	1.5806	2.2496*	1.5686	1.4331
10.	Risk orientation	2.7163*	2.2993*	2.5081*	2.4408*	2.6039*
11.	Knowledge on financial market	2.2646	2.7339*	2.5081*	2.4408*	2.6039*
12.	Scientific orientation	2.4011*	3.1142*	2.7603*	2.5143*	2.1718
13.	Years of experience	1.8804	2.0679	2.2405*	2.1449	1.9097
14.	Proportion of investment on to total investment	2.6612*	2.1144	2.5089*	1.3949	1.9097

Significant at five per cent level

The significantly associating profile variables with the expectations on core product are age, level of education, occupation, personal income, family income, monthly savings, risk orientation, scientific orientation and proportion of investment on mutual funds to total investment since their respective 'F' statistics are significant at five per cent level. Regarding the expectations on investors expectations, the significantly associating profile

variables are age, level of education, occupation, personal income, family income, risk orientation, knowledge on financial market and scientific orientation.

Investors' Overall Attitude towards the Investment on Mutual Funds

The investors' overall attitude towards their investment on mutual funds have been also measured at five point scale namely highly satisfied, satisfied, moderate, dissatisfied and highly dissatisfied in order to analyse the impact of perception on SQFMFs on the overall attitude towards mutual funds. The distribution of investors on the basis of their overall attitude towards their investment on mutual funds is presented in Table 2.3.

Table 2.3 Overall Attitude towards Investment on Mutual Funds among Investors

S.No.	Overall attitude	Number of investors in		Total
		IDI	ILI	
1.	Highly satisfied	62	86	148
2.	Satisfied	102	87	189
3.	Moderate	99	80	179
4.	Dissatisfied	40	60	100
5.	Highly dissatisfied	54	44	98
Total		**357**	**357**	**714**

In total a maximum of 26.47 per cent of the investors are satisfied in their overall attitude on the investment on mutual funds. It is followed by the overall attitude of satisfied which is constituted by 25.07 per cent of the investors. The first two overall attitude among individual investors are satisfied and moderate since it constitutes 28.57 and 27.73 per cent to its total respectively. Among the institutional investors, these two are satisfied and highly satisfied which constitutes 24.37 and 24.07 per cent to its total respectively. The investors with highly dissatisfied constitutes 15.13 and 12.32 per cent to the total of individual and institutional investors respectively.

Impact of Perception on SQFMFs on their Overall Attitude towards Investment on Mutual Funds

The perception on SQFMFs namely core product, investors expectation, service behaviour, persuasive promotion and investors confidence may have its own influence on their overall attitude towards the investment on mutual funds. It is highly imperative to analyse the impact of perception on key factors on their overall attitude towards the investment on mutual funds for some policy implications. The multiple regression analysis has been administered to analyze such impact. The fitted regression model is

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$

Whereas

Y – score on overall attitude towards investment on mutual funds

X_1 – score of perception on core product
X_2 – score of perception on investors expectation
X_3 – score of perception on service behaviour
X_4 – score of perception on persuasive promotion
X_5 – score of perception on investors confidence
$b_1, b_2 \ldots b_5$ – regression co-efficient of independent variables
a – intercept and
e – error term

The impact have been analyse among the individual and institutional investors and also for pooled data. The resulted regression co-efficient are illustrated in Table 2.4.

Table 2.4 Impact of Perception SQFMFs on the Overall Attitude towards Investment on MF

Sl.No.	SQFMFs	Regression Co-efficient among		
		IDI	ILI	Pooled data
1.	Core product	0.2708*	0.1713*	0.2241*
2.	Investors expectation	0.1994*	0.2091*	0.1908*
3.	Service behaviour	0.0568	0.0446	0.4217
4.	Persuasive promotion	0.1044	0.0908	0.0933
5.	Investors confidence	0.1237*	0.1217*	0.1191*
	Constant	**1.2408**	**1.8917**	**1.5038**
	R2	**0.7961**	**0.7504**	**0.8139**

The significantly influencing SQFMFs on the overall attitude on investment on mutual funds among the individual investors are core product, investors' expectation and investors confidence since their respective regression co-efficient are significant at five per cent level. A unit increase in the perception on above said SQFMFs result in an increase in overall attitude towards a investment on mutual funds by 0.2708, 0.1994 and 0.1237 units respectively. Among the institutional investors, a unit increase in the above said by factors result in an increase in the overall attitude towards the investment on mutual funds by 0.1713, 0.2091 and 0.1217 units respectively.

Association between the Profile of Investors and their Perception on Factors Leading to Switching

The association between the profile of investors and their perception on factors leading to switching are analyzed with the help of one-way analysis of variance. The resulted 'F' statistics are presented in Table 2.5.

Table 2.5 Association between Profile of Investors and Perception on Factors Leading to Switching

Sl.No.	Profile variables	F-Statistics		
		Performance	Nature of fund	Service
1.	Age	2.4508*	2.7816*	2.0865
2.	Sex	2.9961	3.3811	3.8941*
3.	Level of education	2.5608*	2.4543*	2.6609*
4.	Occupation	2.4147*	2.6339*	2.7038*
5.	Personal income	2.6864*	2.7011*	2.9639*
6.	Family size	2.0639	2.4508*	2.5161*
7.	Number of earning members per family	2.0114	2.5614*	2.7082*
8.	Family income	2.7683*	2.4542*	2.3309*
9.	Monthly savings	2.3081*	2.0698	2.1173
10.	Risk orientation	2.7244*	2.6391*	2.4508*
11.	Knowledge on financial market	2.5101*	2.3996*	2.7144*
12.	Scientific orientation	2.6083*	2.4124*	2.8661*
13.	Years of experience	2.3314*	2.6867*	2.1782*
14.	Proportion of investment on to total investment	2.0804	2.4509*	2.3938*

Significant at five per cent level

Regarding the perception on 'performance', the significantly associating profile variables are age, level of education, occupation, personal income, family income, monthly savings, risk orientation, knowledge on financial market, scientific orientation and years of experience since the respective 'F' statistics are significant at five per cent level. The significantly associating profile variables with the perception on nature of funds are, age, level of education, occupation, personal income, family size, number of earning members per family, family income, risk orientation, knowledge on financial market, scientific orientation, years of experience and proportion of investment on mutual funds to total investment. Regarding the perception on service, the significantly associating profile variables are sex, level of education, occupation, personal income, family size, earning members per family, family income, risk orientation, knowledge on financial market, scientific orientation, years of experience and proportion of investment on mutual funds to total investment.

Discriminant Factors among the Three Group of Investors regarding their Switching Behaviour

The discriminant factors regarding the switching behaviour among the three group of investors have been examined with the help of multi discriminant analysis. The standardized procedure have been followed to establish the function. The mean score of the three factors among the three group of investors and their respective standardized discriminant co-efficient are illustrated in Table 2.6.

Table 2.6 Mean Scores and Standardized Discriminant Co-efficient among Different Group of Investors

Sl.No.	Factors leading to Switching	Mean score among			Standardized Discriminant Function Co-efficient
		RDI	AII	ADI	
1.	Performance	3.8744	3.7078	3.8687	0.3914*
2.	Nature of fund	3.9142	3.2671	3.1149	0.7189*
3.	Service	3.8613	3.5088	3.3034	0.5017*
4.	Cluster size (in per cent)	23.31	31.37	45.32	100.00
5.	Eigen value				14.06
6.	Per cent variance explained				85.93
7.	Canonical correlation				0.8162

Significant at 5 per cent level

Among the RDI, the higher importance is given on the factors namely nature of fund and performance since their respective mean scores are 3.9142 and 3.8744. The important factors among AII are performance and service since its mean scores are 3.7078 and 3.5088 respectively. Among the ADI, these factors are performance and service its mean scores are 3.8687 and 3.3034 respectively.

Section C: Summary of Findings, Recommendations and Conclusion

Summary of findings

1. The important service quality factors in mutual funds (SQFMFs) identified by the factor analysis are core product, investors expectation, service behaviour, persuasive promotion and investor confidence. The important variables in core product are product features and problem freeness whereas in investors' expectation, these are performance and liquidity. The important expectations in service behaviour are seen in the case of service behaviour and transparency whereas in persuasive promotion factor, these are advertisement and friends and relative suggestions. In the case of 'investor confidence' factor, these are performance guarantee and capital appreciation.

2. The highly expected SQFMFs among the individual investors are investors' confidence and investors expectations. Among the institutional investors, these are investors' confidence and persuasive promotion. Regarding the expectation from mutual funds, the significant difference among the individual and institutional investors have been found in the case of core product, investors expectations, service behaviour, persuasive promotion and investors confidence. The important discriminant expectation among the two group of investors are service behaviour and core product.
3. The highly perceived SQFMFs among the individual investors are investor confidence and service behaviour whereas among the institutional investors, these are persuasive promotion and core product. Regarding the perception on various factors related to mutual funds, the significant difference among individual and institutional investors have been noticed in the case of investors confidence.
4. The gap between perception and expectation on various SQFMFs are identified as negative. It infers that the investors' perception on service quality of mutual funds are not upto their level of expectation. The higher gap among the individual investors is noticed in the case of investors' expectation and core product whereas among institutional investors, it is identified in the case of investors confidence and investors expectation. Regarding the gap between perception and expectation, the significant differences among the individual and institutional investors have been identified in the case of core product, investors' expectation and persuasive promotion.

Recommendations

I. Quality of the Fund Manager

Quality of the Fund Manager is the key to good performance of any AMC. A very good performing scheme may suddenly start underperforming because of the change in the managers.

II. Promotional techniques

The mutual funds companies should increase their advertisement budget. They should distribute the pamphlets and brochures among walk in the banks. Since, proper counseling by banks, AMCs and agents will motivate the investors, the companies should train their relevant people to promote the investment on financial market.

III. Differentiated product

The individual investors and institutional investors vary according to their level of expectation and perception on mutual funds. The factors leading to invest on mutual funds and selection of mutual fund scheme are also differing from each other. The mutual funds company should analyze the need of various investors and design the mutual funds according to the need of various segments.

Conclusion

The present study concludes that the institutional investors are well versed than the individual investors in the mutual fund market. The important factors leading to invest on mutual funds are level of education, occupation, personal income, family size, family income, monthly savings, risk orientation, knowledge on financial market, scientific orientation, years of experience and the proportion of investment on mutual funds to total investment. The factors considered to select the mutual fund schemes are the natural of funds, performance, company services, fund manager and personal factor. The important decision variables influencing the investment on mutual funds are liquidity factors, risks involved and current market conditions. The higher gaps are identified among the individual investors than the institutional investors. The important reasons for switching from one found to another are consistency in performance, pest performance and found managers efficiency. The important problems identified by the investors are performance, fund management, company, service and market. The profile of the investors plays its own role in the investors' behavior. Since the scope of mutual fund market is very under in India, the company realizes the needs of the different class investors and designs the product according to their needs. The service quality of the mutual fund company is the only way to wider their market base.

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