Trade-offs Between Investors' Perceptions of Risk, Returns, Service Quality, and Mutual Fund Investments

** Sanjay Kaushik*
*** Garima Kamboj*
**** Diksha Kakkar*

Abstract

On the one hand, investors perceive mutual funds to be riskier and a less rewarding investment channel as compared to the risk-free investments, and this leaves them dissatisfied. On the other hand, the volatile market has turned most of the investors to hold stocks with calculated risk, in the shape of mutual funds, to save themselves from the volatile market. Keeping this scenario in mind, understanding the investors' perception of mutual funds has become imperative as mutual funds can now prove to be the most preferred financial avenue, provided they are put forth before investors in the desired form. Investors' purchase decision for mutual funds is influenced by a chain of factors. Out of the list of factors, the perception of risk and satisfaction from returns have been found to be dominant. Other factors accountable for their final decision are quality of service delivered, cost of transaction, name familiarity, and so forth. The present paper aimed to identify the perceived relationship between investors' (respondents) risk, returns, service quality, and investment decisions. Furthermore, it investigated the impact of three factors – the perceived quality of services, name familiarity, and price – on respondents' mutual fund selection decision. It also studied the impact of the respondents' age, income, education, risk and returns perceptions on the choice between various financial avenues. Data were collected from 250 respondents using a structured questionnaire with pre-explained objectives of research. Reliabilities were tested using Cronbach's alpha. Furthermore, ranking and rating methodology was also used to prioritize the respondents' preferences. Chi square statistic was used to establish the factors that were significantly affected by the selected dimensions. Also, step-wise regression analysis was performed to identify the predictors of the intention to invest in mutual funds. Facts revealed in this study highlight the preferences of varied investors who desire to invest in mutual funds. The critical gaps identified in the study provide key information inputs regarding the discrepancies in the risk, returns, and service quality perceptions of the respondents, which can be extremely beneficial to AMCs in designing more lucrative solutions to suit their expectations.

Keywords : **mutual fund, investors' perception, service quality, risk – return link with perception**
JEL Classification: C12, C14, C83, G20

Paper Submission Date : June 16, 2013 ; Paper sent back for Revision : July 11, 2013 ; Paper Acceptance Date : October 15, 2013

Prior to liberalization, the Indian financial system was dominated by financial institutions and money lenders. Now, different investment avenues are available to the investors. In the changing environment, mutual funds are playing a vital role in the growth and development of the Indian financial system, and are emerging as one of the best option of investment for the investors. The Indian financial system in general, and the mutual fund industry, in particular, took a turn towards development after the introduction of the financial reforms in the early 1990s. The mutual fund industry in India started in 1963 with the formation of the Unit Trust of India.

It is a fact that majority of the investors put money in mutual funds because they see this as a relatively hassle-free option. In addition, there is a perception that investing in mutual funds is safer by far, simply because an expert (the fund manager) is taking care of the technical aspects. To satisfy the needs of the investors, more lucrative and innovative mutual funds schemes are being designed, considering the appetite for risk taking of individual investors. However, considering just the risk factors while designing a scheme where the common investors invest their life's saving is too far fetched. Due consideration to many other factors that might colour the investors' perception is imperative, considering the endless number of avenues investors have these days.

* *Professor,* University Business School, Panjab University, Chandigarh. E-mail : sanjaykaushik@pu.ac.in
** *Assistant Professor,* Goswami Ganesh Dutta Sanatan Dharam College, Sector 32, Chandigarh.
E-mail : garimakamboj@gmail.com
*** *Assistant Professor,* Goswami Ganesh Dutta Sanatan Dharam College, Sector 32, Chandigarh.
E-mail : ubsdiksha@gmail.com

In the financial literature, investors' rationality has been discussed as normative, considering investors' risk and return appetite, which leads to their demand for higher return and that too at minimum risk. Risk is generally associated with various applications differently, but in common, it means negative connotations, such as potential harm or loss or some unforeseen undesirable action. Risk expressed by Kaplan and Garrick (1981) demonstrated that risk involves a factor of uncertainty and potential loss that might be incurred. Although different literature available on risk defines it variedly, but in common, the word risk refers to situations in which a decision is made whose consequences depend on the outcomes of future events having known probabilities (Lopes,1987). Kritzman (1994) stated that "risk has no universal definition; rather, like beauty, it is in the eye of the beholder. Recent research has examined perceptions of risk as a psychological construct that mediates risky choice (Weber 2001a, Weber 2001b, & Weber, M., 2001). These studies showed that perceived risk, that is, the subjective feeling of riskiness associated with a specific action or choice alternative, often deviates strongly from conventional risk indices, such as the probability of a loss or the standard deviation of possible outcomes (Loewenstein,Weber,Hsee,& Welch, 2001 ; Weber, Shafir, & Blais, 2004,). In one study, where people assessed both the standard deviation of possible outcomes and the perceived riskiness of possible risky investment alternatives, it is the latter and not the former measure that predicts choice (Weber, Siebenmorgen, & Weber, 2005). Return, on the other hand, tells about the percentage change in the value of investment over a given period of time. Every investor wants to get maximum returns out of any investment option. Thus, a successful investor is one who strives to achieve not less than the rate of return consistent with the assumed risk (Walia & Kiran, 2009). The buying intent of a mutual fund product by an investor can be due to multiple reasons depending upon the customers' risk return trade off.

Due to reduction in the banks' interest rates and high degree of volatility in the Indian stock market, investors are looking forward to mutual funds as an alternative for their small-time investments, which will provide them with higher returns, and most importantly, are a safe option to park their investments. But the success of such investments will depend on a good fund manager who will put the investor's money in the right places. Thus, one may say that the investor's psychology, the trust generated in them by these mutual fund agents, and skillfully designed and marketed portfolios and promotional techniques of mutual fund companies will significantly impact the investment decisions of the investors.

Goetzman and Nadav (1997) stated that there is evidence that an investor's psychology affects fund/scheme selection and switching. In financial markets, "expectations" of the investors play a vital role. They influence the price of the securities, the volume traded, and determine quite a lot of things in actual practice. These 'expectations' of the investors are influenced by their "perception", and humans generally relate perception to action. Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions, and the factors motivating share investment decisions, and reported that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions. Above all is the attitude and physical and intellectual assets of the service provider which affects the decision of investment in mutual fund schemes. Although for an investor, risk and return are the two prime concerns for any investment option, there are many other factors that might affect his investment decision. One such factor can be the quality of service delivered. Most practitioners agree that high-quality products and services are fundamental to a successful competitive strategy. That is why many managers are now taking interest in designing mutual fund products with multi feature options for investors. Customers are often benefited from the improvements that are offered by new features, for example, by enhanced quality products (Garvin, 1984).

Several studies have examined the significant dimensions of service quality (Parasuraman, Zeithaml, & Berry, 1988). While such an inquiry is important, it has focused largely on the methodology of the service quality opus rather than the impact service quality poses for the following consumer action. A rational investor will give the highest weightage to minimizing risk and maximizing return as the two basic criteria, and organizations, while designing services specifications, should also focus on the same parameters. The purpose of designing quality services with improved quality from the customers' perspective is to discover innovative ways that will provide value-added services. If an individual, who is looking for mutual fund investments, is not offered an appropriate scheme meeting his/her investment goals, he/she will be a dissatisfied customer, and will stop purchasing mutual funds schemes from the company (Kothari & Sharma, 2009).

A final variable that deserves attention in mutual fund marketing strategy is the cost of transaction. It is usually accepted that consumers use price as indicators of both product cost and product quality. However, one must question whether the same generalization can be made in services, especially in mutual funds. Taking together all the important considerations, Sundar (1998) also stressed that demographics like age and income are also important determinants in the selection of the funds/schemes. There is no denying the fact that involvement of mutual funds in the financial system has increased over time. But it should not be ignored that the value of assets under mutual funds dropped from ₹ 5, 05,152 crores in 2008 to ₹ 4, 17,300 crores in March 2009. The reason for this decline might partially be due to recession and partially because the investors lost trust in the mutual funds industry. Therefore, it becomes all the more important to analyze the investors' investment perceptions.

Taking a lead from this, an attempt has been made in the present study to identify the perceived relationship between investors' risk taking ability, returns, and investment decisions. In addition, the study also aimed to analyze the impact of factors like, the perceived quality of services, name familiarity, and price on buyers' mutual fund selection decision. It also studies the impact of the investors' age, income, risk taking ability, and returns perception on their choice of various financial avenues.

Objectives of the Study

Mutual funds can prove to be the most preferred financial avenue, provided it is put forth before investors in the desired form. Investors' purchase decision for mutual funds is influenced by a chain of factors like familiarity, price, service quality, and so forth, out of which, the presence of risk and expected returns have been found to be dominant. This study aimed at tracking investors' preferences and priorities towards different investment avenues in general and mutual fund products in particular. Therefore, the objective of the study is to identify the perceived relationship between investors' risk taking ability, returns, and investment decisions. Furthermore, the study aimed to bring out the impact of price, service quality, perception, and expectations formed by the investors on the basis of their notions and knowledge and the perceptions regarding name familiarity on mutual fund investment decisions. The study also analyzes the impact of the investors' age, income, gender, streams of education, profession, and qualification on their investment decisions.

Thus, an effort has been made to study mutual funds from a different angle, that is, to focus on investors' expectations and uncover the unidentified parameters that account for their dissatisfaction. The present research proposes to identify critical gaps in the existing framework for mutual funds and further extend it to understand the need of redesigning existing mutual fund services in order to comprehend investors' behavior while introducing any financial innovations.

Methodology

In order to achieve the objective of developing an understanding about investors' perceptions towards different investment avenues with special reference to mutual funds, a well-structured questionnaire was designed. Responses of the individual investors (respondents) were collected by taking into consideration the questions regarding risk, returns, name familiarity, price of the services charged, service quality dimensions as given by Parasuraman et al. (1988), and intent to invest in the financial year 2010-2011. The demographics considered were age, gender, income, educational level, streams of education, and profession of the respondents. The study is based on a sample of 250 respondents in Chandigarh, out of which, the response rate was 80.4%. This resulted in a sample size of 201 investors. Age constraint considered in this questionnaire was minimum 18 years. The reliabilities of the various dimensions covered in the study were estimated using Cronbach's alpha. Furthermore, the questionnaire was analyzed using standard statistical measures like ranking, averages, and basic causal techniques.

Analysis and Discussion

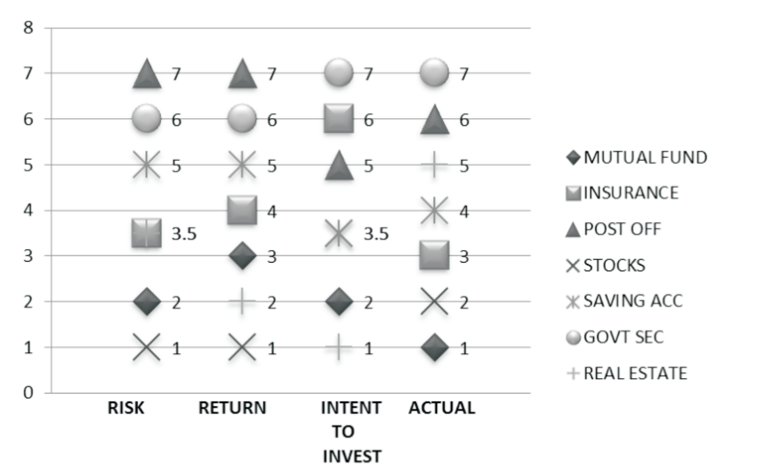
The age of all the respondents varied from 18 years to above 50 years. Out of the total respondents, 42.79% of the respondents were in the below 30 years age group, 38.31%, 10.45 %, and 8.46% were in the 30-40 years, 40-50 years, and above 50 years age groups respectively. Furthermore, 40.80% of the respondents had an annual income of less than ₹ 4 lakhs. In case of 44.28% and 14.93% of the investors, the annual income was in the range of ₹ 4-8 lakhs and more than ₹ 8 lakhs respectively. It was also observed that out of the total respondents, 64.68% were males and 35.32%

respondents were females. Out of the total respondents, 13.93%, 64.18%, and 21.89% fell in the low, medium, and high risk category respectively as far as perception of risk was concerned. 10.94%, 38.80%, and 50.24% of the respondents were in the low, medium, and high category as far as returns were concerned. Out of the total respondents, 16.41% of the respondents had a low intention of making investments in the future. Furthermore, 38.80 % and 50.24% of the respondents had medium and high intention of making investments in the future.

➲ **Perceptions Regarding Investment Options :** The chi square values of risk perception with age and income are significant at the .05 level of significance, illustrating that the perceptions regarding risk differed significantly with age and income. Hence, it was observed that respondents in the lower age groups gave higher weightage to risk; also, respondents in the higher age groups did not prefer to take much risk with regards to their investments. Furthermore, it was observed that no significant difference existed in the perception of risk by both the sexes. The chi-square values of returns with age and sex are significant at the .05 level of significance, illustrating that the perceptions regarding returns differed significantly with age and sex. Hence, it was observed that respondents in the lower age groups had higher levels of returns perception. Also, males showed a considerably higher level of returns perception as compared to females.

The chi-square value for intention to invest is significant only for age, signifying that people in the lower age groups showed higher intention for making investments in the future. Furthermore, to analyze the respondents' choice of various investment options, select demographic variables like age, income, gender, and educational qualifications were studied. It was found that 43.5% of the respondents in the age group of 30-40 years chose to invest in more risky investment options like stocks and bonds and 39.8% chose to invest in real estate. On the other hand, respondents in the age group of 50 years and above mostly chose to invest in safer investment options like saving accounts, fixed assets, and government securities. The chi-square value for age as a determinant of various investment options is significant at $p < .05$ level of significance. Hence, it is clear that the younger respondents were more aggressive in their investment choices and had an inclination to take higher risks in the desire to get higher returns, while people in the older age groups were more cautious about their investments. The most favored investment choices among males were real estate and stocks, while females preferred less risky options. An interesting finding of the study is that when given a choice between stocks and mutual funds, 53.077% of the male respondents preferred to invest in stocks, and 71.831% of the female respondents preferred to invest in mutual funds, revealing that females are potentially stronger mutual fund investors as compared to males. As far as income was concerned, it was observed that there was no significant difference in the choice of investment options made by respondents belonging to different income groups. Such results might actually be skewed because 86% of the data set belonged to the respondents whose income level was less than ₹ 10 lakhs per annum. Another notable finding was that the educational level and streams of study also did not significantly impact the investment choices of the respondents.

Figure 1.Ranking of Various Perceptions Regarding Investment Options



Source: Authors' Research (on the basis of primary data analysis)

For an understanding of the respondents' risk, returns, and intention to invest, they were asked to rank their perception regarding the level of risk they would take for their investments, returns, and intention to invest regarding select investment avenues on a 5-point likert scale. It can be inferred from the Figure 1, that as per the risk and returns involved in the various investment options, the respondents rated stocks as the most risky and the highest returns yielding investment option. However, their intention to invest was not that high in case of stocks, meaning thereby, that Indian investors are risk averse in nature. The results revealed that the second highest number of respondents had actually invested in stocks and bonds. On the other hand, the intention to invest was highest in case of real estate, revealing the fact that the respondents considered real estate to be the best option as far as risk and returns are concerned. The interesting fact revealed by the study is that very few respondents had actually invested in real estate. The reason might be the large amount of funds involved in real estate investments. Mutual funds, on the other hand, were ranked second as far as risk and returns were concerned. Also, mutual funds were the second most preferred investment option for future investments, revealing the fact that the respondents viewed mutual funds as safe and an investment option that gave good returns. While talking about the actual investments, the highest number of respondents had actually invested in different mutual fund schemes.

In terms of risk involved, the respondents placed insurance and savings bank accounts jointly on the third position, whereas in terms of returns involved, the respondents considered savings bank account to be a better option of investment followed by insurance. However, after stocks, the highest number of investors had actually invested in insurance followed by investment in the savings bank account. Post office savings and government securities were least preferred by the respondents as far as risk and returns were concerned. The amount of returns involved in government securities and post office savings are very low as compared to all other investment options, that is why, the respondents were least interested to invest in these options in the near future. The actual investment in these investments was also low.

The spearman rank correlation coefficient between the respondents' actual investment and their intention to invest in various investment options is 0.468, revealing the fact that the respondents were relatively naive regarding their risks-returns perception, and their intention to invest was based upon a lot many other factors also. Furthermore, it was observed that their real investment decisions were not based only on their intention to invest, but also on other things, like the actual amount of funds they had with them to invest. However, the relation between making an investment and availability of funds is low because the respondents did not belong to very high income strata, and thus had limited sums to invest.

➲ **Perceptions Regarding Mutual Funds :** To bring out the various factors that impact the choice of mutual fund investments, the respondents were asked to rank select dimensions for investments in mutual funds like diversification, liquidity, flexibility, higher returns, professional management, low risk, low investment cost, and tax saving an a 5- point Likert scale. It was found out that tax saving was considered to be the most important factor for mutual fund investments. 63.34% of the respondents had invested in mutual funds for the purpose of tax saving. Diversification, which reduces the risk because all stocks do not move in the same direction at the same time, was an important factor while investing in mutual funds for females and for people belonging to the middle income group. On

Table 1. Significant Relationship Between Selected Demographic Factors and Respondents' Positive Perception Regarding Investing in Mutual Funds

	Cost of Transaction	Return Perception	Name Familiarity	Service Quality	Trust in Mutual Funds	Risk Perception	Intention To Invest	Satisfaction From Agent
Age	N.S.	S (p =.038)	S (p =.034)	N.S.	N.S.	S (p =.047)	N.S.	N.S.
Gender	N.S.	N.S.	S (p =.000)	N.S.	N.S.	N.S.	S (p =.000)	N.S.
Income	S (p =.035)	N.S.	S (p =.011)	S (p =.002)	S (p =.002)	S (p =.008)	N.S.	S (p =.034)
Education	S (p =.045)	S (p =.000)	N.S.	N.S.	S (p =.034)	N.S.	N.S.	N.S.
Streams	S (p =.024)	S (p =.018)	N.S.	N.S.	S (p =.035)	N.S.	N.S.	N.S.
Profession	S (p =.008)	N.S.	N.S.	S (p =.019)	N.S.	N.S.	N.S.	N.S.

Source: Authors' Research (on the basis of primary data analysis) Note : N.S.= Not Significant, S = Significant the other hand, respondents belonging to the low income group and older people preferred liquidity and high returns from their investment choices. However, it was observed that there was a significant difference in the reasons given by the respondents belonging to different educational streams. Science and arts graduates preferred professional management as the reason for investment in mutual funds, while people with qualification in commerce and management preferred flexibility, diversification, tax saving, and liquidity as the most important factors influencing their investment decisions. The results of our study are consistent with the results obtained by Singh and Vanita (2002), as they also concluded that mutual fund investors primarily use mutual fund investments as a tax-saving instrument.

To bring out the significant demographic factors that frame an investor's positive perception regarding mutual funds, a series of select dimensions were studied in relation to the selected demographic variables. The results of the chi-square statistics revealed that the respondents' income was the most significant of all the demographic variables that influenced their perception regarding mutual funds. Furthermore, the cost of transaction came out to be the most significant dimension that was influenced by all the selected demographics. The Table 1 depicts that the variables like cost of transaction, name familiarity, trust in mutual fund investments, and satisfactory returns were highly affected by demographics like age, gender, income, educational level, streams of education, and profession.

It was observed that respondents in the age group of less than 30 years were highly conscious about high returns from mutual funds, revealing the fact that investments made by younger respondents were most affected by their perception regarding satisfactory returns. Respondents in the age group of 30-40 years were most familiar about the top mutual fund schemes. This shows that with age and experience, people gain adequate knowledge and insights about the popular mutual fund schemes and investment options. Also, people of this age group considered that mutual funds are a good option of investment as far as risk and returns were concerned. While talking about gender, it was observed that males were more aware about the familiar schemes, while females had greater intention of making future investments in mutual funds as compared to males. 70.1% of the female respondents preferred to invest in mutual funds, revealing that females are potentially stronger mutual fund investors as compared to males.

It was also observed that almost all the variables got affected by income. People in the lower income group, that is, respondents earning less than ₹ 5 lakhs per annum were highly conscious of the cost of transactions involved in mutual fund investments and expected high service quality in lieu of that transaction amount. The respondents falling in this income group placed the highest trust in mutual fund investments and their preference was due to the fact that mutual funds are affordable and are the best option of investment for them (respondents belonging to the lower income group).

The respondents were further categorized as graduates, post graduates, and professionals as far as their educational qualifications were concerned. It was found that post graduates and professionals, and that too belonging to the commerce and management streams, considered mutual funds to yield good returns and were their most preferred investment option. It was observed that respondents in the service profession considered transaction cost to be an important factor while investing in mutual funds. The reason might be the limited monthly income which they had at their disposal. Whereas, on the other hand, entrepreneurs were least concerned about the cost of transaction involved in mutual fund investments.

To find out the predictors of the intent to invest in mutual funds, the mediator analysis was used. Using the three-step criteria outlined by Baron and Kenny (1986), the following model was estimated. Step 1 revealed whether the cost of transaction (the independent variable) had a significant impact on the intention to invest (dependent variable). Step 2 tried to find out the bivariate relationships between intent to invest and service quality, name familiarity, risk, returns, and perception regarding mutual funds. Step 3 predicted whether service quality, name familiarity, risk, returns, and perception regarding mutual funds predicted a multivariate model, including both cost of transaction and intent to invest. Statistical significance was considered at the .05 level or smaller. In order to study the impact of different factors on the respondents' intention to invest in mutual funds, we started with the following regression model. The regression model tested was as follows:

$$INTINV_i = \beta_0 + \beta_1 TRANCOST_i + \beta_2 FAM_i + \beta_3\ SERQUAL_i + \beta_4\ TRUST_i + \beta_5\ RISK_i + \beta_6\ RETURN_i$$

Reliability analysis was applied and the values of Cronbach's alpha as depicted in Table 2 are 0.641, 0.541, 0.916, 0.595, 0.489, 0.650, and 0.753 for cost of transaction, name familiarity, service quality, satisfactory returns, risk, intention to invest, and perceptions regarding mutual funds. The beta value of cost of transaction with intention to invest as presented in the Figure 2 is -.134 and is a significant predictor of intention to invest. The value of R^2 is .045. The bivariate relationships were checked and the beta values are .017, .011, .45, -0.116, .118 for name familiarity, service quality, satisfactory returns, risk, and trust in mutual funds. Next, we ran the step wise regression analysis, where name familiarity, service quality, satisfactory returns, risk, and trust in mutual funds were the mediating variables. Initially, the value of R^2 was 0.045 and it went upto 0.501. The step-wise regression (as presented in the Figure 3) excluded two variables - name familiarity and service quality. In order to check multicollinearity, diagnostic checking was done. The VIF values were found to be significant for all the variables, implying that the model is free from the problem of multicollinearity. Therefore, the final regression model was:

$$INTINV_i = -.404 - .014TRANCOST_i + .006\ TRUST_i - .057\ RISK_i + .457\ RETURN_i$$

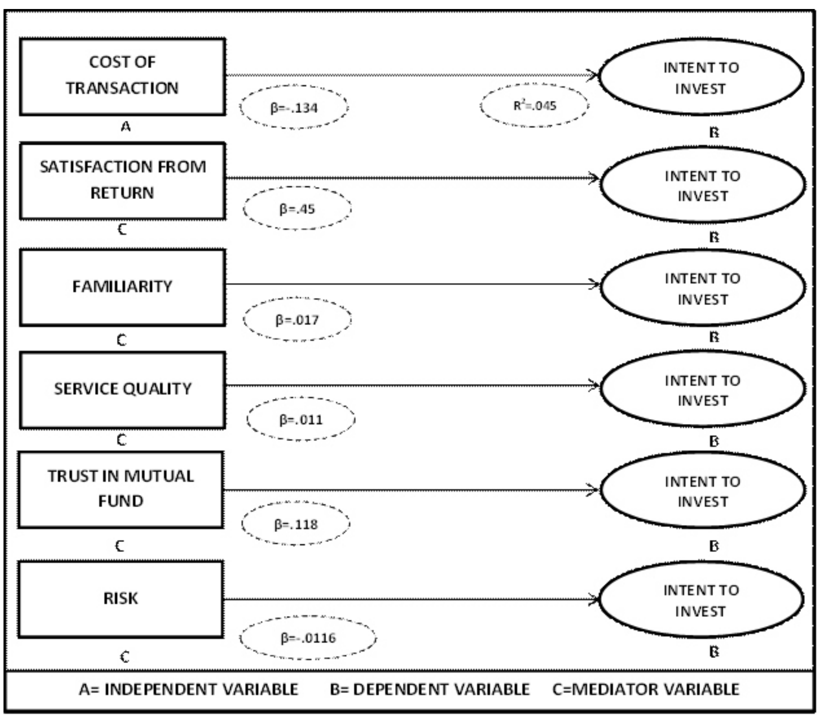
The model depicts that risk and returns were the strongest predictors of the respondents' intention to invest followed by cost of transaction and perception regarding mutual fund investments. Name, familiarity, and service quality came out to be the excluded variables. The results of the study are consistent with the results obtained by Berkowitz and

Table 2. Cronbach's Alpha Values for the Measured Constructs

Dimension	Cronbach's Alpha
Cost of Transaction	0.641
Familiarity	0.541
Service Quality	0.916
Satisfactory Returns	0.595
Risk	0.489
Intention to Invest	0.650
Trust in Mutual Funds	0.753

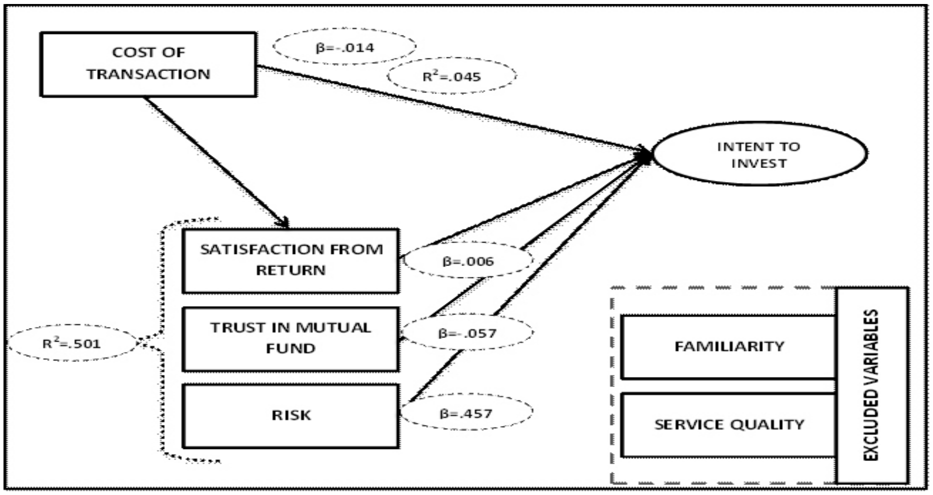
Source: Authors' Research (on the basis of primary data analysis)

Figure 2. Bivariate Regression Analysis of Select Perception Latents with Intent to Invest



Source: Authors' Research (on the basis of primary data analysis)

Figure 3. Model Derived from Step Wise Regression Analysis



Source: Authors' Research (On the basis of primary data analysis)

Table 3. Cronbach's Alpha Values for the Measured Constructs

Dimension	Reliability
Cost of Transaction	0.641
Agent Satisfaction	0.527
Service Quality	0.916

Source: Authors' Research (On the basis of primary data analysis)

Kotowitz (2000) and Singh and Chander (2004). They also concluded that respondents gave considerable weightage to returns and the market risk component while making investment decisions.

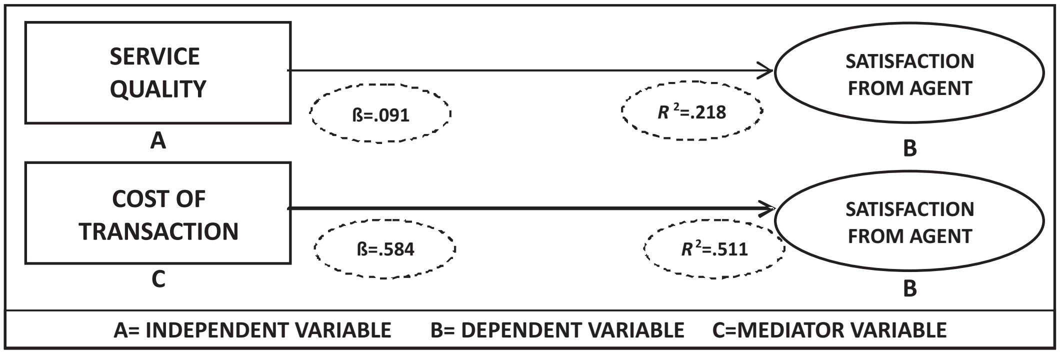
The results show that the respondents did not consider name familiarity to be an important factor for investment. On the other hand, from the respondents' point of view, service quality of any organization also does not impact the investment decisions. This may be because of the fact that investors do not deal directly with the organizations, they deal with the agents. All the companies offer the same schemes, having similar features. For investors, what matters the most is how much they are spending and how much returns they have earned. The respondents also considered the service quality provided by the agents. To explain this, we made another model, where satisfaction from the agents was predicted by the cost of transaction and quality of the services provided by the agent.

➲ **Determinants of the Satisfaction Level of the Service Quality Provided by the Agents:** To study the respondents' satisfaction level of the service quality provided by the agents and the impact of service quality on the respondents' investment decisions, the following dimensions were examined (see Table 3) . The following regression model was made:

$$\text{SATISAGENT}_i = ß_0 + ß_1\text{TRANSCOST}_i + ß_2\,\text{SERVQUAL}_i$$

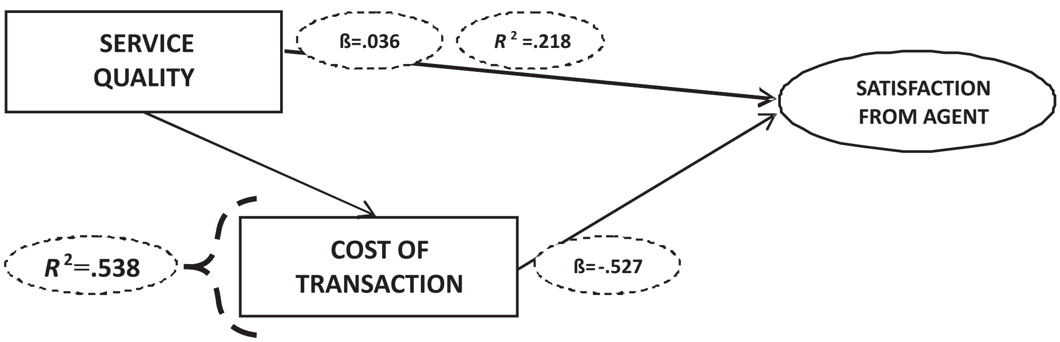
The reliability analysis was applied. The values of Cronbach's alpha as presented in the Table 3 are 0.641, 0.527, and 0.916 for cost of transaction, satisfaction from the services provided by the agent, and service quality. When the regression model was run, the *t* values were found to be significant for both the variables, that is, cost of transaction and service quality predicting satisfaction from the mutual fund agent. The following are the results: Firstly, we ran the regression of satisfaction from the agent with regards to service quality, and the value of beta is .091 (as shown in the Figure 4), and service quality came out to be a significant predictor of satisfaction from the agent. Then, bivariate regression of cost of transaction and satisfaction was run, and the value of beta was found to be -0.584. Then, as shown

Figure 4. Bivariate Regression Analysis of Select Perception Latents with Satisfaction from Agent



Source: Authors' Research (On the basis of primary data analysis)

Figure 5. Model Derived Through Step Wise Regression Analysis



Source: Authors' Research (On the basis of primary data analysis)

in the Figure 5, we applied step wise regression analysis, where cost of transaction was the mediating variable. Initially, the value of R^2 was 0.218, and it went upto 0.538. Next, diagnostic checking was also done, and the VIF values for both the independent variables were significant, meaning thereby that the model is free from the problem of multicollinearity. Therefore, the final regression model was:

$$SATISAGENT_i = -1.088- 0.517TRANSCOST_i + 0.036\,SERVQUAL_i$$

This shows that cost of transaction and service quality are important factors defining respondents' satisfaction from the agents. Therefore, presence of agents and their impact on the mutual fund industry cannot be overlooked. Ramasamy and Yeung (2003) also concluded that for increasing respondents' preference for mutual fund schemes, presence of agents is must for the industry.

Summary and Conclusion

The study has made an attempt to **(a)** understand the respondents' risk and returns perceptions, **(b)** examine the various factors that impact the respondents' choice for various investment options, **(c)** analyze the impact of name familiarity, cost of transaction, and service quality, **(d)** specifically look into the factors that impacted the respondents' choice(s) regarding mutual fund investments. The results depicted that the respondents in the lower age groups gave higher weightage to risk, and respondents in the higher age groups gave a lesser rating to risk. Younger people were found to be more aggressive in their investment choices and had an inclination to take higher risks in order to get higher returns, while respondents in the older age groups were more cautious about their investments. Furthermore, it was observed that no significant difference existed in the perception of risk by both the sexes. The results also revealed that respondents in the lower age groups had higher levels of returns perception. Also, male respondents showed a considerably higher level of returns perception as compared to females, who showed higher intention of making future investments. The most favoured investment choices among males were real estate and stocks, while females preferred less risky options, revealing that females are potentially stronger mutual fund investors as compared to males. The respondents rated stocks as the riskiest and highest return yielding investment option. However, their intention to invest was not that high in case of stocks, meaning thereby, that Indian investors are risk averse in nature. The intention to invest was highest in case of real estate, showing that the respondents considered real estate to be the best option as far as risk and returns were concerned. Moreover, easy financing schemes launched by various banks and non-banking financial institutions motivated them to consider the real estate option for investments.

Mutual funds were the second most preferred investment option for future investments, revealing the fact that investors are now viewing mutual funds as an investment option that is safe and gives high returns. While observing the respondents' actual investments, it was observed that the respondents' real investment decisions were not based only on their intentions to invest, but also on other things also like the actual amount of funds they had with them to make the investments. The results revealed that Indian investors are relatively naive regarding their risk returns perception, and their intention to invest is built upon a lot many other factors also. This relation was low because the respondents considered for the study did not belong to the high income group, and thus had limited sums to invest. Talking about the respondents' perceptions regarding mutual funds, it was found out that tax saving was considered to be the most important factor for mutual fund investments by the respondents. On the other hand, science and arts graduates preferred professional management as the reason for investment in mutual funds. Portfolio management by fund managers is an important aspect on which this industry is based and is providing superior returns as compared to direct investments in the market. Respondents with qualifications in commerce and management preferred flexibility, diversification, tax saving, and liquidity as the most important factors for their investment.

Chi-square statistics revealed that the respondents' income was the most significant of all the demographic variables that influenced their perceptions regarding mutual funds. Furthermore, the cost of transaction came out to be the most significant dimension that was influenced by all the demographics. While talking about age as a demographic, respondents in the lower age group were most familiar about the top mutual fund schemes. This shows that with age and experience, people get more aware about the popular mutual fund schemes and investment options. On the other hand, respondents in the lower income group, that is, earning less than ₹ 5 lakhs of income per annum were highly conscious about the cost of transactions involved in mutual fund investments and expected high service quality in lieu of that transaction amount. Furthermore, it was found that respondents in the service profession considered transaction cost to be an important factor while investing in mutual funds. Reason might be the limited monthly income which they had at their disposal.

Next, we ran two regression models. The first model revealed that the cost of transaction (independent variable) had a significant impact on intention to invest (dependent variable). Then we ran the model to analyze the bivariate relationships between intent to invest and service quality, name familiarity, risk, returns, and trust in mutual funds investment, and the beta values were found out. Taking all these variables as mediating variables, the relationship of cost of transaction was the strongest for intention to invest as compared to all other variables. Furthermore, the step-wise regression excluded two variables - service quality and name familiarity. Meaning thereby that the respondents gave considerable weightage to returns, transaction cost, and market risk component while making investment decisions as compared to all other factors. The second model revealed that service quality (independent variable) had a significant impact on satisfaction from mutual fund agents (dependent variable). The beta value for this model was significant and positive. Cost of transaction was taken as a mediating variable and the beta value for this was significant and negative. Step wise regression was run and the results revealed that service quality and cost of transaction were the important variables determining the respondents' satisfaction from mutual fund agents.

The findings of the present study are consistent with the results obtained by Ranganathan (2006) and Vannirajan and Gurunathan (2007). These studies also concluded that the important factors leading to investment in mutual funds are monetary, core product, satisfying customers' expectations, service quality, and the risks and returns involved in the investments. Thus, the results have revealed the fact that mutual funds offer the best alternative to Indian investors and are emerging as a best option for investment. Furthermore, Kumar and Arora (2013) stated that understanding the perceptions of mutual fund investors can help in institutions to market their schemes in a better way.

References

Baron, R.M., & Kenny, D.A. (1986). The moderator-mediator distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personal Social Psychology, 51* (6), 1173 - 1182.

Berkowitz, M. K., & Kotowitz, Y. (2000). Investor risk evaluation in the determination of management incentives in the mutual fund industry. *Journal of Financial Markets, 3* (4), 365-387.

Garvin, D. A. (1984). What does "product quality" really mean? *Sloan Management Review, 26* (1), 25-39.

Goetzman, W. N., & Nadav, P. (1997). Cognitive dissonance and mutual fund investors. *The Journal of Financial Research, 20* (2), 145-158.

Kaplan, S., & Garrick, B. J. (1981). On the quantitative definition of risk. *Risk Analysis, 1* (1), 11- 27.

Kothari, R., & Sharma, N. (2009). Defining and measuring the effect of service quality in selection of a mutual fund in Indian context. *Journal of Services Research, 9* (2), 153 - 172.

Kritzman, M. (1994). What practitioners need to know about time diversification. *Financial Analysts Journal, 50* (1), 14-18.

Kumar, R., & Arora, R. S. (2013). Investors' perception about mutual funds in India: An empirical study. *Indian Journal of Finance, 7* (1), 44 - 52.

Loewenstein, G. F., Weber, E.U., Hsee, C.K., & Welch, N. (2001). Risk as feelings. *Psychological Bulletin, 127*(2), 267-286.

Lopes, L. L. (1987). Between hope and fear: The psychology of risk. Berkowitz, L. (Ed.) *Advances in experimental social psychology* (Vol. 20, pp. 255 - 295). San Diego, CA, US: Academic Press.

Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing, 64* (1), 12-40.

Ramasamy, B., & Yeung, M. C.H. (2003). Evaluating mutual funds in an emerging market: Factors that matter to financial advisors. *International Journal of Bank Marketing, 21* (3), 122-136.

Ranganathan, K. (2006). A study of fund selection behaviour of individual investor towards mutual funds - with reference to Mumbai city. *The ICFAI Journal of Behavioural Finance, 3* (2), 2-9.

Shanmugham, R. (2000). *Factors influencing investment decisions. Indian Capital Markets - Trends and Dimensions* (Ed.) New Delhi: Tata McGraw-Hill Publishing Company Limited.

Singh, J., & Chander, S. (2004). An empirical analysis of perceptions of investors towards mutual funds. *Finance India, 18* (4), 1673-1692.

Singh, Y.P., & _______, Vanita (2002). Mutual fund investors' perception and preferences: A survey. *The Journal of Commerce, 55* (3), 8-20.

Sundar, S. P.V., (1998). *Growth prospects of mutual funds and investor perception with special reference to Kothari Pioneer mutual fund*. Project Report, Sri Srinivas Vidya Parishad, Andhra University, Visakhapatnam.

Vannirajan, T., & Gurunathan, P. (2007). Investment in mutual funds: A customer centric analysis. *Indian Journal of Accounting*, *38* (2), 9-17.

Walia, N., & Kiran, R. (2009). An analysis of investor's risk perception towards mutual fund services. *International Journal of Business and Management, 4* (5), 106-120.

Weber, E. U., Shafir, S., & Blais, A. (2004). Predicting risk-sensitivity in humans and lower animals: Risk as variance or coefficient of variation. *Psychological Review, 111* (2), 430-445.

Weber, E. U., Siebenmorgen, N., & Weber, M. (2005). Communicating asset risk: How name recognition and the format of historic volatility information affect risk perception and investment decisions. *Risk Analysis, 25* (3), 597-609.

Weber, E.U. (2001a). Decision and choice: Risk, empirical studies. In N. Smelser, & P. B. Baltes, (Eds.). *International encyclopedia of the social and behavioral sciences* (pp. 13347-13351). Oxford, U.K.: Elsevier Science Limited.

Weber, E.U. (2001b). Personality and risk taking. In N. Smelser, & P. B. Baltes, (Eds.). *International encyclopedia of the social and behavioral sciences* (pp. 11274-11276.). Oxford, U.K.: Elsevier Science Limited.

Weber, M. (2001). Decision and choice: Risk theories. In N. Smeler, & P. Baltes, (Eds). *International encyclopedia of the social and behavioral sciences* (pp. 13364-13368). Oxford, U.K. : Elsevier Science Limited.