

A Study on Service Quality on Investment Attributes of Equity Oriented Mutual Funds

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Abstract

Mutual fund industry in India with more than 400 funds offers a various choice for investing. But the large number and variety of funds also poses a challenge in selection of the right fund that meets investor investment needs. In this study an attempt was made to understand Service Quality on various investments attributes such as

Rate of Return

Risk

Marketability

Tax shelter and

Convenience

Service Quality is characterized by the customer perception of service. Data has been collected from 400 mutual fund investors, who have been invested in equity oriented mutual funds in the past five years. The questionnaire on ServQual was administered to these investors. The important findings of this study shows that both foreign and Indian private sector mutual funds have been made tremendous progress in the aspect of ServQual on all attributes of investments. Whereas, public sector banks

sponsored mutual fund baring SBI has not made much progress in ServQual on investment attributes.

ServQual is a 22 item scale with the following five dimensions:

1. Reliability - ability to perform the promised service depending service dependably and accurately.
2. Assurance – knowledge and courtesy of employees and their ability to inspire trust and confidence.
3. Tangibles – physical facilities, equipment and appearance of personnel.
4. Empathy - caring, individualized attention the firm provides its customers.
5. Responsiveness – willingness to help customers and provide prompt service.

Introduction

Mutual funds have become the major investment tool for retail investors in India. The advantages of mutual fund investments like, professional management, diversified portfolio, well regulated, low costs, transparent, liquidity, flexibility, tax benefits etc., are some of the factors attracting huge investment towards mutual funds.

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Mutual funds are becoming the one stop investment avenue for retail investors, be it fixed income securities or equity schemes. Investors pose great faith in mutual funds. For instance, recently concluded new fund offerings of SBI flexi fund was able to collect more than 2000 crores as subscription. This proves that mutual funds are going to play an important role in Indian capital market. This paper tries to understand whether mutual funds will live up to the expectations of retail investors and analyses the factors that determine the quality of mutual funds.

Investor satisfaction

Customer satisfaction is the key for any service organization, only satisfied investors will stay invested with the organization and recommend others to invest in particular scheme or fund. Another reason why mutual funds are so particular about investor satisfaction is that investor life time value to the organization is very crucial.

The organizations of the “new economy” seemed to determine the future of business expectations and their perceptions of actual performance can be done by making use of the SERVQUAL scale of Zeithaml, Berry and Parasuraman. This scale has been developed for the service sector. It has five generic dimensions or factors:

Tangibles : Physical facilities, equipment and appearance of personnel

Reliability : Ability to perform the promised service dependably and accurately

Responsiveness : Willingness to help customers and provide prompt service

Assurance (including competence, courtesy, credibility and security): Knowledge and courtesy of employees and their ability to inspire trust and confidence

Empathy (including access, communication, understanding the customer): Caring, Individual attention the firm provides its customers.

In the SERVQUAL instrument, 22 statements measure the performance across these five dimensions. For each statement the expectation and the experience of a customer is determined.

Servqual Dimensions in Relation to Mutual Funds

Tangibles

Aspects in the tangibles factor are ‘has up-to-date equipment’, ‘physical facilities are visual appealing’ and ‘materials are visually appealing’. These aspects are important in service products like mutual funds as there is not much face-to-face contact between the investor and mutual fund directly, since these products are normally delivered through intermediaries like brokers. Therefore the need to have well maintained broker’s office trained and informed employees in broker outfits functioning. Investor may redeem from the good scheme of a particular fund because of uninformed broker.

Reliability

Some of the aspects in the reliability factor have to do with 'doing what is promised' and 'doing it at the promised time'. Although many mutual funds believe that investors redeem their investments and go to some other funds because of performance alone, but performance is just one of the factors. There are many other factors such as convenience to invest and redemptions.

Responsiveness

One of the aspects in the responsiveness factor is 'gives prompt service'. The amount of time it takes to process the application form for investments, sending redemption warrants are key factors determining the responsiveness. Some of the other areas in which service promptness is expected in the areas of receiving dividend warrants in time, electronic clearing facility or direct credit facility of dividend and redemptions

Assurance

One of the aspects in the assurance factor is 'knowledge to answer questions'. Investors expect to find everything they want from a mutual fund. Investors are so particular about safety, returns and liquidity on their investments, if any one is lagging they withdraw investments from the fund.

Empathy

In the dimension of empathy, most of the investor contact points are intermediaries, so training to intermediaries on various aspects are very

essential, also employees in investor service centers should have greater responsibility in understanding investors. Customer friendliness in all aspects is very useful for retaining the investors within the fund.

Research Methodology

The empirical research is conducted by means of a questionnaire survey because this makes it relatively easy to study the perceptions and opinions of a large group of people in a limited time frame and at low costs. The survey is undertaken at two geographical areas of Chennai namely South Chennai and North Chennai.

The purpose of the questionnaire survey is to develop empirical evidence on the quality factors of investments in mutual funds.

The questionnaire consists of the following questions:

- Personal information (gender, age, qualifications, family income)
- Respondents' use of Internet (equipment, frequency of use)
- Specific web sites that are visited by respondents (a predefined list of 15 categories of web sites)
- Aspects of investments (a predefined list of 35 aspects)

Survey Results

Sample and response rate

North Chennai 200 investors have been surveyed with questionnaire. At South Chennai

200 investors have been surveyed. Totally North Chennai 186 and in South Chennai 194 are found useful for final analysis, however, the total number of respondents is still very acceptable for doing statistical analysis.

Statistics

Table 1 : Respondents on the basis of age.

Table 2 : Respondents by gender

Table 3 : Utilisation of services provided by mutual funds

Table 4 : Importance and satisfaction on advantages of investing in mutual funds (Top ten with highest score of importance and satisfaction).

Table 5 : Importance and satisfaction on advantages of investing in mutual funds (Bottom ten with highest score of importance and satisfaction).

Table 6 : Rank by diversified equity schemes of mutual funds on the basis of returns generated to investors.

Conclusion and further research

The SERVQUAL scale proves to be a useful in the development of mutual fund investments quality factors. Both theory and empirical research support the validity of the SERVQUAL scale in mutual funds. Five SERVQUAL factors (tangibles, reliability, responsiveness, assurance

and empathy) are important in the field of mutual fund investments. Empirical research also supports the use of the SERVQUAL scale in the field of mutual fund.

From the statistical analyses it became clear that the factors that are important in determining the quality of mutual fund investments are more or less similar to the factors (as developed by Berry, Parasuraman and Zeithaml) that determine service quality.

So it can be concluded that the quality dimensions developed by Berry, Parasuraman and Zeithaml for service environments are useful in mutual fund investments also.

It is necessary to conduct further studies to establish these findings in other investments like Bond funds, Gilt funds, Balances funds

References

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- Cumby, Robert & Jack Glen, Evaluating the performance of international Mutual funds, Journal of Finance.
- Zeithaml, V.A., Parasuraman, A., Berry, L.L., Delivering Quality Service, Balancing customer perceptions and expectations, The Free Press, New York,

Appendices

Table 1 : Number of respondent by age

Age(Years)	North Chennai	South Chennai	Total
18-30	33	26	59
30-45	41	37	78
46-55	59	54	113
Above 55	53	77	130
Total	186	194	380

Table 2 : Number of respondent by gender basis

Gender	North Chennai	South Chennai	Total
Female	43	64	107
Male	143	130	273
Total	186	194	380

Table 3 : Utilization of Services provided by Mutual Funds:

Services	North Chennai	South Chennai	Total	t-test significance
Find intermediaries	2.45	2.35	2.40	.01
Find relevant schemes	2.56	2.59	2.57	.00
Find relevant information about schemes	2.36	2.47	2.41	.02
Investor educations by mutual funds	2.78	2.67	2.72	.01

Table 4 : Importance and satisfaction on advantages of investing in mutual funds

Top 10 with highest score on importance

Highest score on Importance	Importance Mean	Satisfaction Mean	Delta
Professional Management	4.78	4.17	-0.61
Diversification	4.67	4.04	-0.63

Highest score on Importance	Importance Mean	Satisfaction Mean	Delta
Liquidity	4.59	3.98	-0.61
Transparency	4.48	4.02	-0.46
Well regulated	4.41	4.07	-0.34
Tax Benefits	4.34	3.85	-0.49
Return potential	4.25	3.79	-0.46
Choice of Schemes	4.19	3.67	-0.52
Low costs	4.17	3.36	-0.81
Flexibility	4.12	3.45	-0.67

Table 5 : Importance and satisfaction on advantages of investing in mutual funds

Next 10 with low score on Importance

	Importance	Satisfaction	Delta
Receiving fact sheets from mutual fund	3.87	3.12	-0.66
Receiving annual reports	3.81	3.08	-0.73
Investors services like change of address, change of bank particulars etc.	3.71	3.19	-0.52
Attractive dividend payouts	3.43	3.15	-0.28
Convenient administration	3.21	2.98	-0.23
Role of Intermediaries	3.09	2.76	-0.33
Investor education	3.01	2.68	-0.33
Fund manager's role	2.98	2.76	-0.22
Size of the fund/corpus	2.87	2.67	-0.20
Joint ventures/colloborations	2.81	2.51	-0.30

Table 6 : Rank by diversified equity schemes of mutual fund on the basis of returns generated to investors

Name of the scheme	North Chennai	South Chennai	Mean	t-test significance
SBI Magnum Multilier Plus	4.78	4.65	4.71	.01
Reliance Vision	4.64	4.72	4.68	.00
HDFC Equity	4.54	4.60	4.57	.02
DSPML Equity	4.49	4.61	4.34	.00
Franklin India Bluechip	4.37	4.31	4.34	.00
Sundaram Growth	4.29	4.54	4.41	.01
Birla Advantage Fund	4.13	4.26	4.19	.00
Principal Growth	3.98	4.07	4.02	.01
UTI Mastershare	3.87	3.76	3.81	.01
ABN AMRO Equity	3.78	3.81	3.79	.00
HSBC Equity	3.71	3.85	3.78	.02
Kotak 30	3.65	3.68	3.66	.00
Tata Select Equity	3.61	3.67	3.64	.01
Prudential ICICI Growth	3.58	3.65	3.61	.02
SBI Magnum Equity	3.51	3.53	3.52	.00
Sundaram India Leadership	3.45	3.42	3.43	.01
UTI Mastergrowth	3.40	3.37	3.38	.02