

Factors affecting the financial investors' decision in the adoption of mutual funds

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CHRONICLE

ABSTRACT

Article history:

Received: June 1 2019
Received in revised format: July 2 2019
Accepted: July 14, 2019
Available online:
July 16, 2019

Keywords:

Mutual fund
Financial investment
Factor effecting the decision

Mutual fund industry in India has been rapidly growing during the past few years. Presently, most investors prefer to invest on mutual funds as compared with direct investment in stock market because they realize this sector as safe heaven or more beneficial. The present study focuses on distinctive major factors moving the financial investors in adoption of mutual funds. Questionnaire with twenty variables and statements is developed while taking into account the recommendation of experts of the sphere and the responses from the investors collected based on the five Likert scale on the variables. Demographic profile of the investors is elaborated with frequency distribution and the results and discussion are made on with the help of factor analysis. The validity of the data is checked through Cronbach's Alpha and pre-analysis confirmation for judging the correctness of the whole sample for sphericity is checked through Kaiser-Meyer-Olkin test.

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1. Introduction

The mutual fund industry has seen the key structural and transformation changes since its origination, more than throughout the past era. The transformations are the results of policy initiative taken by Indian government to interrupt the huge structure of the trade in 1987 by allowing public bank sectors and Insurance Corporation, such as Life Insurance Corporation and General Insurance of Corporation, to introduce their own reserves. Later on, in 1993, wake of liberalization and economic process the government conjointly allowed the personal sector to enter into the investment trust business. As a result, the industry currently has become competitive (Shahbaz et al., 2019a). Thus, throughout the past three decades of existence, industry has matured many folds in terms of size, operation and investor base. Consequently, it is energetic for both the fund managers as well as financial investors to know which factor makes more contribution towards the success of mutual fund or affects the investors in the adoption of mutual funds. In the current study, efforts have been made to apprehend the importance of various factors that come in the way for moving the invertors to invest funds in this particular industry. In academic world, citation is a reliable and efficient tool in recognizing the value, quality and significance of authors work (van Raan, 2005; Borgman & Furner 2002; Cronin, 1984). However, the essence of the definitions is usually the same where microfinance is the provision of small loans, small savings and small-scale financial products and services for people in economic vulnerability from low income or unbanked people, poor and the very poor (Hartarska, 2005; Christen et al., 2003; Quinones & Remenyi, 2014).

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2. Literature Review

Prabhavathi and Kishore (2011) explained that mutual fund rehabilitated the way of world devoted their money. According to their study, Mutual fund gives a chance to the public on high return from their investment when compared with other traditional investment sources (Shahbaz et al., 2018ab, 2019a,b,c). The key emphasis of study was to know the attitude, consciousness and performance of mutual fund financial investors. Utmost the respondent chooses systematic investment plan and got their cause of information and data primarily from different banks and financial advisors. It was found that investors chose mutual funds for expert management fund and better earnings and assessed fund mainly through performance of past and value of net asset. Gupta (2002) found that the land of the finance sector in Republic of India was attributed to regulative changes. Agrawal and Jain (2013) stated that in today's competitive atmosphere, totally different types of investment avenues square measure accessible to the investors with different deserves and demerits. It was found that a capitalist tries to balance these advantages and shortcomings of various investment modes before investment in them (Shahbaz et al., 2018a). It was suggested that investment firm has to offer a chance to take a position during a spread and professionally portfolio manager at a comparatively low price. In the study, an attempt was created to analysis principally the investment avenue most popular by the investors of Mathura and to investigate the investor's partiality towards mutual funds investment once alternative investment paths are accessible within the market.

2. Objectives and Methodology

The objective is to analyze the factors affecting the investors' decision in the adoption of mutual fund. The present research is primarily based on primary kind of data, which is collected from the area of north India. The size of the sample is set as 200 respondents which include the people having exposure in stock or mutual fund market. For the selection of sample, simple random sampling techniques was used. Questionnaire has been circulated to the respondents in which twenty statements was given on five-point Likert scale along with five demographic variables (Shahbaz et al., 2019a). Assessing the quality of the studies method are different depending on whether they are quantitative or qualitative (Okoli & Schabram, 2010). Rousseau et al. (2008) identified six domains of quantitative quality assessment criteria: construct validity, internal validity, effect size, generalizability, intervention compliance and contextualization. Frequency distribution has been used for elaborating demographic data; factor analysis has been applied for adjudging the importance of the variables affecting the investors in the adoption of mutual funds. The Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity as verification for pre-analysis to judge the correctness of the sample as well as pre-requisite of analyzed the factor have been applied and for checking the statistical validity, Cronbach's Alpha has been used. The value of the same is given as under. Table 1 shows the Kaiser-Meyer-Olkin (KMO) value and the Bartlett's test as 0.741 and 329.766 respectively, which is significantly and statistically at 1% level of significance. So, it designates that factor analysis procedure is suitable for the sample.

Table 1

KMO and Bartlett's Test

Kaiser-Meyer-Olin Measure of Sampling Adequacy.	0.741	
Bartlett's Test of Sphericity	Approx. Chi-Square	329.766
	Df	190
	Sig.	0.000

Table 2 shows the statistics reliability of data which is collected from respondent. The Cronbach's Alpha value of data is found as 0.860 which indicates the data are reliable as per standard of reliability statistics. The respondent's profile of the demographic is given in the Table 3.

Table 2

Reliability Statistics

Cronbach's Alpha	No. of Items
0.860	20

Table 3
Demographic Profile of the Respondents

Profile	Frequency Distribution		Profile	Frequency Distribution	
Gender	Frequency	Percentage	Monthly Income (Rs.)		
Male	116	58	Below 20,000	84	42
Female	84	42	20,000-40,000	74	37
Age-Groups			40,000-60,000	18	09
Below 20	02	01	Above 60,000	24	12
20-40	192	96	Occupation		
40-60	06	03	Student	92	46
60 and above	-	-	Business/profession	40	20
Education Qualification			Services	48	24
Up to 10th	04	02	Others	20	10
10+2	-	-			
Graduation	62	31			
Post-graduation	134	67	Total	200	100

3. Results and Discussions

This section contains the test factor analysis result which in turn includes Communalities, Variance, Scree Plot, Component Matrix, Factors name and their labels.

Communalities

Table 4 shows each variable divided with the variation of other variables. Correlations analyses are the communalities, the variance proportion accounted for in each of the variable by the rest of the variables. This is the proportion of each variable's variance that might be described by the components of principal. The extra communality for each variable is also designed which gives each variable an average of 0.719 which is the variance amount, a variable shared with all the latent being measured. Latent with high standard values are well denoted in the common factor space, while latent with low standard values are not well denoted (Shahbaz et al., 2019b). They are the repeated variances from the components that have saved. Therefore, we have found these diagonal values on the reproduced correlation matrix.

Table 4
Communalities

Variables	Initial	Extraction
Mutual funds investment is less risky as compare to share market	1.000	0.663
The risk in mutual funds is reduced through diversification of fund	1.000	0.778
Mutual fund investment provides full time professional management of funds	1.000	0.646
Price movements of mutual funds are more predictable as compare to individual stocks	1.000	0.637
The mutual fund provides more choice of investment option according to your needs and objectives as compare to individual stock	1.000	0.532
Mutual fund houses purchase large amount of securities so its provide benefits of 'economy of scale' to investors	1.000	0.787
Mutual funds allow you to efficiently reinvest your dividends	1.000	0.599
Mutual funds offer you automatic withdrawal plans for your investment	1.000	0.811
Mutual funds provide you with individual attention	1.000	0.684
Mutual funds involve no personal liability beyond the investment risk in the portfolio	1.000	0.685
Mutual funds provide a safe place for investing your money as compare to share market	1.000	0.788
In mutual fund investment investor get benefits of expert's knowledge	1.000	0.826
High liquidity available in mutual fund market	1.000	0.598
Mutual fund investment provides tax benefits to investors	1.000	0.620
Mutual fund provides more regular income as compare to share market	1.000	0.703
Mutual fund units can be purchased in small amounts, so it's easy to get started	1.000	0.718
Mutual funds offer partial investment in high prices share lots through fraction buying of share	1.000	0.631
Mutual funds charge less commissions/ brokerage when buying and selling for the pool as compare to share market	1.000	0.739
The chance of capital appreciation in mutual fund is more as compare to share market	1.000	0.643
Mutual fund has Regulatory role of SEBI	1.000	0.736

*Total Variance Explained***Table 5**
Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.879	14.396	14.396	2.879	14.396	14.396	1.759	8.796	8.796
2	1.929	9.647	24.042	1.929	9.647	24.042	1.661	8.307	17.103
3	1.676	8.382	32.425	1.676	8.382	32.425	1.652	8.258	25.361
4	1.511	7.553	39.977	1.511	7.553	39.977	1.624	8.122	33.483
5	1.394	6.971	46.949	1.394	6.971	46.949	1.570	7.851	41.334
6	1.278	6.390	53.338	1.278	6.390	53.338	1.507	7.537	48.871
7	1.111	5.555	58.893	1.111	5.555	58.893	1.414	7.071	55.942
8	1.030	5.148	64.041	1.030	5.148	64.041	1.385	6.923	62.865
9	1.014	5.068	69.109	1.014	5.068	69.109	1.249	6.244	69.109
10	0.881	4.407	73.516						
11	0.826	4.128	77.644						
12	0.733	3.664	81.308						
13	0.637	3.186	84.494						
14	0.577	2.884	87.377						
15	0.540	2.700	90.077						
16	0.503	2.517	92.594						
17	0.462	2.308	94.902						
18	0.397	1.983	96.885						
19	0.343	1.714	98.599						
20	0.280	1.401	100.000						

Table 5 explains the variance where there are numerous factors extracted through a principal analysis of components as there are latent that are placed into it. The value of Eigen square measures the variances of the principal components. Therefore, the study has shown the analysis of the part on the matrix correlation and the latent variables which are standardized. This column encompasses the value of Eigen. The first part will constantly account for the foremost variance (and thence have the best value of Eigen), and the next component can account for the maximum amount of the left-over variance. Hereafter, each sequent part can account for less and fewer variance. The column of per cent Variance contains the percent of variance accounted for by every principal part. The column of Cumulative percent encompasses the accumulative proportion of variance accounted for by the current and every one preceding principal part. For example, the ninth row shows a value of 69.109. This means that the primary nine parts along account for 69.109 percentage of the total variance. In the Extraction Sums of Squared Loadings, three columns of this half of the table specifically repeat the values given on identical row on the left aspect of the table.

Scree Plot

The plot of Scree graph displays the value of Eigen against all the number of components. Plot shows that first nine latent accounts for value of more than one value of Eigen. From the tenth components on, graph showed that the line is nearly downwards, meaning that each following component is accounting for slighter and smaller amounts of variance with the value of Eigen less than one. On the whole, this study has interested in keeping only those factors of principal whose values of Eigen are superior than 1. Components with the value of Eigen is less than 1, account for less variance than did the original latent (which had a variance of 1), and so are of little use. Henceforward, study showed that the argument of principal factors analysis is to reorganize the variance in the matrix of correlation (using the method of value of the Eigen decomposition) to reallocate the variance to first factors extracted.

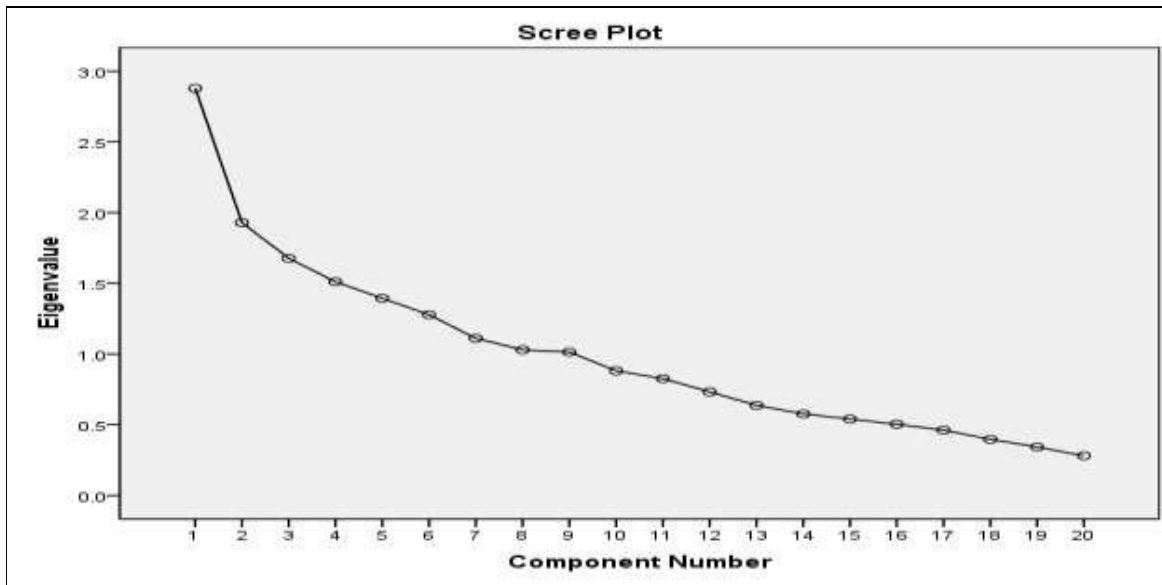


Fig. 1. Scree Plot

The possible values for correlations range is from -1 to +1. Component matrix encompasses the loading of every latent on to every alternative. The component matrix specifies however every item correlate in the analysis with every of the nine maintained features. This components matrix is not particularly used for explanation. The interpretability of the components can be enhanced in the way of rotation. The rotation matrix gives us a clear indication on what proportion things extracted components at an equivalent time as diminishing the loading on all alternative components. Rotated component matrix has arrived by applying 15-time iteration by SPSS itself. The rotated part matrix is nothing but simply a polished matrix of elements. Consequently, the interpretability of the components can be created on the idea of rotated component matrix.

Factor Names and their Labels

Factor 1: Professional Management is found as an important component which accounts for the maximum variations of 8.796 percent. Two out of twenty latent have been loaded on this factor. The value of Eigen of the factor is 1.759 which is highest among the rest of the factors. It also highlights and it is the most important factor in adoption of mutual fund. The components/variables included in this factor are: mutual fund investment provides full time professional management of funds and mutual funds allow us to efficiently reinvest our dividends. Factor 2: Easy access is the second important factor which accounts for 8.307 percent of the variations named as easily access from investors' view point. Only one out of twenty variables has been loaded on this factor. The Eigen values 1.661 also highlights that it is also an important factor in adoption of mutual fund, as per the factor analysis. The variable included in this factor is: mutual fund units can be purchased in small amounts, so it's easy to get started. Factor 3: Facility of fraction buying, less brokerage and less fluctuation. This factor also accounts for high percentage of variations that equal to 8.258. Three out of twenty variables have been loaded on this factor. The Eigen value of 1.652 also highlights that it is reasonably important factor with respect to our main objective. The variables included in this factor are: mutual funds offer partial investment in high prices share lots through fraction buying of share, price movements of mutual funds are more predictable as compared with individual stocks and mutual funds charge less commissions/ brokerage when buying and selling for the pool as compared with share market.

Table 7
Factor Names and their Labels

Sr. No.	Name of the Factors	Statements	Factor Loading	Eigen Value	% of Variance	Cumulative %
1	Professional Management	Mutual fund investment provides full time professional management of funds	0.735	1.759	8.796	8.796
2		Mutual funds allow you to efficiently reinvest your dividends	0.704			
3	Easy access	Mutual fund units can be purchased in small amounts, so it's easy to get started	0.710	1.661	8.307	17.103
4	Facility of fraction buying, less brokerage and less fluctuation	Mutual funds offer partial investment in high prices share lots through fraction buying of share	0.714	1.652	8.258	25.361
5		Price movements of mutual funds are more predictable as compare to individual stocks	0.713			
6		Mutual funds charge less commissions/ brokerage when buying and selling for the pool as compare to share market	0.474			
7	Attractive Plan for Future	Mutual funds offer you automatic withdrawal plans for your investment	0.874	1.624	8.122	33.483
8		Mutual funds can be used for retirement plans	0.629			
9		The mutual fund provides more choice of investment option according to investors' needs and objectives as compare to individual stock	0.420			
10	Less Risky	The risk in mutual funds is reduced through diversification of fund	.804	1.570	7.851	41.334
11		Mutual funds investment is less risky as compare to share market	.748			
12	Benefit of Economy of Scale and Safety	Mutual fund houses purchase large amount of securities so its provide benefits of 'economy of scale' to investors	.865	1.507	7.537	48.871
13		Mutual funds provide a safe place for investing your money as compare to share market	.492			
14	Benefits of Regular Income with Experts Knowledge	In mutual fund investment, investor get benefits of expert's knowledge	.806	1.414	7.071	55.942
15		Mutual fund provides more regular income as compare to share market	.589			
16	Limited Liability with Trustable Regulatory Body	Mutual funds involve no personal liability beyond the investment risk in the portfolio	.660	1.385	6.923	62.865
17		Mutual fund has Regulatory role of SEBI	.641			
18	Tax, Liquidity and Capital Appreciation Benefits	Mutual fund investment provides tax benefits to investors	.887	1.249	6.244	69.109
19		High liquidity available in mutual fund market	.456			
20		The chance of capital appreciation in mutual fund is more as compare to share market	.246			

Factor 4: Attractive Plan for Future is the fourth factor that emerges as next imperative one designated as attractive plan for future available investment opportunity for investors in mutual fund. This factor accounts for 8.122 percent of variations. Three out of twenty latent variables have been loaded on this factor. The value of Eigen 1.624 highlights that it is also reasonably important factor. The variables included in this factor are: mutual funds offer automatic withdrawal plans for our investment, mutual funds can be used for retirement plans, the mutual fund provides more choice of investment option according to investors' needs and objectives as compared with individual stock. Factor 5: Less Risky which is another factor and accounts for 7.851 percent of variations. Two out of twenty variables have been loaded on this factor. The Eigen value of 1.570 also highlights that it is also an important factor with respect to our objectives. The variables included in this factor are: the risk in mutual funds is reduced through diversification of fund and mutual funds investment is less risky as compared with share market. Factor 6: Benefit of Economy of Scale and Safety is the other factor, which accounts for 7.537 percent

of variations and highlights that mutual fund provides more benefits and safety to individual investors. Two out of twenty variables have been loaded on this factor. The Eigen value of 1.507 highlights that it is an important factor for investors' in adoption of mutual fund. The variables included in this factor are mutual fund houses purchase large amount of securities so it provides benefits of 'economy of scale' to investors and mutual funds provide a safe place for investing your money as compared with share market. Factor 7: Benefit of Regular Income with Expert's Knowledge is the other factor, which accounts for 7.071 percent of variations, has been named as benefits of regular income with expert's knowledge. Two out of twenty variables have been loaded on this factor. The Eigen value of 1.414 highlights the importance of regular income with expert's knowledge. The variables included in this factor are: in mutual fund investment, investors get benefits of expert's knowledge and mutual fund provides more regular income as compared with share market. Factor 8: Limited Liability with Trustable Regulatory Body is the next important factor, which accounts for 6.923 percent of variations and has been named as limited liability with trustable regulatory body. Two out of twenty variables have been loaded on this factor. The Eigen value of 1.385 highlights the importance of this factor in mutual fund with respect to our objective of investors' preference. The statements included in this factor are: mutual funds are involved with no personal liability beyond the investment risk in the portfolio and mutual fund that has Regulatory role of SEBI. Factor 9: Tax, Liquidity and Capital Appreciation Benefits is the last important factor, which accounts for 6.244 percent of variations, and the factor is described as the benefits of tax, liquidity and chance of capital appreciation in mutual fund investment. Three out of twenty variables have been loaded on this factor. The Eigen value of 1.249 highlights the importance of income and tax benefits in mutual fund investment. The variables included in this factor are: mutual fund investment provides tax benefits to investors; high liquidity available in mutual fund market and the chance of capital appreciation in mutual fund is more as compare to share market.

4. Conclusion

After conducting the study, it was found that professional management is the most important factor that affects the investors for investing on the mutual fund which accounts for the maximum variations of 8.796 percent and two out of twenty variables have been loaded on this factor. The Eigen value of the factor is 1.759 which is the highest among the rest of factors. The next important factor is found as easy access which accounts for 8.307 percent of the variations. Only one out of twenty variables has been loaded on this factor. The Eigen values of 1.661 also highlights that it is also an important factor in adoption of mutual fund, as per the factor analysis. Seven other factors have also been found as important.

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