Examining the Mediating Role of Investor Perception in Measuring the Dynamic Determinants that Instigate Investments in Mutual Funds

Dr. Rajat Kumar Gujral [1]

[1] *Academician & Researcher, Jaipur, India*

---***---

Abstract - *The financial landscape, both domestically and internationally, is fast evolving, making it possible to predict a bright future for the mutual fund sector. Investor confidence in this industry is still high, though. The factors affecting people's decisions to invest in mutual funds will be assessed in the current study, along with the mediating role that investor perception plays. Using a cross-sectional study design and a quantitative research methodology, 390 questionnaires are delivered to individual investors. Smart PLS 4 is then used to evaluate the data. The results show that risk and return, asset liquidity, speed, low transaction costs, tax advantages, transparency, and fund safety were all important variables in determining whether to invest in mutual funds. Investor perception is also a barrier between these elements and mutual fund investing. By investigating the multiple factors that affect investors' decisions to invest in mutual funds, the study adds to the body of knowledge. It also contributes by exploring investor perception's mediating function.*

Key Words: Investors' perceptions, Mutual Fund Structures, Asset Management, Investors Services, SEM.

1. INTRODUCTION

The extent to which investments are encouraged will significantly impact the economy's growth and stability (Dadhich & Kant, 2022). The general public's money must be directed toward worthwhile projects with the help of a few specialized organizations. A mutual fund is a type of trust that collects the savings of several individuals with similar financial goals (Agrawal, 2019; Shao et al., 2022). The monies raised are invested using capital market instruments, including shares, debentures, and other securities. Unit holders get distributions of the proceeds from these assets in proportion to the units they possess. As a result, mutual funds are the best investment option for the average investor since they offer affordable access to a diversified, expertly managed portfolio of securities (Dhall et al., 2021; Sheth et al., 2017). In the Indian context, mutual funds are a fascinating phenomenon. In less than ten years, it has changed the investing behaviours of medium and small investors in India. As a result, each business or financial school now includes mutual fund research as a must. Investors must know how mutual funds function and what to expect if they truly want to profit from this new financial tool. Small investors

can engage indirectly in the securities market thanks to mutual funds, which distribute and reduce risk (Rakesh Kumar Birda & Manish Dadhich, 2019). Through the mutual fund, millions of small and large depositors around the nation can take part in and profit from the expansion of the capital market. It is a brand-new category of middleman between investors and consumers. Due to its higher rate of return, lower risk, and lower cost, this vehicle is becoming increasingly popular in India. It is a more effective way to generate wealth. Table 1 shows the percentage of mutual funds in India, with the private sector making up 81.19 percent of the total and the public sector making up a very small portion.

Table -1: Share of Mutual Funds in India

Particulars	Private Sector Mutual Funds (A)	Public Sector Mutual Funds (B)	Grand Total (A+B)
Mobilization of Funds	6,488,226.25	1,845,219.24	8,333,445.49
Repurchase / Redemption Amt.	6,271,006.07	1,745,826.83	8,016,832.91
Net Inflow/ Outflow (+ve) of funds	217,220.14	99,392.41	316,612.55
Cumulative Position of net assets as on February 28, 2022	3,049,584.93	706,711.03	3,756,295.97
	81.19%	18.81%	100.00%

Source: Handbook of SEBI, 2021

2. REVIEW OF LITERATURE

(Badrivishal Asst-Professor et al., 2013) studied the characteristics of mutual funds sponsored by the public and private sectors, and the level of diversification in their security portfolios was examined. They then compared the performance of the funds using traditional investment indicators. The study found that portfolio parameters such as net assets, the ratio of equity securities, and market capitalization did not significantly differ between public-sector, private-sector Indian, and private-sector overseas

mutual funds. (Dadhich et al., 2019) conducted a comparative examination of three AMCs' mutual funds was used to study investor knowledge regarding choosing the best mutual fund scheme. This analysis also showed that a lot of information on mutual funds is not readily accessible to the general public. Investors in mutual funds cannot compare the mutual funds on the market because there is no information on fund styles or comprehensive league tables. The mutual fund industry in India was thoroughly examined by (Dadhich, Hiran, et al., 2021) in terms of performance, selectivity, timeliness, and persistence. According to his research, equity funds perform better than income funds. While institutional funds have triumphed in income funds, broker-backed funds have done well in equity funds. He found that Pakistani fund managers are highly skilled at market timing. In their study, researchers looked at the impact of fundamental elements, including the economy, industry, and business, on the performance of mutual funds. By gathering monthly data on important macroeconomic factors over 228 months spanning 19 years, an effort was made to analyze the economy thoroughly. (Dadhich et al., 2022) evaluated the mutual fund industry using percentage analysis to look at a number of factors, including assets under management, investor profiles, and service classification.

(Dadhich, Purohit, et al., 2021) assessed how well investors understood mutual funds and the numerous factors influencing their choice of mutual fund investments. The study found that because of their high rate of return, high level of safety, high liquidity, and convenience paired with low volatility, mutual funds had a comparative advantage over alternative investing options. It ranked third among available investment options, behind only insurance and government bonds. Most respondents (78%) were aware of the risks connected with mutual fund products and were generally happy with the service provided by mutual funds (Cioroianu et al., 2021; Dadhich, 2017a). The growth of mutual fund operations has made a competitive edge in service quality a differentiating factor (Dadhich, 2017b). To identify areas for improvement in service quality, it is crucial to assess the current state of the AMC's facilities and gather pertinent feedback on their actual performance.

3. HYPOTHESES OF THE STUDY

The following considerations served as the basis for the study's hypotheses, which were developed in light of the literature review that came before it:

H1: Investors' impression when investing in mutual funds is unremarkable about motivational factors.

H2: There is no connection between investing in mutual funds and motivating factors.

H3: Investor perception and mutual fund investment have no discernible relationship.

The following conceptual framework's motivating drivers are risk and return, asset liquidity, speed, low transaction costs, tax advantages, transparency, and fund safety. These motivating variables influence how potential investors view investing in mutual funds, and strong and favorable perceptions motivate users to do so.
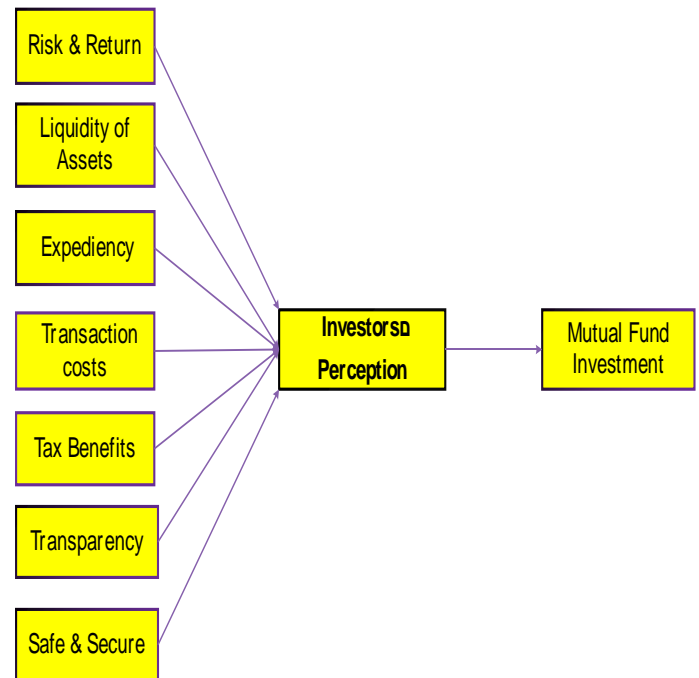

Fig -1: Conceptual Framework

4. RESEARCH METHODOLOGY

An effort has been undertaken to elicit relevant responses regarding the potential for mutual funds in India.

a. Data collection: Data from both primary and secondary sources were used in the study. The researcher used a well-structured, sequentially developed questionnaire to contact each respondent individually, as suggested by (Agrawal, 2019; Dadhich, 2017c; Hair et al., 2018). There were two sections to the questionnaire. The first featured statements regarding enablers that encourage mutual fund investing, while the second provided demographic data about respondents based on their beliefs. A five-point Likert scale was used to obtain investor feedback on each statement. The five options for the investors' responses were: strong agree, agree, can't say, disagree, and highly disagreed. The responses, which were individually gathered for mutual funds in the public and private sectors, are combined.

a. Analysis software: Smart-PLS were used to enter, examine, and interpret the acquired data in a meaningful way. The study uses the dependability test and structural equation modelling (SEM). Respondents from the five major Rajasthani districts of Jaipur, Udaipur, Bikaner,

Jodhpur, and Banswara are used in the research. A total of 400 participants were polled for the study. Only 390 people, however, answered every question. Therefore, only these respondents were included in the analysis. Further, the study collected data from April to July 2022.

5. ANALYSIS AND INTERPRETATION

No investor makes an investment in vain, which is a well-known fact. People can make mutual fund investments for a variety of reasons, such as regular income, growth, liquidity, tax benefits, and speculation (Kumar Naresh, Dadhich Manish, 2014). People have several goals in mind while making financial decisions, and they prioritize these goals differently. The information obtained from respondents in this respect is represented in the following table:

Table -2: Descriptive Statistics

Factors	Classification	Freq.	%
Gender	Male	210	53.80
	Female	180	46.20
	Total	390	100
Age	20-30	150	38.40
	30-40	122	31.30
	Above 40	118	30.30
	Total	390	100
Income	< 6 lakhs	120	30.80
	6-10 lakhs	130	33.40
	>10 lakhs	140	35.80
	Total	390	100
Education	Graduate	152	38.90
	P.G.	090	23.20
	Professional	148	38.90
	Total	390	100

Table 1 lists the 390 samples used for the study; of these, 53.80 percent were men, 46.20 percent were women, 38.40 percent were in the 20–30 age range, 31.30 percent were in the 30–40 range, and the remaining 30.30 percent were over the age of 40. Income ranged from 6 lakh, 6-10 lakh and above 10 lakh with corresponding percentages of 30.80, 33.40, and 35.80. Graduate, P.G., and professional degrees made up the bulk of the educational background; they were 38.90, 23.20, and 38.90.

Using smart-PLS 3, the current study analyses data. Due to its model parsimony, it is becoming more and more popular, and various studies have used this program to get accurate results from tiny sample sizes (Dadhich, Rao, et al., 2021; Hair Jr, Joseph F., G. Tomas M. Hult, Christian Ringle, 2016). The analysis of the present study was mainly divided into two major components. The validity

and reliability of the measurement model were assessed in the first section. The second section assessed the structural model using structural equation modelling to test the hypotheses (SEM). During the evaluation of the measurement model, the loading of variables, Cronbach's alpha, composite reliability, and average variance extracted (AVE) were all evaluated. The external consistency was also assessed using discriminant validity. According to (Hair, J. F., Ringle, C. M., and Sarstedt, 2011), factor loading should be greater than 0.5. To achieve convergent validity, the AVE should be larger than or equal to 0.5 (Fornell C. and Larcker D. F., 1981). Furthermore, the reliability must be higher than or equal to 0.7. Figure 2 shows the evaluation of the measurement model. As a result, it can be assumed that all values are above the minimum threshold value.

Table -3: Reliability and Convergent Validity of the Factors

Scale	Ch. α	rho_A	CR	AVE	MSV
Motivating Factors	0.715	0.622	0.898	0.588	0.485
Investors' Perception	0.925	0.758	0.725	0.559	0.556
Mutual Fund Investment	0.715	0.658	0.466	0.425	0.406

The structural model was reviewed after the measurement model had been assessed. The direct and indirect impacts of this inquiry section were examined using PLS bootstrapping. The value of $f2$ was used to assess each exogenous variable's effect magnitude, and $R2$ was used to calculate the total variance explained. Finally, the model's quality was assessed using its projected relevance. Using a minimum t-value of 1.96, the hypotheses were tested. The direct impact of the independent manifest on the dependent manifest, or investment in the mutual fund, is shown in Table 4. The t-value for each connection is bigger than 1.96 and positive. Each direct variable, therefore, has a significant relationship with the dependent variable. Therefore, H1, H2, and H3 are regarded as valid.

Table -4: Testing of Hypotheses and Path Coefficient

SN	Structural Path	Sample X	95% Conf. Int.	T Stat	P.val.	F2
H₁	Motivating Factors → IP	0.382	(0.129, 0.135)	6.54	0.043	0.19
H₂	Motivating Factors → MFI	0.245	(0.309, 0.395)	3.76	0.001	0.36
H₃	Investors' Perception → MFI	0.312	(0.409, 0.429)	4.60	0.002	0.41

It demonstrates that risk and return, asset liquidity, practicality, low transaction costs, tax benefits, transparency, and fund safety all have significant and positive effects on mutual fund investment (t-stat=6.54, p.value=0.04, F2-0.19). These factors influence an investor's Perception of mutual fund investment, and a positive perception encourages consumers to invest in mutual funds. Additional motivators were also significant in completing the investment (t-stat=3.76, p.value=0.00, F2-0.36). It demonstrates that investor perception moderates all motivators and mutual fund investment (t-stat=4.60, p.value=0.02, F2-0.41). However, the value is positive and 0.05 in all mediation theories. Investors' perceptions amplify the beneficial influence of all direct factors on mutual fund investment. As a result, investors' perceptions serve as a bridge to perfect investing. Aside from its major contribution, the study has some limitations. This study's sample was drawn from only five cities in Rajasthan. Only significant motivating enablers influencing mutual fund investment are investigated in a proposed conceptual framework, and the same has been in line with previous studies (Dadhich et al., 2020).

6. CONCLUSIONS

Regarding mutual funds, growth has always been regarded as the most important goal, followed by regular income and liquidity. They have decided that speculation is the least of their worries. Most investors choose mutual funds based on their past performance. Prospectuses/newsletters were the most common source of information used by investors when making investment decisions, followed by brokers and sub-brokers. Most investors have used the absolute return on their mutual fund plan to assess their success. Public sector mutual fund investors identified the primary gap was dissatisfaction with the services provided. On the other hand, the primary deficiency identified in private sector mutual funds was a lack of awareness. Compared to the public sector, the private sector mutual fund industry is expected to have a bright future. This study examined the various factors influencing investors' mutual fund investment decisions. According to the survey findings, motivating factors such as risk and return, asset liquidity, practicality, low transaction costs, tax benefits, transparency, and fund safety have a subsumptive effect on investing in mutual funds. The study is a novel attempt to quantify the dynamic enablers that catalyze mutual fund investing. These motivation enablers foster a favorable perception of AMC investment (Dadhich, 2016; Sharma et al., 2022). Furthermore, a positive perception leads to increased investment in various asset allocation schemes. Furthermore, investors appear to be drawn to mutual funds because of their low transaction costs, low tax rates, and transparency. To encourage mutual fund investment, organizations must first understand investor preferences and perceptions before developing new and inventive schemes that benefit existing and prospective investors while also being profitable for the company. Furthermore, the survey found that the mutual fund industry has a lot of potential in the coming years. It has risen rapidly in recent years and is expected to continue growing at a healthy rate. As a result, there is a good chance that consumers will invest in mutual funds. The current study's findings contribute to both theory and practice of mutual fund investing. Mutual fund providers should expand their investor services to attract more participants to mutual fund schemes.

REFERENCES

[1] Agrawal, N. M. (2019). Modeling Deming's quality principles to improve performance using interpretive structural modeling and MICMAC analysis. International Journal of Quality and Reliability Management, 36(7), 1159–1180. https://doi.org/10.1108/IJQRM-07-2018-0204

[2] Badrivishal (2013). A Study on Mutual Funds with Due Reference to SBI Mutual Funds. International E Conference on Adapting to the New Business Normal – The Way Ahead December 3-4, 2020, Mysuru, India A, 2(1), 16–23.

[3] Cioroianu, I., Corbet, S., & Larkin, C. (2021). The differential impact of corporate blockchain-development as conditioned by sentiment and financial desperation. Journal of Corporate Finance, 66, 1–29. https://doi.org/10.1016/j.jcorpfin.2020.101814

[4] Dadhich, M. (2017a). An analysis of factors affecting on online shopping behavior of customers. ZENITH International Journal of Business Economics & Management Research, 7(1), 20–30.

[5] Dadhich, M. (2017b). An Analysis of Volatility of Macro Economic Variables on Gold Price. Pacific Business Review International, 9(12), 21–25.

[6] Dadhich, M. (2017c). Impact of Demonetization on Indian Economy. International Journal of Research in Social Sciences, 7(8), 208–215.

[7] Dadhich, M., Chouhan, V., & Adholiya, A. (2019). Stochastic pattern of major indices of Bombay stock exchange. International Journal of Recent Technology and Engineering, 8(3), 6774–6779. https://doi.org/10.35940/ijrte.C6068.098319

[8] Dadhich, M., Chouhan, V., Gautam, S. K., & Mwinga, R. (2020). Profitability and Capital Adequacy Approach for Measuring Impact of Global Financial Crisis Vis-À-Vis Indian Banks. International Journal of Advanced Science and Technology, 29(4), 2344–2365.

[9] Dadhich, M., Hiran, K. K., & Rao, S. S. (2021). Teaching – Learning Perception Toward Blended E-learning Portals During Pandemic Lockdown. Springer Singapore. https://doi.org/10.1007/978-981-16-1696-9_11

[10] Dadhich, M., & Kant, K. (2022). Empirical investigation of extended TOE model on Corporate Environment Sustainability and dimensions of operating performance of SMEs: A high order PLS-ANN approach. Journal of Cleaner Production, 363, 1–16. https://doi.org/10.1016/j.jclepro.2022.132309

[11] Dadhich, M., Poddar, S., & Kant, K. (2022). Antecedents and consequences of patients' adoption of the IoT 4.0 for e-health management system: A novel PLS-SEM approach. Smart Health, 25(5), 1–14. https://doi.org/10.1016/j.smhl.2022.100300

[12] Dadhich, M., Purohit, H., & Bhasker, A. A. (2021). Determinants of green initiatives and operational performance for manufacturing SMEs. Materials Today: Proceedings, 46(20), 10870–10874. https://doi.org/10.1016/j.matpr.2021.01.889

[13] Dadhich, M., Rao, S. S., Sethy, S., & Sharma, R. (2021). Determining the Factors Influencing Cloud Computing Implementation in Library Management System (LMS): A High Order PLS-ANN Approach. Library Philosophy and Practice, 6281. https://doi.org/https://digitalcommons.unl.edu/libphilprac/6281

[14] Dhall, N., Khandelwal, S. K., Malik, R., & Chawla, N. (2021). Investors Awareness and Perception Towards Mutual Fund Investment: An Exploratory Study. International Journal of Advanced Research, 9(06), 383–393. https://doi.org/10.21474/ijar01/13026

[15] Fornell C. and Larcker D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. Journal of Marketing Research, 18(1), 39–50.

[16] Hair, J. F., Risher, J. J., & Ringle, C. M. (2018). When to use and how to report the results of PLS-SEM. European Business Review, 31(1), 2–24. https://doi.org/10.1108/EBR-11-2018-0203

[17] Hair Jr, Joseph F., G. Tomas M. Hult, Christian Ringle, and M. S. (2016). A primer on partial least squares structural equation modeling (PLS-SEM).

[18] Kumar Naresh, Dadhich Manish, R. S. S. (2014). Determinant of Customers' Perception towards RTGS and NEFT Services. Asian Journal of Research in Banking and Finance, 4(9), 253–260. https://doi.org/10.5958/2249-7323.2014.00960.2

[19] Rakesh Kumar Birda & Manish Dadhich. (2019). Study of ICT and E-Governance Facilities in Tribal District of Rajasthan. ZENITH International Journal of Multidisciplinary Research, 9(7), 39–49.

[20] Shao, Z., Zhang, L., Brown, S. A., & Zhao, T. (2022). Understanding users' trust transfer mechanism in a blockchain-enabled platform: A mixed methods study. Decision Support Systems, 155(January), 113716. https://doi.org/10.1016/j.dss.2021.113716

[21] Sheth, K. N., Mittal, H., & Prajapati, F. (2017). Performance Evaluation of Public and Private Mutual Funds Schemes in India. International Journal for Scientific Research & Development, Vol. 5, (November), 194–199. https://doi.org/10.13140/RG.2.2.17035.80165

[22] Dadhich, M. (2016). A Comparative Study of Investment Portfolio of Life fund of LIC of India and ICICI Prudential Life Insurers. International Journal of Research in Economics and Social Sciences, 6(10), 229–238

[23] Sharma, R., Dadhich, M., & Chauhan, K. (2022). The Impact Assessment of Pandemic on Financial Indicators of Selected BSE Listed Companies: A Comprehensive View. International Research Journal of Engineering and Technology (IRJET), 9(2), 483–494.