A COMPARATIVE ANALYSIS OF PERFORMANCE OF MUTUAL FUNDS BETWEEN PRIVATE AND PUBLIC SECTORS

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Abstract

The purpose of the study is to determine whether mutual fund attributes affect mutual fund performance. Attributes such as management tenure, expenses, NAV, and size are examined and the different positions are quoted from the literature. Lastly, this section summarizes why further research is warranted in this field.
As the amount of assets invested in mutual funds has ballooned, mutual funds have become more abundant and more attractive to study. The common thread connecting the overwhelming majority of studies in this field is an explanation of mutual fund performance. The initial goal of mutual funds was to make saving and diversification more seamless for the lay investor, but as more and more mutual funds were developed and as more investment companies marketed their mutual funds, it became increasingly difficult and confusing for investors to select mutual funds. Moreover, as the popularity of these mutual funds increased, evidenced by the sheer amount and growth of invested
assets.
Also, to investigate the relative effects of IT Enabled Services on the Customer Satisfaction and Loyalty concepts to determine if the extra effort and cost of introducing IT Enabled Services protocols to highly valued customers really does positively affect customer satisfaction rates and the intention to remain loyal. Another objective of this study is to look at whether these concepts are further affected if other variables are introduced, specifically in a financial service industry context. The performance persistence, where past performance could possibly predict immediate future return.
The topic of persistence is a subject for debate because there are many conflicting views among researchers (Chart, 1997; Greenblatt et al., 1992; Hendricks et al., 1993).

Need for the Study

The initial goal of mutual funds was to make saving and diversification more seamless for the lay investor, but as more and more mutual funds were developed and as more investment companies marketed their mutual funds, it became increasingly difficult and confusing for investors to select mutual funds. Moreover, as the popularity of these mutual funds increased, evidenced by the sheer amount and growth of invested assets from 1999 to 2010, finance scholars and practitioners began to examine the attributes of mutual funds that affected sales of mutual funds. Also, to investigate the relative effects of IT Enabled Services on the Customer Satisfaction and Loyalty concepts to determine if the extra effort and cost of introducing IT Enabled Services protocols to highly valued customers really does positively affect customer satisfaction rates and the intention to remain loyal. Another objective of this study is to look at whether these concepts are further affected if other variables are introduced, specifically in a financial service industry context.

This study is important for several reasons:
1) The performance persistence, where past performance could possibly predict immediate future returns. This is known as the “hot hands” phenomenon. The topic of persistence is a subject for debate because there are many conflicting views among researchers (Chart, 1997; Greenblatt et al., 1992; Hendricks et al., 1993). Also,

literature review deals with the predictive attributes of mutual funds, excluding past performance. According to Peterson et al. (2001), this segment of the literature is much sparser than that which examine the persistence and market.

2) An increase in customer satisfaction rates generally translates into an increase in loyalty rates (Jones and Sasser 1995; Reichheld, Markey and Hopton 2000; Bolton, Kajian and Bramlett 2000; Anderson and Sullivan 1993; Grinner, Grumbler and Bitner 1998). And, an increase in loyalty can decrease administrative costs by 10-40% (Vincent 2000).

3) There is little published empirical research on the subject of IT and IT Enabled Services aside from industry surveys evaluating company results after Information Technology programs are installed. As important, little research exists on differentiating between highly vs. moderately satisfied customers and what effect this has on customer satisfaction and loyalty rates.

Review of literature

The purpose of the study is to determine whether mutual fund attributes affect mutual fund performance. The previous chapter discussed the various dilemmas in this field and stated the hypotheses to be tested in this study. This chapter presents the literature review and shows that further research is needed. In the literature review, the contradictory findings of various researchers are presented. Attributes such as management tenure, expenses, NAV, and size are examined and the different positions are quoted from the literature. Lastly, this section summarizes why further research is warranted in this field.

As the amount of assets invested in mutual funds has ballooned, mutual funds have become more abundant and more attractive to study. The common thread connecting the overwhelming majority of studies in this field is an explanation of mutual fund performance.

Since the inception and use of mutual funds, financial academics and practitioners have sought to describe their behaviour. With billions of dollars invested for a short period of time, mutual funds have come to play an integral role in an investor's portfolio. Countless studies have been conducted attempting to describe the behaviour of these mutual funds. This section introduces the various mutual fund attributes and their roles in influencing mutual fund performance.

Before examining the literature specific to the mutual fund attribute/performance relationship, it is important to note the different topics within the mutual fund literature. The literature can be split into three distinct categories. The first category examines the characteristics of mutual fund managers themselves. This part of the literature examines whether or not mutual fund managers have great skill in selecting securities and timing markets successfully. Researchers such as Freson and Schact (1996), Hendrickson (1984), and Treynor and Mazy (1966) have examined the ability of mutual fund managers to select securities and time markets successfully, but there is little evidence that supports the notion that they possess such skills. The second segment of the literature deals with performance persistence, where past performance could possibly predict immediate future returns. This phenomenon is also known as the "hot hands" phenomenon. The topic of persistence is a subject for debate because there are many conflicting views among researchers (Chart, 1997; grin blatt et al., 1992; Hendricks et al., 1993). The third segment of the literature deals with the predictive attributes of mutual funds, excluding past performance.

According to Peterson et al. (2001), this segment of the literature is much sparser than its other two segments, which examine the persistence and market timing/securities selection skills of the mutual fund manager. The relatively small number of studies that examine mutual fund attributes and their effects on performance demonstrate this.

Although the two segments of the literature not dealing with mutual fund attributes are noteworthy, this study agrees with the researchers examining the attribute/performance relationship who claim that a better understanding of these relationships will give practical value to lay investors as well as contributing to the literature and attracting more research into this field of study. This section presents a summary of the literature dealing with mutual fund attribute.

Effects of Management Tenure (Past Record)
This section examines the varying perspectives on management tenure and its influence over mutual fund performance. Management tenure is the number of years a professional money manager has been working for a particular investment company. In this study, management tenure stands as a proxy for experience. Although there is an overwhelming consensus on the role of management tenure and its effect on mutual fund performance, only a minority of the literature concludes that management tenure is an attribute positively related to mutual fund performance.

Effects of Size (Asset Under Management)
The debate does not end with management tenure. This section examines the effects of mutual fund size on mutual fund performance. This excerpt from Gregarious and Fabrice's (2001) study encapsulates the rationale of size affecting performance: "Studies investigating this relationship among mutual funds have yielded mixed conclusions.

Effects of Turnover (NAV)
Mutual fund turnover is the complete cycle of replacing stocks within the portfolio. Aside from the expense of commissions, there are other internal costs in owning a mutual fund. This section examines NAV and their effect on performance. Although the NAV changes then its effect on turnover ratio of a mutual fund adds to the cost of investing in mutual funds, the literature exhibits mixed results in regard to this variable's relationship to performance; this is similar to the management tenure and size/performance relationships discussed previously. Some researchers assert that NAV is positively related to performance.

**HOW TO MEASURE CUSTOMER RELATIONSHIP MANAGEMENT –
IN MUTUAL FUND INDUSTRY**
Increasingly, customer satisfaction and loyalty measurements are being integrated with internal operational data that CRM systems provide. Firms also need to be able to justify the enormous costs of their CRM systems and need to be able to measure the effects of CRM on the bottom line. According to James (2002), the top three strategic rationales for implementing CRM have been to increase customer retention/loyalty, to respond effectively to competitive pressure, and to differentiate competitively based on customer service superiority. Linking CRM data with customer satisfaction survey data let firms show that CRM systems have a larger, indirect effect by influencing customers' intentions. Total spending by U.S. banks on CRM was close to $9 billion by the end of 1999 and was expected to grow to $46 billion by the end of 2003 (Patton 2001). In the industry, it is thought that the Pareto rule still holds where a small portion of elite customers account for the bulk of profits (Masters 2000)-approximately 80% of bank profits come from 20% of customers. But, this may be over stated.

Research Methodology

This research represents the first phase of a multi-phase effort to identify the current and potential role of information technology in supporting relationships among customers of the Indian Mutual Fund Companies. Our approach was to interview people in a wide range of Indian Mutual Fund Companies, at both at small retail and HNI retail customers.
Each respondent presented, from the perspective of their own sector, a view of their supplier and customer relationships and the opportunities for and barriers to expanding these relationships through electronic commerce. We then combined and unified these views to create an industry-wide perspective. The data collected was focused on establishing that, as a result of customer focus groups and other limited survey results, it concluded its highly valued customers of the company and felt that the company would improve customer satisfaction and loyalty rates. Past studies from Peterson et al. (2001), Appal and Griffith (1998), Costa and Porter (2003), Della and Olson (1998), Dorms and Walker (1996) and Indro et al. (1999) used ordinary least squares (OLS) regression analysis to examine the effects of multiple mutual fund attributes to aid in explaining fund performance.
With that in mind, this study follows suit with past research by implementing a non-experimental quantitative design to determine whether the attribute/performance relationship exists.
This study tests the hypotheses mentioned in Chapter 3 using Chi-square test. Mutual fund attributes such as past record, NAV and AUM are regressed with respect to mutual fund performance in their respective years. Through the results illustrate the relationship between mutual fund performance and the independent variables. Furthermore, the partial effects of one independent variable are easily examined with respect to mutual fund performance.

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