

An Empirical Study: Factors Determining the Performance of Fund Managers in Indian Mutual Fund Industry.

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Abstract

This study explores the influences of factors determining the performance of fund managers among fund managers (Chief Investment office, Fund Manager and Investment Advisors). In addition, the study also understands the impact of demographic variables on factors determining fund managers' performance. The sample unit of the study was Manager dealing with Mutual fund Inc. The sample size of the study was 103 which was collected from Fund Managers which includes (chief investment officer, fund manager and investment advisors). Data collections were made in companies located in Bangalore and Mumbai. The study used factor analysis and one way analysis of variances to explore the factors determining performance, and reveal the relationship between the factors determining the performance of fund managers and demographic variables of fund managers respectively. The result of the study showed 5 factors derived from 14 variables, and each factor may be identified and named with the corresponding variables. One way analysis variances proved the statistically significant differences among some factors such as Expertise and Experience (EE), Strategy and Execution (S&E), External Stakeholders (ES) and demographic variables of fund managers.

Key words: Fund manager performance, Demographic variables and Factor Analysis

1. Introduction:

In the stock market, Small and medium investors face various problems while investing in the share market. The Investors lack awareness in accessing, the day to day activities of sensitive information about the stock exchange and market volatility. These type of investors do not know about the risk and returns of their limited sources of investment. This study has attempted to asses factors which determine performance of fund managers. The factors such as experience, expertise in fund selection, awareness of present market condition and Industry dynamism etc.,are highly

supported by various literatures, **Nicolas P.B. Bollen and Jefferey .A Busse's** Timing ability, **Bruce A Costa and Gary.E. Porter's** Tenure, **Aron A. Gottesman, Mathew R. Morey's** Education, and **Ding Du Zhoadan Huang and peter Blanch** field Managers' skill. Therefore, the fund manager acting as intermediaries between investors and mutual fund industry.

1.1 Mutual Fund:

A Mutual Fund is a trust pool, which has the savings of a number of investors who share a common financial goal. The money thus collected is then

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invested in capital market instruments such as shares debentures and other securities. The income earned through these investments and the capital realized appreciations are shared by the unit holders in proportion to the number of units owned by them. Thus a mutual fund is the most suitable investment for the common man, to provide an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

1.2 Investment process of Mutual Fund:



Source : www.amfi.com

1.3 Fund Manager:

Fund Managers are experts who have their pulse on the market and decide on the right pick of stocks, debentures, debt instruments, government securities among others, to maximize gains on your investment. In the Asset under Management Company, a fund manager has a vital role to play between the organization and investors.

SEBI amended portfolio Managers Wednesday 19th July 2006 SEBI vide its notification dated 5th July 2006 has amended the SEBI (Portfolio Managers) Regulations, 1993. The amendments permit appointment of a person with an experience of at least ten years in related activities, in the securities market including a portfolio manager, stock

broker or as a fund manager, as principal officer and also provide for compulsory appointment of custodian in respect of securities maintained by it.

2. Review of Literatures:

2.1 Fund Manager Performance:

Morningstar Principia, 2006, According to Morningstar's description about fund manager "Fund Management is an important variable in fund performance. Fund Manager is most helpful in the light of corresponding with managerial tenure. For the improvement of new managers' arrival, correlated with the past record performance of fund managers, for fund management"

James Philpot, Douglas Hearth, and James Rimbey, 2000. Their study examined the management skill in managing non-conventional bonds, mutual fund, defined speculative grade, global or conventional bond mutual fund, using a performance persistence and performance-related variables approach. The study explained that the relative performance persistence is best at short-term time tenure of fund managers, than of long term tenure.

Nicolas P.B. Bollen and Jefferey .A Busse's 2001, studies denoted that 'on timing ability of Mutual Fund Mangers' and the result of their study determined that, daily data provide different inferences than monthly data, regarding timing ability. These daily data inferences motivate the future test of Mutual fund performance and extend the size of Funds with effective performance of Fund Managers

Rich Fortin, Stuart Michelson, and James Jordan Wagner, 1999 August - contributed their research article towards analysis about relationship between Mutual fund Manager long term tenure and fund performance. Their research results demonstrate that, Investors should look beyond managerial tenure and consider other investment variables affecting performance, such as consistency of return on investment objective, turnover, expenses ratio and fund size.

Bruce A Costa and Gary. E. Porter 2006 examined the relationship between fund managers' tenure (at least 10 years experience) and performance i.e. Positive risk adjusted return on funds. But the result of their study determined that there is no relationship between tenure and fund performance of managers' Even the three years experience of mutual fund managers preform positive return on funds

Ding Du Zhoadan Huang and peter Blanch field, Their study concluded that fund manager does need managerial skill in relation to Bond mutual fund managers performance. Their research study denoted that Managerial skills of Mutual fund was essential for fund performance. Long term tenure is not really relevant for Fund Managerial performance. They measured the managerial skill and fund managers' performance, and concluded that there was a positive correlation between Managerial skill and Bond Mutual Fund mangers performance.

Aron A. Gottesman, Mathew R. Morey, 2006 Examined the relationship between manager education and mutual fund performance, Suggestions of their results are informative for investors, future mangers, and companies. Knowledge acquired in top or premium MBA programs may enhance the manager's ability to identify performance-enhancing inefficiencies in the market. For students or individuals interested in pursuing graduate education in order to obtain fund management knowledge obtain MBA from the topmost or other premium program is worthwhile. A fund that wishes to maximize its expected performance should hire managers from the most or other premium MBA programs.

In line with **Pollet** and Wilson, 2008, Khorana, **Servaes** and **Wedge, 2007**, expressed the Stand of the opinion that there is a relationship between expected fund performance and managerial ownership. As outlined in the article, managerial ownership has a positive impact on the interests of fund Shareholders and a change in ownership structure, can lead to an increase in firm value. In this respect, we argue that managers themselves have superior information about future fund performance and that a larger stake holding would be a good sign of higher returns to be produced.

In a broad study, **Kosowski et al. (2006)** reinforces the findings reported by **Kacperczyk et al.**

(2005) and Duan et al. (2008) by suggesting that superior/poor performance of the US fund

Managers are not entirely determined by luck.

Kosowski et al. (2008) examine the impact of

Stock-selection skill on mutual fund performance by implementing various bootstraps strategies for monthly fund returns using a number of conditional and unconditional performance models.

Melih ALP, 2009: Managers' success is greatly dependent on the dominant market conditions and select benchmarks, because managers may underperform their peers in the presence of mismatched benchmarks and adverse market conditions, even if they possess significantly positive managerial abilities. The latest research shows that superior skills of managers have been in a decline mode since the 1990s

3. Objective of the study:

Based on researcher inquiry and gap in the review of literature, the objective has been formulated and subsequently used to prove the hypothesis.

1. To explore the key factors determining performance of fund managers among the fund managers.
2. To know the impact of demographic variables on factors, determining performance of fund managers.
3. To suggest the managerial implication, based on output of the study.

3.1. Research Hypothesis

H1: Perceived Factor determining performance of fund managers is different on the level of Designation of fund managers .

H2: Perceived Factor determining performance of fund managers is different on the level of Experience in the field of Mutual Fund Inc.

4. Research Design and Methodology:

This study followed both descriptive and explanatory research design. The former design is meant for the purpose of describing the variable characteristics in the given concept. The latter design is for finding the relationship between concepts. The research approach follows the deductive logic in order to test the theory. Survey research strategy is followed in this study; Questionnaire is used as data collection method. Undisguised and structured questionnaire method is followed.

4.1 Data Collection and Sample Design:

Data collection

This study collected both primary and secondary data. The self-administered questionnaires were given to the managers through post and the relevant data was collected. Apart from this, secondary sources of information was used to understand the Mutual Fund Industry in India.

Sampling design

The sampling unit of the study is chief investment officer, fund manager and investment advisory in mutual fund industry. The study followed Quota sampling especially based in Bangalore and Mumbai region. Out of 300 samples the researcher collected 103 completed questionnaires.

5. Measures Used for factors determining performance of fund manager

A set of 14 items derived from various literatures and measured in the form of 7 point scale i.e. 1 is Hardly determined performance of fund managers and 7 is Highly determined performance of fund managers.

6. Data analysis:

The data were analyzed by using different statistical tools like Descriptive statistics which includes Proportion, Mean Score, Standard deviation and Range across different level of designation, Factor analysis is employed to know the factors which determine the performance of the fund managers.

One way analysis of variances is used to prove test the statistical significant differences among various levels of designation and experience, and reliability test has been done to test the goodness of the data.

7. Results:

7.1 Demographic composition

Out of 103 respondents, the results showed (Annexure1-1) 81% of respondents were Investment advisor. In the age category, 64% of respondents were between 23-35 years, 90% managers belong to male category, 50% of respondents belong to MBA, and 38% fund manager possessed minimum 5 years of experience in mutual fund industry.

7.2 Factor Analysis:

The study used the factor analysis to examine the variables of factors which determine performance of fund managers. The 14 variables in the data were reduced to 5 factor models and subsequently each factor is named, based on the variable summarization in the given factors. The factor analysis used various steps: first, principal component method extracted number of factors out of pool of variables or items by keeping the Eigen value as greater than 1. The extracted factors variances contain 72%. Varimax Rotation method is used to enhance the interpretability of factors. Score for each factor was calculated, based on mean score rather than factor score. So 5 factors were derived from 14 variables and they were named as Follows Internal Industry force (IIF), Manager Intelligence (MI), Strategy and Execution (S&E), Experience and Expertise (E&E), and External Stakeholders (ES) and their respective loadings are also shown in the tables (Annexure 1-2)

Cronbach alpha reliability has shown the consistencies among the items in the factors, determining performance of fund managers. It is proved that all the factors attained goodness of fit, i.e. greater than .7.

7.3 One Way Anova:

The study used one way ANOVA to prove whether there is statistically significant difference of

dependent variables (Factors determining performance of fund managers) among different levels of designation and experience. For the level of designation, Internal Industry force (IIF), Managerial Intelligence (MI) and Strategy and Execution (S&E) are statistically significant, and with respect to experiences, some factors which are statistically significant are: 1). Internal industry force (IIF) 2). Expertise and Experience (Ref. Annexure 1-2 & 3).

8. Suggestion and Conclusion:

A Fund manager's performance is essential for mutual fund performance. **Ding Du Zhoadan Huang and peter Blanch field**, in their study result showed positive relationship between fund manager's ability and fund performance. Most of the fund managers had less than five years of experience; the suggestion of the study is the ability, performance of fund managers are not dependant on long tenure. Some of the literatures are Tenure Timing ability, fund manager performances contributed by **Bruce A Costa and Gary.E. (Tenure), David R. Gallagher, Andrew N. Ross, and Peter L (security timing ability)** supported that there is no relationship of fund manager's experience, designation, manager's style among their performance.

In the case of educational qualification, maximum number of respondents hold MBA post graduate degree. Suggestion of the study for the future manager competencies are dependant upon their MBA qualification acquired from reputed educational institutions. One of the literature contributed by **Aron A. Gottesman, Mathew R. Morey, 2006**, suggested that the future students, investors and managers acquire knowledge from top or other premium MBA program.

Summary:

The study has achieved the above objective of examining the relationship between the factors determining performance of fund manager (dependent variables) and demographic variables (independent variables) of fund managers. The variables such as IIF, MI and EE among the various

level of designation and the S&E, MI and EE, among various levels of experiences showed that there is a statistically significant difference between factors determining performance of fund managers and demographic variables.

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Annexure-1

Fig- 1- Demographic variables and job profile of Fund Managers performance.

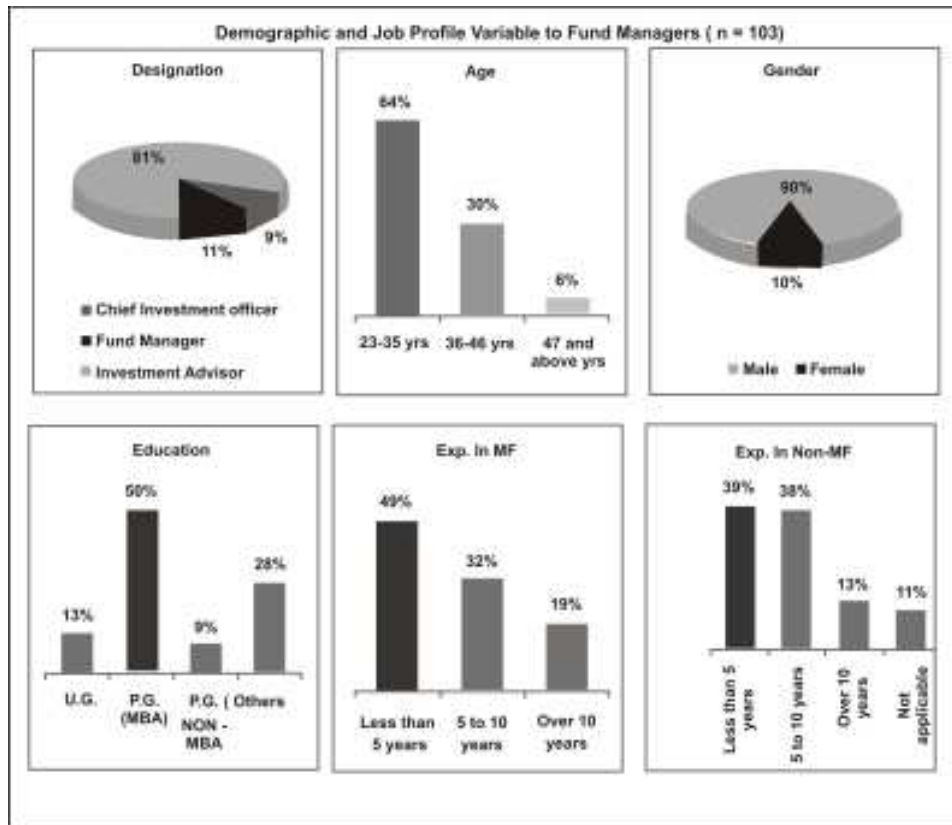


Fig.2. Factors Determining Performance of Fund Manager

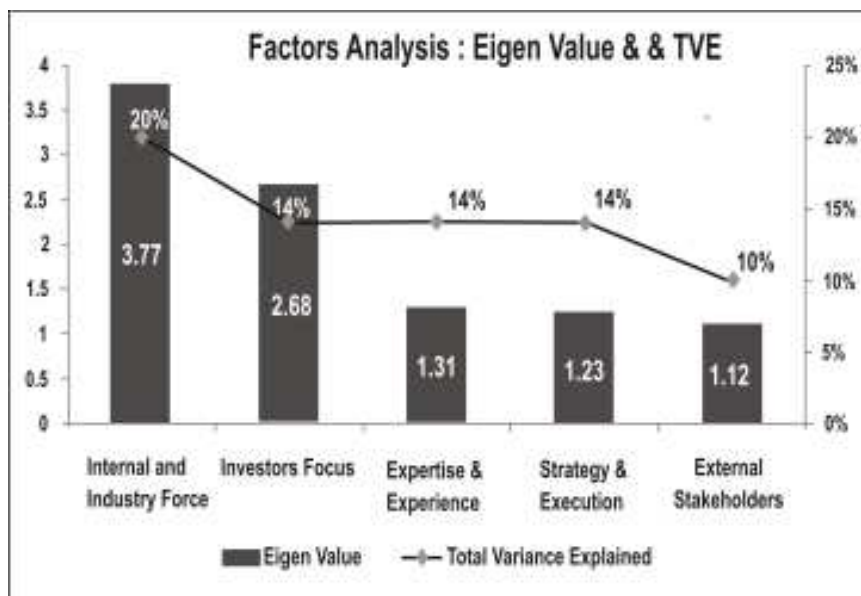


Table - 1-1 Factor Analysis : Consolidated Results						Communalities
Rotated Component Matrix (a)						
Variables / Factors	Component					
	Internal and Industry Force	Managers intelligence	Expertise & Experience	Strategy & Execution	External Stakeholders	
Eigen Value	3.77	2.88	1.31	1.23	1.12	
Total Variance Explained	20%	14%	14%	14%	10%	
Internal process team cooperation	0.84					0.76
Reputation of Organization	0.83					0.73
Orientation about related Industry activities	0.73					0.71
The growth of the MF Industry	0.70					0.62
Giving importance to market sentiments		0.89				0.83
Stock selectivity ability		0.65				0.73
Relevant Training about Industry updates		0.50				0.53
Analysis skill of Fund Manager			0.83			0.75
Fund Managerd experience in the relevant schemes			0.82			0.81
Market dynamism				0.78		0.72
Execution of the plan				0.75		0.75
Top Management encouragement				0.70		0.59
SEBI decision influences in the act of Fund Managers					0.88	0.85
Role of competitors					0.66	0.73
Extraction Method : Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 6 iterations.						