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Do Consumer Attitudes Matter in Capital Markets? A Study of Mutual Funds in Oman Market

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Abstract

The financial sector particularly the mutual funds in Oman market have shown limited potential to attract consumers. Consumer attitudes towards financial investments have always been a challenge for the finance companies due to limited risk appetite of consumers which are largely attributed to both cognitive and affective components of attitude. Through a process of methodological triangulation data was collected from experts in the finance sector from a sample of 200 consumers. Pearson product moment correlation and standard multiple regressions through SPSS version 20 were used to study the hypothesized relationships in this study. This study throws light on critical variables that shape consumer attitudes towards mutual funds and recommends the scope for introducing new mutual funds which has significant implications on capital markets in Oman.

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1 Introduction

Consumer attitudes are a result of both affective and cognitive perceptions towards a particular object or organization (Olson 2008). Research establishes that consumer attitudes can be influenced through a number of variables which are both internal and external (Assael 2004). Walther et al. (2005) concluded that both affect and cognition are important in attitude formation and they are also linked to the environment. This study looks at how the risk-averse environment affects consumers' decision making towards mutual funds. The present environment which is the Omani capital has shown limited potential to influence consumer attitudes towards mutual funds. This study focuses on consumer attitudes from three perspectives: consumer attitudes towards the product (mutual fund), towards organization (finance companies) and formation of consumer attitudes based on external stimulus.

2 Rationale

The rationale for this research is to look at the opportunities available for the Mutual Fund industry in Oman in terms of new funds with more value added features that could attract the investors locally. The opportunities for investors in mutual fund investment are very limited in Oman as presently there are only 12 Mutual Funds listed on Muscat Securities Market (MSM). Besides, the product line offered is also limited as most of the funds are on diversified category.

3 Aims

The study aims to identify the critical factors that shape consumer attitudes towards financial products along with their risk appetite particularly towards mutual funds in Oman. The study also aims to examine the effect of cognitive and affective perspectives on formation of consumer attitudes towards the mutual funds. Finally the study sets out to investigate the potential of widening the options of mutual funds in the Oman market and assess its impact on consumer attitude.

4 Practical Implications

The findings of this research are quite conclusive as a number of critical variables are identified that has the potential to influence consumer attitudes. The practitioners are informed through this research that the consumers in Omani capital market have a limited risk appetite to invest in mutual funds because the sector has not offered them enough opportunities and variety of funds to invest. The recommendations of the study proposed to the asset management companies and professionals to offer a wide portfolio funds which provides new opportunities that can not only bring in new dynamism but also enhance the risk appetite of consumers towards the marketing of mutual funds. Looking at the infrastructure developments in Oman, one could never deny the fact that there are ample opportunities to float funds with more value addition as a channel to raise funds through capital markets. The recommendations are made upon identification of consumer needs through an empirical research.

5 Literature Review

Mutual funds as an established financial instrument have more or less matured in the most economies including developing economies. According to an estimate (Newswire 2000) mutual funds have been growing at a rate of 14.4% since the onset of the present century. This growth is higher compared to equities and bank deposits during the same period (Asiaweek 2001). The growth has provided opportunities for the financial and asset management companies to offer investment opportunities. This research answers the call for more empirical research on the marketing of mutual funds particularly in emerging markets as pointed out by Ramaswamy and Yeung (2003). The effectiveness of marketing of mutual funds depends on the performance of mutual funds in those markets. Blake et al., (1993); Bogle, (1992); Brown and Goetzman, (1995); and Brown et al.(1992) raise doubts on the ability of mutual funds to perform better in the future based on their past performances. However, researchers such as Carhart (1997); Gruber (1996); Ippolito (1992) and Capon *et al.* (1994) argue otherwise and are of the view that past performances do indicate future performance. Goetzman and Ibbotson (1994) go on to show that past performance of two years at-least predict performance for the next two years. Harless and Peterson (1998) support this view and contend that despite poor performance of mutual funds investors stick with those mutual funds that have shown better performance in the past. The question then is whether mutual funds with good performance can be marketed effectively.

These discussions however do not establish which funds have the greater potential to perform in the present so that it can be marketed effectively in the future based on its past performance. The risk-return profiles of mutual funds are affected by factors that affect the performance of the mutual funds itself which needs to be established. Researchers such as Blake et al. (1993); Carhart (1997); Elton et al. (1996) and Liljeblom and Loflund (2000) have linked the performance of the mutual fund to its transactional costs which is termed as expense ratios. They argue that when fund managers pursue an aggressive policy, they need bigger teams for research and this increases the transaction costs influencing the profitability of the mutual funds. Further marketing expenses take up additional costs which add on to the expense ratio. Ang *et al.* (1998) and Chen *et al.* (1992) found positive relationships between positive performance of mutual funds and expense ratios. Recent research done by Parthasarthy (2011) shows that marketing through the Internet can help to reduce costs.

Further the researches have linked performance of the mutual funds to the size of the mutual funds. Grinblatt and Titman (1989) did not find any relationship between the size of mutual funds and performances of the mutual funds. On the contrary, many researches done later by Chen *et al.* (1992); Ang *et al.* (1998) and Golec, (1996) established that there is positive relationship between the size of mutual funds and performances of the mutual funds. Shukla and van Inwegen (1995) support this view and argue that larger funds help investors to select the right portfolio as these funds with more research staff are able to provide adequate information. At the same time availability of a wide variety of funds may also be determining factors which has not been well addressed in the literature and as Ramaswamy and Yeung (2003) points out that 'boutique' of funds may allow the investors to choose from a wide variety of funds and optimize their investments without pursuing an aggressive policy. This research will address this issue of diversity of funds in more detail and would propose different forms of mutual funds in the present research setting that would give investors the opportunity to optimize their investments.

Considerable attention has been given in the literature on the characteristics of the fund managers themselves that affect the performance of mutual funds they manage. Shukla and Inwegen (1995) relate it to their origin arguing that local fund managers with insight into local conditions are able to manage the funds better compared to international fund managers. On the other hand Ang *et al.* (1998) link it to three characteristics of fund managers which include risk taking abilities, insights into critical information and superior skills of evaluation. Golec (1996) and Porter and Trifts (1998), debate on whether experience of fund managers can determine their ability to manage their fund portfolios effectively. Both experience and age as causal factors therefore calls for greater empirical validation.

Indro et al. (1998) link the performance of the mutual funds with investment style of fund managers. They argue that consistencies in investment do matter. Finally McClarnon (2004) associate the performance of the mutual funds to the timing of the mutual funds in financial markets. She also argues that recent scandals in mutual funds have affected the credibility of mutual funds which has taken a battering as far as customer perceptions about mutual funds are concerned. Lowell (2005) cautions how advertising campaigns regarding mutual funds may mislead potential investors. He also cautions the way the returns are calculated and presented before the public for the purpose of marketing.

Panda and Tripathy, (2001) in their study emphasized that prioritizing, preference building and close monitoring of mutual funds are essentials for today’s fund managers and are of strong opinion that the mutual fund has proved to be one of the most catalytic instruments in generating momentous investment growth in the capital market. Their research reveals a fact that there is a substantial growth in the mutual fund market is mainly due to a high level of precision in the design and marketing of variety of mutual fund products by asset management companies providing growth, liquidity and return.

In another study Anderson et.al (2011), investigated whether there is any correlation between discount factor particularly with close ended funds and investor sentiment. They found a strong relationship between discounts and investors’ sentiments i.e. fear factor after the initiation of the market meltdown in 2007, which is consistent with the sentiment interpretation, which is a strong affective component. Shah & Associates who are solicitors and legal consultants are also of the opinion that mutual fund organizations are needed to focus on their skills and technology and their success however would bright depending how would an asset management company designs the fund to cater to the need of the public. As far as mutual fund investors’ are concerned they are of the view that the one needs to adopt two crucial skills for successful investing i.e. a sense of timing and investment discipline.

Debasish (2009) in his research investigated the performance of equity based mutual fund schemes and found that open-ended mutual find schemes provide relatively superior returns to the investors. Small investors particularly should be cautious to analyze the return and risk parameters of the mutual funds, in the long run before they invest. An important finding in his research was that when stock markets are highly volatile, mutual funds are the best source of investments with assured returns provided there is no flaw in the selection of such funds. Kozup & Howlett (2008) conducted a study to explore whether “The Effects of Summary Information on Consumer Perceptions of Mutual Fund Characteristics”, played a critical role and whether a modified method of supplemental information disclosure impacts investors’ fund evaluations and investment intentions. Their study indicated the results that most of the investors’ preference is on past performance of the funds to influence perceptions and evaluations of mutual funds.

In yet another interesting study conducted by Chou et al. (2010) focused on “Investor attitudes and behavior towards Inherent risk and potential returns in financial products”, attempts were made to establish a model by which attitudes and behavior of investors towards investment risk could be measured. A sample of Taiwanese investors was surveyed to determine their past investment experience and recorded their responses when exposed to economic signals. They concluded that Investors with trading experience have higher risk propensity and tend to have a risk-embracing character. However investors with less experience have extremely high risk perception for stocks.

5.1 Mutual Funds in Oman: An Overview

There are presently twelve mutual funds listed on Muscat Securities Market (MSM). Most of the Mutual Funds in Oman are Open Ended schemes. All the funds are with an issue price ranging between OMR 1 to OMR1.20 only. The oldest among them being Oryx Fund which was launched in the year 1994 and the latest being United GCC Fund being launched in the year 2011. Table 1 below provides a list of mutual funds in Oman market along with the year of establishment.

Table 1: Showing the type of Mutual Fund along with its year of establishment

Fund Name	**Year - Estd.**	**Type**
FINCORP AL AMAL	2004	Open-Ended
INV. STAB. FUND	2009	Open-Ended
MUSCAT FUND	1995	Open-Ended
Oman Al Arabi Fund	2009	Open-Ended
ORYX FUND	2004	Open-Ended
THE FIRST MAZOON FUND	1997	Open-Ended
Tilal Fund	2006	Closed
VISION GCC FUND	2005	Open-Ended
VISION OMAN FUND	2007	Open-Ended
VIS. ECO. GCC FUND	2010	Close-Ended
United GCC	2011	Open-Ended
MAJAN FUND	1995	Open-Ended

As evident in Figure 1, it can be seen that 83% of funds in Oman are open ended scheme funds with a wider scope for investor to invest any time particularly the funds are on diversified portfolio. The funds are focused on the investments in equity securities listed in MSM and also across the GCC countries and also other money market instruments. The main objective of these funds is to achieve long term capital appreciation besides dividends to the investors.

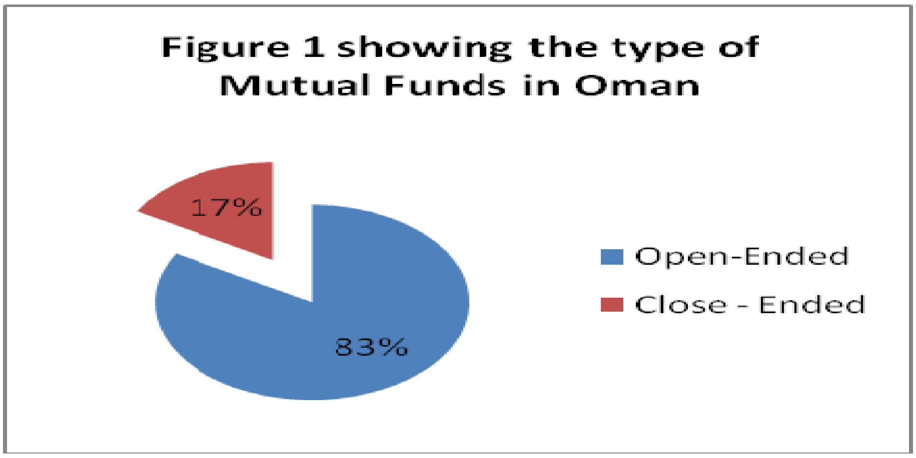

Figure 1: Mutual Funds in Oman

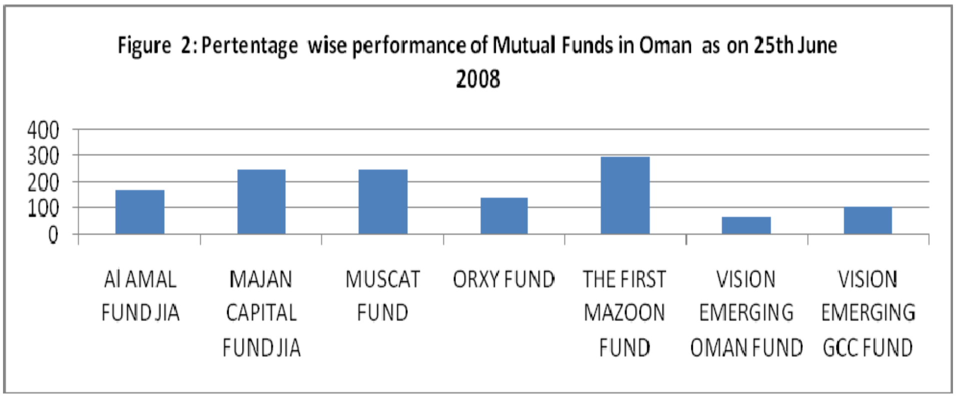

Figure 2: Mutual fund performance

As evident from Table 2, 70% of NAV of funds listed on MSM are stabilized. This not only shows the portfolio of the funds is well balanced but also reflects the role of regulatory authority i.e. Capital Market Authority (CMA) in regulating the actions of Asset Management companies in Oman.

Table 2: Showing the mutual fund performance along with the NAV, year of launch and Fund Manager

Fund	**Fund Manager**	**NAV per unit** (as on 25th June 2008)	Year Of launch	**Performance in %** as on 25th June 2008
Al AMAL FUND JIA	FINCORP	2.562	2005	176.3
MAJAN CAPITAL FUND JIA	FINCORP	2.319	1995	250.7
MUSCAT FUND	BANK MUSCAT	2.537	1995	251.2
ORXY FUND	BANK MUSCAT	2.18	1994	142.2
THE FIRST MAZOON FUND	GBCM	1.8	1997	296
VISION EMERGING OMAN FUND	VISION	1.731	2007	73.1
VISION EMERGING GCC FUND	VISION	1.138	2005	107.2

Looking at the Mutual fund Industry in Oman there is no pure equity related funds, SIPs, ETFs etc. The reason that could be attributable for this is the scope for investment opportunities for some funds is limited because of their commitment to investment in MSM index only. However, the no. of listed companies in MSM is 124 only. Taking a close look at the rate of growth of NAV appears to be very slow and negative in a few cases compared to their year in which the funds were launched.

The literature established that a number of cognitive and affective factors influence consumer's attitude and how the consumer perceive the mutual funds and their evaluation criteria was analyzed. In the light of the literature review, the researchers felt an impending need to answer the question whether the consumer attitudes really matter in capital market? Keeping in mind Oman capital market, an attempt was made to study the mutual funds in the Oman and investigate the challenges the asset management companies face in terms of risk appetite of consumers and how the potential of marketing of mutual funds can be enhanced so that it benefits the industry. To answer these research questions three hypotheses were framed and were tested in this study.

Hypothesis

Ho1: There are no correlations observed between components of attitude and product performance

Ho1: There are correlations observed between components of attitude and product performance

Ho2: There are no correlations observed between components of attitude desire for new funds

Ha2: There are correlations observed between components of attitude and desire for new funds

Ho3: There are no correlations observed between components of attitude and brand image of the financial firms

Ha3: There are correlations observed between components of attitude and brand image of the financial firms

6 Methodology

Epistemologically, this research is largely posited into realist philosophy using as hypothetico-deductive strategy. Fisher (2004) suggests such a methodological approach for empirical scrutiny. This is also in response to an increasing call for empirical evidence and quantitative data on consumer attitudes in the capital market particularly by Hofmann et al. (2005). A realist research demanded developing a framework based on relationships and testing them in order to test the framed hypothesis. Paradoxically using qualitative strategy to enhance the validity of the findings and as recommended by Bryman (2003) the 10-scale of measurable constructs were validated by industry experts. The items showed reliability alpha score of .75, which as recommend by Pallant (2007) as reliable. The questionnaire was then administered to 200 consumers of financial products which were selected through a systematic sampling method. To find probable relationships the items were tested using Person-product-moment correlation and multiple standard regressions and the results of which are summarized in table 3 and 4.

Yamane formula (Yamane 1967) was used to derive the sample size. The values to calculate the formula are shown below:

n = sample size, N = total population (1000), e = precision error (0.05), P = estimated population proportion (40%), α= 0.05, Z = 1.96

$$n = \frac{Za^2 \times P \times (1-P)N}{Za^2 \times P \times (1-P) + Ne^2} = \frac{1.96 \times 0.05^2 \times 0.4 \times 0.6 \times 1000}{1.96 \times 0.05^2 \times 0.4 \times 0.6 + 1000 \times 0.05^2} = 269.4297$$

As seen the estimated sample size that was derived was 269 respondents. A total of 270 questionnaires were distributed using data bases of asset management companies and 210 were returned to the researchers. Out of these 10 were found to be unfit for analysis so a total of 200 questionnaires were used for analysis.

7 Findings and Discussion

The test results of Person-product-moment correlation on the parametric data revealed that a number of independent variables such as profitability, wider choice and desire for new funds and knowledge about fund managers influence consumer attitudes through a cognitive route to attitude development and change.

Table 3: Correlation and P values of each independent variable on the dependent variable (Interest in mutual funds) P >.05 (2 tailed)

Causal variable	Correlation coefficient (r)	Coefficient of determination %	P Value
Past Performance	.137	1.8	.052
Profitability ratios	.231(**)	5.3	.001
Wide variety of portfolio funds	.148(*)	2.1	.038
Desire for new funds	.573(**)	32.8	.001
Knowledge about fund managers	.149(*)	2.5	.024
Advertising	.210(**)	4.4	.003
Brand Image	.527(**)	27.7	.000
Size of funds	.397(**)	15.7	.000
Present performance	.272(**)	7.3	.000

Contrastingly advertising, brand image and size of funds which are largely perceptual find an affective route to attitude development and change. This research acknowledges the limitation of correlation tests and as recommended by Tabachnik and Fidell (2007) applied multiple regression tests to understand the relationship dynamics eliminating the role of intervening variables. It is important to note this research acknowledges the limitations of these tests to establish causality.

Based on the results of the findings from multiple regressions test all the null hypotheses are rejected and alternate hypotheses are accepted as there was correlations found with brand image, product performance and desire for new funds. These predictor variables ‘desire for new products’ (.000), ‘brand image’ (.002) and ‘profitability ratios’ (.038) were identified as critical to formation of consumer attitudes. Desire for new funds with a highest beta score of .712 contributes most to the formation of positive attitude towards mutual funds, which enhances their risk appetite towards mutual funds. Once again the findings revealed that both affective and cognitive elements are critical on consumers’ attitude formation and change.

Table 4: Beta scores and statistical significance of all independent variables on the dependent variable (Interest in mutual funds) P >.05 (2 tailed)

Predictor variable	Beta	Sig
Desire for new funds	.712	.000
Brand image	.422	.002
Profitability	.181	.038

These findings resonates the findings of Kempf (1999) and Haddock, Maio, Arnold, and Huskinson (2008) who have argued that both affective and cognitive components influence attitude formation and change. The findings also established the fact that a majority of the consumers in the capital markets have inadequate knowledge on financial indicators and hence rely on brand image, while the basic financial indicators such as profitability ratios show limited potential to influence attitudes as against Kozup & Howlett (2008) who argued that most of the investors' preference is on past performance of the funds which influence perceptions and evaluations of mutual funds. However desire for new funds indicate that the Oman capital market has traditionally relied on few mutual funds and the consumers can be attracted towards mutual funds if wider variety of funds are brought into the market. Therefore these findings necessitate a strong need for recommendations for the Omani capital market that will benefit both consumers and finance professionals and asset management companies.

7.1 Conclusions and Recommendations

As the findings revealed presently there are no funds in Oman which are diverted purely to equity markets or otherwise from the insurance industry. There is plenty of scope to launch new types of funds in Omani capital market and offering wide variety of funds will influence consumers' affective component of attitude positively as they will have plenty of options to choose from. The important area, which is neglected in the Omani capital market, is that the mutual funds are not strongly linked with insurance sector. In fact, the current gap that exists between insurance sector (particularly medical and life insurance) and mutual funds can be bridged to act as catalyst in improving the capital market activities in Oman. At the same time Gold Funds are pitching up and proven to be successful in different developing economies. History proves that the prices of the yellow metal (Bullion Markets) have not seen a big dip during the recent past. This provides opportunities for launching a fund holding gold funds as their base. The larger section of the investors who are risk averse could be brought under this bracket and convinced that their investments would give them a reasonable rate of return in the long run. Probably the marketing strategy for such schemes would not be as difficult as any other.

Whenever it comes to the investments, particularly in case of mutual funds, the very idea is to provide a broader scope for the middle and lower income section of the society. The objective is to bring them under the scope of capital markets and provide safe returns through various schemes. Keeping in mind the fixed income group say salaried class the an ideal scheme for them could be through launch of Systematic Investment Plans (SIPs) which provide them opportunities to save their income regularly and achieve a long term benefits through capital appreciation and dividends in future.

Besides all, one should seriously give a thought to widen the scope of investments across the globe for a better prospect. However, the role of regulatory authority in this regard cannot be ignored. But, a planned and controlled strategy incorporating the funds in a market in a phased manner has a lot of potential to bring changes to the economy of the country. Given the fact that when investors buy a mutual fund, they can diversify without the various commission charges associated with the transaction. If they would have to buy 10-20 stocks needed for diversification, the commission charges he would have to pay would be huge and every time investors would want to modify their portfolio, they would have to pay additional transaction fees. Hence, with mutual funds, they are able to make transactions on a much larger and cheaper scale.

This will not only result in the development of capital market of Oman but also develop a saving attitude among the investors through this channel. The results of the study has shown the consumers' desire for new funds (with a highest beta value of .712) contributes most to the formation of positive attitude towards mutual funds. This shows the risk appetite of the prospective consumers (investors) towards mutual fund investments in Oman. This also indicates that both affective and cognitive elements are critical on consumers' attitude.

Similarly findings indicate that brand image and size of the funds are critical to determining positive attitudes, the finance firms should also create a positive brand image not only about their own firms but towards the concept of mutual funds itself. Finally, it is recommended that if the financial Industry collectively participates to promote mutual funds, the size of the industry will not only become larger but the overall economy of Oman will benefit.

Thus this research concludes that consumer attitudes towards mutual funds do matter and can be managed using appropriate cognitive and affective strategies. It can be further concluded that consumers who generally are perceived to be risk averse towards capital markets in Oman can be initiated to take calculated risks while making investment decisions.

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