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ABSTRACT

Capital accumulation is regarded as the driving force to spur economic growth, innovation and job creation. The role and importance of Mutual fund institutions is widely appreciated and acknowledged and the Kenyan government has increased emphasis on fund mobilization through legislations which gave birth to Mutual funds. This research sought to determine the effects of regulatory framework on growth of mutual fund institutions listed in NSE. The study used descriptive survey research design. The study targeted 61 funds/ units operating under 18 listed fund institutions in 2016. Random sampling technique was used is to ensure that each fund type is proportionately represented in the sample. Secondary and primary tools were used to supplement data collected. The study results indicated that regulatory framework had significant and positive influence on the growth of mutual fund institutions. The study indicated that the combined correlation between regulatory frameworks constructs and growth of mutual fund institutions linked with return on investment is strong. This result translated into a moderate coefficient of determination (35.6%). Implying that the explanatory power of this model was modest, that is, the independent variable accounted for only 35.6% of the changes in return on investments

Key Terms: *Mutual Funds, Regulatory Framework, Net Assets Value, Return on investment*

INTRODUCTION

The mutual fund industry in Kenya is very young having started with the passage of the Capital Markets Amendment Act 2000, which recognizes specific investment vehicles and especially mutual funds. Despite the enactment of the Act, the mutual fund industry did not take off until December 2001 when African Alliance Kenya was licensed by the Capital Markets Authority (CMA) to set up the very first regulated mutual fund institution. It currently offers Money Market Fund, Fixed Income, Managed Retirement Fund and Equity Fund investment alternatives to both institutional and individual investors. The trustee and custodian of the funds is Stanbic Bank Kenya Limited, auditors are KPMG Kenya, and the Fund Administrators are African Alliance Kenya Management Company Limited (Capital Market Authority, 2012). This was later followed by Old Mutual Asset Managers (OMAM) Kenya Limited that launched both the Old Mutual Equity Fund and the Old Mutual Money Market Fund that started operations on 1st April 2003. The trustee and custodian of the funds is Kenya Commercial Bank Limited, auditors are Price water house Coopers Kenya, and the Fund Manager is Old Mutual Investment Services Kenya Limited. Old Mutual Asset Management Kenya was established in 2007 and started operations in April 2008 (Dancan, 2016). The latest entrant to the mutual fund industry is the British American Investment Group which in July 2005 launched an investment advisory and asset management company known as British American Asset Managers that offers a comprehensive range of domestic investment products. These include an Equity Fund, Balanced Fund, Money Market Fund and an Income Fund (Nyanamba *et al.,* 2015). The trustee and custodian of the funds is Kenya Commercial Bank Limited, auditors are Price water house Coopers Kenya, and the Fund Manager is Britam Asset Managers Company. As at April 2005, the total assets under management were over Kshs. 49 billion and of this, the Equity fund that started operations on 1st April 2003 had an approximate net asset value of Kshs 2.0 billion (Dawe, 2016).

In mutual fund institutions, investors purchase mutual fund shares from the fund itself (or through a broker for the fund) instead of other investors on secondary market at a price known as net asset value (NAV) plus any shareholder fees that the institution imposes at the time of purchase (such as sales loads). The shares are redeemable, meaning investors can sell their shares back to the institution (or to a broker acting for the fund). The institutions generally create and sell new shares to accommodate new investors, although some stop once they become too large (Teerapan, Ranko & Theobald 2014) and (Lakhsmi & Sasikala 2010). Mutual fund institution products include; Equity and Bond funds, which predominantly invest in equities or bonds, Balanced funds, which have more balanced portfolios of both equities and bonds, Money market mutual fund, which specialize in short-term financial instruments and Managed retirement funds, which mainly invest in other mutual funds (Muthaura, 2013) and (Miller, Prather & Mazumder, 2010). Investment is defined as current commitment of money or economic resources for a period of time by an individual, government or a corporation in order to derive future payments or cash inflows. The future benefits must adequately compensate the investor for the time funds are committed, the expected rate of inflation and the uncertainty of future payments (Lvisauskaite, 2010). Investments vehicles for mutual funds include; stocks, bonds, commodities or real estate (Miller, *et al.,* 2010). In all these cases, the investor is trading a known amount of money today for some expected future streams of payments that will be greater than the current outlay (Sharpe, 2006).

RELATED LITERATURE

Theoretical framework

Agency Theory

The Agency theory was advanced by Jensen and Meckling (1976) and rests on the assumption that the role of organizations is to maximize the wealth of the shareholders/ investors (Blair, 1995). Further the Agency theory explains a fundamental problem for absent or distant owners who employ professional executives to act on their behalf. Eisenhardt (1989) observes that most businesses operate under conditions of incomplete information and uncertainty which exposes them to two agency problems: adverse selection and moral hazard. Adverse selection occurs when owners cannot ascertain whether an agent accurately represents his ability to do the work for which he is paid to do while moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort. The conflicting demands justify actions that may be criticized as immoral or unethical depending on the stakeholder group and this study focuses how such conflict affects the attractiveness of an investment. These professionals may be more interested in their personal welfare than in the welfare of the firm's investors (Berle & Means, 1967) and by the fact that superior information is available to them; they take the advantage over the investors. The agency theory is then adopted for this study because according to Eisenhardt (1989) agency theory is concerned with analyzing and resolving problems of information asymmetry that exists between mutual fund investors and their professional fund managers. Further it tries to establish how best to operate the mutual fund institutions such that fund managers earn their commissions rightfully and are contented with their returns and fund investors are also happy with their returns (Eisenhardt, 1989).
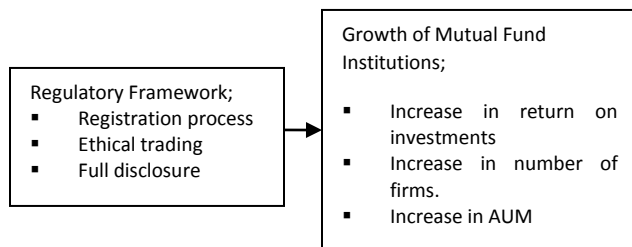
Donaldson and Davis (1991) argue that mutual fund managers will not act to maximize returns to investors unless appropriate regulatory structures are implemented to safeguard the interests of investors. According to Wheelen and Hunger (2002) the problems arises because agents (professional fund managers) are not willing to bear responsibility for their decisions since they don't own a substantial amount of stock in the firms and hence don't stand to benefit by perusing wealth maximizing objective. This will definitely derail the growth of such institutions. Mallin (2004) advocates that a firm's top management should be given profit based incentives in order to secure a dedicated efforts towards profit maximization. This may be achieved through part ownership or just through a profit sharing scheme. However Australian Stock Exchange Corporate Governance Council (2003) associates good corporate governance with people of integrity and not with profit based incentives.

Justifying importance of understanding how regulatory framework affects growth of mutual fund institutions is the focus of this study, I consider views of Jensen and Meckling (1976) who argued that in the professionally managed mutual fund institution, in which mutual fund investors give their cash collections to a registered fund managers, managerial actions depart from those required to maximize investors returns and that the fund managers become more powerful when the investors are widely placed (Diverse ownership) especially when the board of directors is composed of people who know little of the firm.

In summary, Rhoades (2000) observed that managers will not act to maximize the returns to investors unless appropriate governance structures are implemented in the large corporation to safeguard the interests of investors and recommends that selection of appropriate governance mechanisms between owners and

managers will ensure an efficient alignment of the principal and agent's interest.

According to Eisenhardt (1989) agency theory is concerned with analyzing and resolving problems of information asymmetry between mutual fund investors and mutual fund managers who are their professional agents. Agency theory is therefore adopted in this study because the study focuses on how much information is disclosed to the investors and how this information disclosed influences their investment decisions in mutual fund institutions listed in Nairobi securities Exchange.

Conceptual Framework

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┌─────────────────────────┐        ┌─────────────────────────────┐
│ Regulatory Framework;   │        │ Growth of Mutual Fund        │
│ ▪ Registration process  │   →    │ Institutions;                │
│ ▪ Ethical trading       │        │ ▪ Increase in return on      │
│ ▪ Full disclosure       │        │   investments                │
│                         │        │ ▪ Increase in number of      │
│                         │        │   firms.                     │
│                         │        │ ▪ Increase in AUM            │
└─────────────────────────┘        └─────────────────────────────┘
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Independent Variable   Dependent Variable

Fig 1: conceptual framework

Regulatory framework and growth of mutual fund Institutions

Okioga (2013), describes the financial sector regulatory framework as one that performs the role of supporting, safeguarding, monitoring, and ensuring financial stability through providing an enabling, fair financial services sector environment. Mutual funds are among the financial products which require regulatory oversight in order to ensure fairness and efficiency (Caprio, 2013). Regulation in the financial market sector is necessary in order to ensure market integrity, protect investors, prevent infiltration by criminal entities, and guard against harmful activities by market players such as market rigging, misinformation, and overpricing (Mishkin & Eakins, 2009).

The legal and regulatory structure of a country can favor one mode of investment over another. For example, a country that banned mutual funds or restricted their use in tax advantaged savings schemes, would naturally have low fund adoption. There is a large body of literature which documents how differences in legal and regulatory environments affect financial development (Mukherji, 2011). La Porta, Lopez-de-Silanes, Shleifer & Vishny (2007) showed that the quality of the legal system is important for the enforcement of contracts and also captures the government's general attitude towards business. Investors face a trade-off when evaluating intermediated products vs. Do-It-Yourself. They established that individuals are more willing to invest via an intermediary than "Do-It-Yourself" if the quality of the legal system is better. Alternatively, investors may prefer intermediaries when the legal framework is weak because the intermediaries substitute for the quality of the legal system.

The rigor of the laws and rules in terms of how fund companies are governed and regulated is likely to strengthen investor confidence and their willingness to invest in mutual funds (Chandra & Kumar, 2011). Fund regulation can be evaluated if: regulatory approval is required to start a fund, regulatory approval is required before issuing a mutual fund prospectus, custodians are required to be independent from the mutual fund family, and mutual funds have to make eight or more fee and performance disclosures in advertising and fund information (Khroma *et, al* 2008). The public finance literature is replete with examples of how tax policy can affect investment decisions (Alan *et, al*. 2010). The fund institutions are expected to grow stronger when tax rules make these investments attractive relative to others, through: tax preferences, laws which make tax avoidance easier with certain types of investments, and the absence of tax policies which impose multiple taxes on the same returns (double taxation). In addition,

in countries where fund management companies receive a more favorable tax treatment of their earned income, one is likely to observe a larger mutual fund industry.

In any country, strong and appropriate regulation of capital markets is a prerequisite for building a mutual fund industry (Reid, 2009). Stock, bond, and other securities markets must have rules of the road to prevent fraud, promote transparency, foster market liquidity, and ensure well-functioning trading and clearing of securities (Mishkin, 2007). At the mutual fund level, regulation is needed to protect investors, provide adequate disclosure to make informed decisions, and limit potential conflicts of interest between fund sponsors and fund investors. Khorana *et.al.*, (2009) found that a strong regulatory structure for funds have positive impacts on the size of the mutual fund industry, especially regulations addressing the process of approving fund starts, mandating fee, performance disclosures and conflicts of interest between FMC and fund shareholders. Countries that protect fund shareholders interests more vigilantly have larger industries (Strench, 2008). Although the specifics of fund regulation differ by jurisdiction, regulatory schemes often have common elements such as broad disclosure, standards for valuing assets, investment or diversification standards, or other provisions that seek to protect investors, such as limits on leverage or limiting relationships between fund sponsors and funds. In Kenya, mutual fund institutions are regulated and governed by, Capital Markets Act, Retirement Benefits Act, Income Tax Act and Companies Act (KPMG, 2013).

METHODOLOGY

The study adopted cross-sectional survey design for obtaining data. The design was preferred due to its ability to combine quantitative and qualitative methods (Weeks & Namusonge, 2016). The population of interest for this study was unit / fund managers of registered mutual fund institutions in Kenya as at end of the year 2013 and their deputies. There were 18 Fund Management Companies (FMCs) managing a total of 61 units in Kenya as at the end of 2013 (NSE, 2014) The sampling frame for this study consisted of all the registered mutual fund institutions in the Nairobi securities Exchange as at December, 2016 as they appeared in the NSE listing manual(2016)

Stratified random sampling was used to select the fund managers to be interviewed for the study. The fund managers are chosen because they are considered to poses the right knowledge to respond to the questionnaires. 53 funds were selected out of a total population of 61 using the formula which was developed by Saunders, Lewis & Thornhil, (2009) given by equation (3.1)

$$n_0 = \frac{pqz^2}{e^2} \quad \text{.............. (3.1)}$$

If the population is assumed be over 10,000 and $p = 0.5, q = 0.5, z = 1.96$ and $e = 0.05$ then $n_0 = 385$. Since the target population is 61, adjusted sample size will be given by equation (3.2).

$$n = \frac{n_0}{1 + \frac{n_0 - 1}{N}} \quad \text{.............. (3.2)}$$

Equation (3.2) gives a sample of size 53.

Where;

z represents the reliability coefficient at 95% confidence level (1.96)

n_0 represents the standard sample size (385)

p represents the population proportion (assumed to be 0.5)

q represents the population proportion (assumed to be o.5)

N represents the population size

ℓ represents error margin.

The respondents were the unit managers and their deputies or unit managers and their deputies. So in total, 106 respondents were expected.

RESEARCH FINDINGS

Regulatory framework and Growth of mutual fund institutions

The study sought to determine the influence of Regulatory framework on the growth of mutual fund institutions in Kenya. Regulatory framework was operationalized by three sub variables namely; registration process, ethical trading and full disclosure where ten factors were assessed.

Descriptive Results of Regulatory framework

Regulatory framework was assessed by three measures namely registration process, ethical trading and full disclosure of financial information. Descriptive data shown on Table 1: presents the relevant results on a scale of 1 to 5 (where 5 = Strongly Agree and 1 = Strongly Disagree).

Table 1: Descriptive Statistics

Opinion statement	N	Minimum	Maximum	Mean	Std. Deviation
Registration of a mutual fund institution takes a short duration.	82	1	5	3.50	1.260
Several documents are prepared before registration	82	1	5	3.26	1.098
Registration of mutual fund institution is automated in Kenya	82	2	5	3.74	.829
Mutual fund provisions do not allow any kind of unethical trading	82	2	5	3.74	1.245
The punishment for any form of unethical activities is very sever and prohibitive	82	2	5	3.76	1.084
Professional etiquettes are strictly adhered to in Mutual fund activities/Operations	82	1	5	3.41	1.111
Mutual fund regulations ensures that only competent people are in management of these firms	82	1	5	3.50	1.045
Mutual fund institutions are required to periodically resend newsletters to their clients	82	1	5	3.23	1.103
Mutual fund institutions religiously comply with this requirement	82	1	5	3.50	1.468
The newsletters sent fully cover the various aspects of mutual fund products	82	2	5	3.65	1.023

The newsletters are written in simple language for full absorption by the investors	82	1	5	3.41	1.154

Key: Ranked on a scale:1.0-1.7(strongly disagree); 1.8-2.5(disagree); 2.6-3.3(neutral); 3.4-4.1(agree); and 4.2-5.0(strongly agree)

Regulatory framework was assessed through registration process, ethical trading and full disclosure of financial information. Most respondents posted a mean score of between 3.5 and 3.76 implying that they agreed with most opinion statements and just a few posted a mean of between 3.26 and 3.50 implying neutrality with the opinion statements. Therefore, on average, most of the respondents agreed that there all three constructs influence growth of mutual fund institutions in Kenya.

Regulatory framework and Growth of mutual fund institutions Correlations Results

Correlation analysis was used to establish the relationship between Regulatory framework measures, registration, operation rules and full disclosure and growth of mutual fund institutions in Kenya.

Table 2: Correlation matrix of Regulatory framework and growth of mutual fund institutions

		ROI	AUM	Reg process	FD
ROI	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	82			
AUM	Pearson Correlation	.774**	1		
	Sig. (2-tailed)	.000			
	N	82	82		
Reg process	Pearson Correlation	.372**	.440**	1	
	Sig. (2-tailed)	.001	.000		
	N	82	82	82	
FD	Pearson Correlation	.514**	.700**	.138	1
	Sig. (2-tailed)	.000	.000	.215	
	N	82	82	82	82

**. Correlation is significant at the 0.01 level (2-tailed).

Table 2 presented correlation matrix indicating a varied degree of interrelationship between registration process and full disclosure and growth of mutual fund institutions. The Pearson correlation coefficient was generated at 0.01 significance level (2-tailed). There is a mixed correlation between registration process and full disclosure and growth of mutual fund institutions. Registration process had a moderate positive and significant correlation with both return on investment and assets under management. Therefore the regulatory measures are very important factors in the growth of mutual fund institutions. It should be remembered that the longer the registration period the less attractive the investment. However, there should enough regulation to create confidence in investors. Full disclosure had a strong correlation with both return on investment and assets under management. Full disclosure also had a statistically significant correlation with both return on investment and assets under management. This shows the importance of information to investors. Investors

need full information to continuously manage their investments. This is in compliance with Chandra & Kumar (2011) who postulated that growth of firms has a strong correlation to strength of the legal framework.

Regulatory framework ANOVA Results

The ANOVA test was done to test if any of the constructs of regulatory framework significantly influences the growth of mutual fund institutions. Table 3 shows regulatory framework and growth of mutual fund institutions linked with ROI results.

Table 3: ANOVA results of regulatory framework and growth of mutual fund institutions linked with return on investment

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	26.713	2	13.356	21.852	.000b
1	Residual	48.286	79	.611		
	Total	74.999	81			

a. Dependent Variable: ROI

b. Predictors: (Constant), Reg process, FD

The ANOVA results in Table 3 showed that the constructs of regulatory framework (Registration process and full disclosure) and growth of mutual fund institutions linked with return on investments. The table shows that at least one of the constructs of regulatory framework significantly influences growth of mutual fund institutions linked with return on investments (P-value 0.000 and F statistics of 21.825). Regulatory framework, therefore, explains the variance in growth of mutual fund institutions linked with return on investment in Kenya.

The ANOVA results in Table 3 showed that the constructs of regulatory framework (Registration process and full disclosure) and growth of mutual fund institutions linked with assets under management. The table shows that at least one of the constructs of regulatory framework significantly influences growth of mutual fund institutions linked with return on investments (P-value 0.000 and F statistics of 61.835). Regulatory framework, therefore, explains the variance in growth of mutual fund institutions linked with return on investment in Kenya.

Table 4: ANOVA results of regulatory framework and growth of mutual fund institutions linked with assets under management

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	47.355	2	23.678	61.835	.000[b]
1	Residual	30.250	79	.383		
	Total	77.606	81			

a. Dependent Variable: AUM
b. Predictors: (Constant), Reg process, FD

This meant that the models adopted in the study were both significant and the variables tested fitted well in the models. The F- tests displayed that the

null hypotheses was rejected, thus the models were valid since all of four regression variables were significant.

Model summary for regulatory framework and growth of mutual fund institutions

Table 5: shows that the combined correlation between regulatory frameworks constructs and dependent variables (return on investments) is strong (.597). This results translates into a moderate coefficient of determination (35.6%). This implies that the explanatory power of this model is modest, that is, the independent variable accounts for only 35.6% of the changes in return on investments. The remaining 64.4% of changes was identified by other factors not captured in the model. The results further suggest that regulatory frameworks does significantly influence growth of mutual fund institutions linked with ROI.

The model equations; growth of mutual fund institutions linked with return on investment = $\beta O + \beta I$ Registration process + $\beta 2$ Full disclosure. This equation only explains 35.6% of the variation in growth of mutual fund institutions.

Table 5: Model summary for regulatory framework and growth of mutual fund institutions linked with return on investment

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.597[a]	.356	.340	.78180

a. Predictors: (Constant), Reg process, FD

Table 5 showed that the combined correlation between regulatory frameworks constructs and dependent variables (assets under management) is very strong (.781). This results translates into a strong coefficient of determination (61%). This implies that the explanatory power of this model is strong, that is, the independent variable accounts for only 61% of the changes in return on investments. The remaining 39% of changes was identified by other factors not captured in the model. The results further suggest that regulatory frameworks does significantly influence growth of mutual fund institutions linked with Assets under management.

The model equations; growth of mutual fund institutions linked with return on investment = $\beta O + \beta I$ Registration process + $\beta 2$ Full disclosure. This equation only explains 61% of the variation in growth of mutual fund institutions

Table 6: Model summary for regulatory framework and growth of mutual fund institutions linked with assets under management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781[a]	.610	.600	.61880

a. Predictors: (Constant), Reg process, FD

Regression Results of Regulatory framework and Growth mutual fund institutions

The general objective of the study was to determine the influence of Regulatory framework on growth of mutual fund institutions. The Multiple Linear Regression model was used to assess the overall effect of independent variables on dependent variable. The Ordinary Least Squares was used to determine the estimates of the coefficients. One of the problems that may violate the assumptions of Ordinary Least Square regression is multi-collinearity. Multi-collinearity occurs when any independent variable is highly correlated with any of the other independent variables in the regression model. Multi-collinearity was therefore examined by computing tolerance and the variance inflation factor. According to Hair *et al.,* (2010) a small tolerance value indicated that the variable under study was almost a perfect linear combination of the independent variables in the equation and

therefore the variable should not be included in the regression equation. Tolerance is the proportion of a variable's variance that is not accounted for by the other independent variables in the equation (Garson 2012). Tolerance may be measured by calculating the variance-inflation factor. The rule of thumb is that a VIF should be more than 0.4 for the absence of a serious multi-collinearity problem. Therefore, all the regression model was subjected to statistical collinearity tests which determined

that the study variables had a high tolerance level and were free from multi-collinearity since none of the Variance Inflation Factor (VIF) for all the study's regression models went below 0.5 (Garson 2012)

The analysis in Table 7: presents results on multiple linear regression models 1. All the constructs namely: Full disclosure and Registration process are statistically insignificant to growth of mutual fund institution linked with return on investment linked with return on investments.

Table 7: Coefficients Regression Results for investors perception and growth of mutual fund institutions linked with return on investment

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.023	.420		2.438	.017		
FD	.451	.087	.471	5.168	.000	.981	1.020
Reg process	.314	.093	.307	3.368	.001	.981	1.020

a. Dependent Variable: ROI

Key; REG- Registration process and FD- Full Disclosure

Table 8 displays the regression coefficients results of the regulatory framework measures i.e. Registration process and full disclosure. Registration process and Full disclosure are statistically significant in explaining the growth of return on investment in Kenya. This implied that the null hypothesis failed to be accepted and the alternative hypothesis failed to be rejected i.e. H_{0A} is accepted since $\beta \neq 0$ and p-value is greater than 0.05.

The regression model is summarized as shown below:

$Y = 1.023 + -0.451X_1 + 0.314X_2$.

Where, X_1 – Full Disclosure and X_2 –Registration process.

It was concluded that there is statistically significant correlation between Regulatory framework measures i.e. Registration process and full disclosure significantly affect growth of mutual fund institutions in Kenya. These results are echoed by Kapoor and Sandhu (2010) who argued that accountability and transparency are key to conducting business in a responsible manner.

Table 8: Coefficients Regression Results for investors perception and growth of mutual fund institutions linked with assets under management

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.053	.332		.161	.873		
FD	.634	.069	.651	9.186	.000	.981	1.020
Reg process	.365	.074	.350	4.937	.000	.981	1.020

a. Dependent Variable: AUM

Key; FD- Full Disclosure and Reg process- Registration process,

Table 8 displayed the regression coefficients results of the regulatory framework measures i.e. registration process, ethical trading and full disclosure. Registration process, and Full disclosure are statistically significant in explaining the growth of mutual fund institutions linked with return on investment in Kenya. While, Ethical trading is not statistically significant in explaining the growth of mutual fund institutions linked with assets under management in Kenya. This implied that the null hypothesis failed to be accepted and the alternative hypothesis failed to be rejected i.e. H_{0A} is accepted since $\beta \neq 0$ and p-value is greater than 0.05.

The regression model is summarized as shown below:

$Y = .053 + 0.634X_1 + 0365X_2$.

Where, X_1 – Full Disclosure and X_2 – Registration process

It was concluded that there is statistically significant correlation between Regulatory framework measures i.e. Registration process and full disclosure significantly affect growth of mutual fund institutions in Kenya.

Growth of Mutual fund Institutions Results

Descriptive Results of Growth of mutual fund institutions

Growth of mutual fund institutions was assessed by three measures namely, return on investment, number of firms and Asset under management. Descriptive data shown on Table 9 presented the relevant results on a scale of 1 to 5 (where 5 = Strongly Agree and 1 = Strongly Disagree

Table 9: Descriptive Statistics

Opinion statement	N	Minimum	Maximum	Mean	Std. Deviation
Mutual funds in Kenya reports high Profit.	82	2	5	3.67	1.101
Mutual funds in Kenya pay high Dividends/ interest to their investors.	82	2	5	3.57	1.043
Mutual funds in Kenya pay high returns on investment.	82	2	5	3.77	1.034
Investors in mutual funds have been increasing in Numbers.	82	2	5	3.66	1.033
The number of mutual fund institutions have increased tremendously in Kenya.	82	2	5	3.76	1.025
Investors have steadily increased their investments in Mutual fund institutions.	82	2	5	3.85	1.056
Mutual fund institutions have tremendously invested in real estates and other fixed assets.	82	2	5	3.48	1.102
Net asset value of mutual fund products have had a steady increase.	82	1	5	3.20	1.271

Key: Ranked on a scale:1.0-1.7(strongly disagree); 1.8-2.5(disagree); 2.6-3.3(neutral); 3.4-4.1(agree); and 4.2-5.0(strongly agree)

Respondents agreed that there had been growth of mutual fund institutions as assessed through return on investment, Assets under management and number of firms. Respondent posted a mean of 3.67 meaning that they agreed with these opinion statements. On the increase on firms, the respondents posted a mean of 3.70 implying an agreement with the opinion statements and for asset under management; the respondent posted a mean of 3.54 indicating an agreement with the opinion statements. On the other hand respondent were neutral on steady increase on net asset value.

Therefore, on average, most of the respondents agreed that there has been growth in terms of return on investment, asset under management and number of firms. These findings were consistent with the findings by Olando *et al.* (2012) who reported that return on investment determine the long-term growth of a company. Mwangi & Njuguna (2014) also concurred with this findings that return on investment is a good indicator of profitability. Ahmed *et al.*, (2015) posted that asset under management is a good measure of growth of mutual fund institutions.

Table 10: Descriptive results of growth of mutual fund institutions

Measurement	Growth of mutual fund institutions	
	Return on Investment	Asset under management.
Mean	3.6707	3.5081
Cronbach' Alpha.	.885	.814

Key: Ranked on a scale; strongly disagree (1.0-1.7), disagree (1.8-2.5), indifferent/neutral (2.6-3.3), agree (3.4 - 4.1) and strongly agree (4.2-5.0).

From Table 10 above, the first component/dimension was named as growth of mutual fund institutions linked with return on investment and the second component/dimension as growth of mutual fund institutions linked with asset under management. Growth of mutual fund institutions linked with return on investment was agreed with a mean of 3.6707 and cronbach alpha of 0.885 which was far beyond the minimum threshold of 0.7 whereas growth of mutual fund institutions linked with asset under management had agreed with a mean of 3.508 by the respondents and Cronbach alpha of 0.814.

CONCLUSIONS

The aim of this study was to determine effect of regulatory framework on growth of mutual fund institutions in Kenya. The conclusions were based on the objective of this study.

The findings of the study on drivers of mutual fund institutional growth extended the frontiers of knowledge by generating valuable insights for both academic and managerial action. Therefore, the results of this study were of interest to managers of fund institutions as well as individual investors. The study established that affordability construct is the most influence in this category. Management should therefore ensure that the cost of investing in mutual fund products are reduced as much as possible. This is in line with the income level of the targeted investors. In Kenya most of the investors come from low to middle level income earners. Management of these funds may have to borrow from the Kenyan government move of reducing the cost of investing in the treasury bills by developing m-akiba bond which goes at a minimum cost of sh.3,000 down from a minimum of sh.50,000. This resulted in over-subscription of the first batch of M-Akiba bills.

The policy issues highlighted in this study included the tax incentive, regulatory framework as well as financial market liquidity. Tax incentives have

always played a pivotal role in influencing investment decision. Smart investors always look at how best to reduce his tax burden resulting from his investment income. An individual investor has no control over the tax structure. This is a preserve of the Government. The investor has to study tax structure carefully in order to take advantage of its provisions. As a matter of policy, the government should develop tax structures which encourage investors in mutual fund products. This will help cumulate the much sought for capital for industrial take-off.

Liquidity of financial markets hinges on development of the market. The government needs to come up with policies that would help improve, information efficiency of the market, transaction as well as location efficiency. The penalties for

unethical trading should be clearly spelt out and circulated to all stakeholders. Since most of the mutual fund products are financial products, investors miss out on what is happening behind the curtains. Fund managers therefore have to strive to serve the interest of investors.

SUGGESTIONS FOR FURTHER RESEARCH

This research was conducted in Kenya and whether the results from this research would be consistent with other countries" mutual fund institutions need to be verified through further research. The study looked at regulatory framework and its effect on growth of mutual fund institutions. Further research can be done but with deferent indicators to identify their effect on growth of mutual fund institutions.

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