Capital Market Management

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PREFACE TO THE FOURTH REVISED EDITION

Capital Market Management is a specialised subject in the area of the Financial Management. Capital Market is envisaged here as comprising of the money market and gilt-edged market and Primary and Secondary markets and accompanying ancillary functions like merchant banking, registrar’s functions, etc. and stock broker’s functions and investment management and portfolio management etc. The management means here the macro management by the authorities of the infrastructure of the markets, their instruments and their architecture, including their origin and development. The book also covers the micro management by Finance Manager or the corporate treasurer of the operations in these markets and the ancillary functions in them.

The objective of this book is to keep the management students abreast of the functions and operations in the capital market as defined here and keep them prepared to take over the responsibilities of these finance functions and treasury operations.

This book takes the subject from the basics to higher level of research and analysis. Wherever possible case study material and examples are provided from the real world. Although more emphasis is given to the macro study, the principles are the same and can be applied to the micro level operations at the firm level or corporate level. The book integrates management function with the finance function on the one hand and on the other hand, micro level function with the macro level function of the Finance manager.

Starting with the Financial system of which capital markets is a part, the book delineates the money market functions and operations followed by primary market and then the secondary market and lastly investment management and portfolio management and other ancillary and incidental functions in the capital markets.

The developments since the reforms of 1991-92 were started were given special attention. These changes in environment were very relevant to management as he operates with environments to achieve his goals and objectives.

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AUTHOR
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CHAPTER 1

MANAGEMENT THEORY AND FINANCIAL SERVICES

RICHES COME RATHER FROM MANAGEMENT THAN FROM REVENUES
— MICHAEL DE MONTAIGNE, 1588

Introduction

The basic principles of management by objectives hold good for capital market management also. The objectives of management in financial services are efficiency in service, cost-effectiveness and profitability. This is a service industry where quality counts more than quantity. In this process, costs and profitability cannot be sacrificed. In the name of social obligations, banks have sacrificed the productivity and profitability which should not happen for non-bank finance companies.

Thus, management in capital market requires a combination of talents in finance area and marketing area and in personnel management (HRD). The knowledge required for this purpose is sought to be covered in this book in a basic but exhaustive manner.

This book is intended for those students of management who have some exposure to both finance and marketing or are students of MBA. As an area of specialisation with employment orientation and practical bias, the subject of capital market management is ideally suited to MBA students or M.Com. students. This gives an exposure to practices and procedures in capital market and the institutions and agencies operating in it.

Capital market deals with arranging for loans, raising of funds, dealings in capital and securities which are claims on money. But being a service-oriented market, human element or management component is an all important and vital part of its operations.
Objectives of Management

The management of all capital market institutions should aim at quality of service, timeliness and efficiency, cost control and profitability. The above objectives can be achieved through collaborative efforts of a host of intermediaries like merchant bankers, underwriters, registrars brokers, etc. The managers of these agencies have to bear a vital responsibility and should have *inter alia* the expertise in human relations and personnel management and coordinate the activities of various experts and teams in their activities. With the spread of Computer usages and application of Information Technology in all areas of service, the subject of computer applications has to be an adjunct of Capital Market Management.

Besides, in this service industry, of non-bank financial activity, men and human relations matter, on top of practices and procedures. In addition to men, the other inputs that management deals with are money, monetary instruments, capital, plant and machinery involved in projects of companies etc. The sinews of all industrial activity being finance and financial services, the management in capital market assumes vital importance to the economy. Besides, the fastest growing industry in the years to come is financial services and the largest scope for employment and self-employment lies in this line.

It is thus important for the capital market and for the economy to be assured of who are the future managers heading these institutions and how competent are they. The managers of these finance companies, mutual funds, merchant banks etc., are so far bankers, CAs, and finance graduates etc., but a new professional breed of capital market managers through specialisation in capital market is the need of the hour. It is for this elite professionals that this book is meant for.

Fine-tuning Managers to Financial Services: Timeliness

Any manager or management graduate will not fit into the area of capital market. The work involved is a combination of practical and theoretical ideas put into a capsule of sale of services. It thus requires all the management tools plus something more — a practical bias, a bent of mind and a behaviour. All the institutions in capital market are service-oriented related to money and finance. But more importantly, a knowledge of law, a time schedule to follow as per rules and result-oriented actions are needed.

Decision Making

Capacity to take decisions and right decisions, and in time is an essential part of capital market management. After gathering information, classifying and analysing the data and information which is fast growing and put them into alternatives available, he has to chose the one with least cost, timely and most profitable. The manager has to help the companies save time and money to be able to stand competition. In the present-day globalisation environment, competition and survival of the fittest will be the watchword and managers in the capital market have to face this reality.

Analytical Power

Corporate data is plenty and information flows in like Niagara falls and it is the manager’s competency to pick up the correct information, analyse it and come to correct conclusions. Investment analysis and market analysis requires an expert financial manager.

But the suitable manager for capital market should combine in himself the expertise involved in the following areas:

(a) Personnel management with a special bent for coordination of expert manpower with capacity for better human relations.

(b) Finance management with an expertise in analysis and interpretation of financial data of companies.

(c) Expertise in law and practices of capital market and knowledge of rules and regulations relating to the capital market institutions, including SEBI and RBI.

(d) Marketing management with a flair for sales promotion to meet the competition of other institutions and increasing the market share in the services rendered by him.

(e) Knowledge of banking law, rules and practices relating to the money market and Forex Market to enable him to make proper investment management in these markets, which are closely connected to capital market.

(f) Knowledge of all non-bank financial services rendered by these institutions and they are all interrelated, as hire purchase, lease finance, venture capital, and expertise in dealing in such diverse areas.

CUSTOMER-ORIENTED SERVICES

Some capital market services which are to be managed by the capital market manager are individualised and customer-oriented. In such cases, the manager has to take note of that individual's assets, income and expenditure and his preferences for risk and return. He has to plan the targets according to his needs and preferences. This is highly
prevalent in management of investments, consultancy, and investment advice, and portfolio management. In financial services sector, these types of services for individuals are quite common for retail investment, appeals to contribute to the IPOs Demat form of holding of shares and stock market trading and related subjects.

In many segments of the capital market, the customised services are quite common and are governed by mutual agreement — oral or written — between the broker and the client. In portfolio management and consultancy services, the individualised and customer-oriented services, are frequently noticed in the real world. Therefore, this type of service in financial sector is to be well understood and appreciated.

**CRISIS MANAGEMENT**

An efficient manager is one who can get things done in time and by the right persons in the most cost-effective manner so as to maximise the profits of the firm. Such managers also do know how well to plan in advance for all inputs and targets to be achieved.

In any activity, there are possibilities of the emergence of crisis situations. In the Financial sector, there are many occasions when suddenly there is a crash in the market, sharp fall in prices, change in the situation of the investor, sudden withdrawal of the FII and FIIs from the market. Besides there are occasions when rumours and news and insider trading will upset the demand-supply equilibrium in any of the scrips or in any group of scrips like shipping or cement, etc.

An efficient manager has to plan well in advance for any such contingencies and face them well without much disturbances to the plan of action or the path of movement of investments. He has a long-term plan of action and the targets fixed are flexible and alternative venues are already ingrained in the plan of action. He is well equipped to meet any such crisis situations.

**PRINCIPLES OF MANAGEMENT**

**Right Person in Right Place**

The leader makes all the difference. It is the management talent to pick the right persons to be leaders in each division/department. The leader should be able to think, plan and execute the plan promptly and cost-effectively. To keep ahead of competitors, he has to keep contact with information sources of competitors, make the “SWOT” (Strengths, Weaknesses, Opportunities and Threats) analysis and to see the strengths and weaknesses of staff and use the manpower resource optimally. Effective communication, good drafting, creativity and innovation are the qualities of good managers.
MANAGEMENT THEORY AND FINANCIAL SERVICES

The objective of minimisation of cost of capital and maximisation of capital market. The managers dealing with capital market have to aim at are the arts of a manager in capital market.

Meeting people and asking right questions to elicit correct information. Creative ideas into action and lead the team of experts. Interviewing and managers who possess leadership qualities to throw their innovative and enterpers, technicians, engineers etc. Being equals, the team requires the with various experts, solicitors, accountants, auditors, finance manag-
ters, distributors etc. This is particularly important for project appraisal, investment analysis and research in all capital market intermediaries and players in the markets.

Managers have to have a team spirit, capacity to get along with equals, superiors and subordinates and ability to communicate effec-
tively and elicit the right information. The work involves the coordination with various experts, solicitors, accountants, auditors, finance manag-
ers, technicians, engineers etc. Being equals, the team requires the managers who possess leadership qualities to throw their innovative and creative ideas into action and lead the team of experts. Interviewing and meeting people and asking right questions to elicit correct information are the arts of a manager in capital market.

FEATURES OF CAPITAL MARKET MANAGEMENT

Finance is the product in its diverse forms that is traded in the capital market. The managers dealing with capital market have to aim at the objective of minimisation of cost of capital and maximisation of return through achieving increased capital productivity. Besides, capital market management is a specialised branch of Financial Management, where financial risk is more prominent. Managers here have to face greater financial risk than other types of managers. Management of risk and techniques of risk reduction should be part of their day-to-day work for capital market managers.

Capital market comprises many financial markets and sub-markets, whose characteristics and risk-return features vary and as such market risk is more for managers operating in the Capital Market than in other activities of the economy. Rupees and other currencies are the standard of measurement of their activities and results and as such purchasing power risk is another major factor to be reckoned with. The above risks namely financial risk, market risk and purchasing power risk are common to all managers but they are more for capital market managers as capital or finance is both an input and output for them.

Like IT, it is a knowledge-based industry or service, where human skills, expertise, technology, intuition and manpower performance levels count, for the results. Both money and information flows are major factors influencing the operations in the capital market. Thus, liquidity in the economy, government and RBI policies on money, credit and banking influence the operations in the capital market. The laws and regulations of the Government, RBI and SEBI have a major role in the operations of managers here. The subject of capital market management is different even from banking. The functions of capital market intermediaries are different from those of banks and governed by a wide range of legislative enactments unlike banking. Non-bank finance companies and non-banking intermediaries operate in the capital market and provision of financial and non-financial services constitute the core part of the activity of the capital market managers.

The managerial function involves forecasting, planning, organising, staffing, directing the staff, coordinating, decision making, controlling and audit. Planning and Forecasting depends on the vision and intuition of the management and this is a difficult process in capital market operations. The staff expertise required is different in that a multidisciplinary approach will succeed better due to diversity of activities involved and multiplicity of laws and regulations governing these activities. Among the styles of management which are more suitable to capital market management, the styles of management by leadership, creativity and consensus or coordination are better suited than the traditional types of management of centralised decision making or family type. Professional and highly specialised personnel will better fit in for capital market management.
Specialities in Capital Market Management

One might ask that what has been discussed is relevant to any effective manager. Then what is so special about capital market management? Everybody agrees that bank management is a speciality and there are special examinations of professional competence conducted by the Institute of Bankers and IBA. There are professional organisations like NIBM, B.T.C., and other training institutions of public sector banks. If banking is a specialised service regulated by Banking Law and Practice and RBI Act, non-banking financial services are more specialised as they are governed by a variety of Acts, such as Companies Act, SC (R) Act, Indian Contract Act, SEBI Act, etc. Besides, the expertise needed here is more diverse, as the functions carried on by them are many and interrelated such as activities in stock market, new issues market, gilt-edged and money markets, foreign capital market, etc.

Capital market management involves various disciplines, much more than in banking. For example, various laws, requires legal expertise, funding business requires banking knowledge, hire purchase and leasing requires a different expertise. Mutual funds, brokerage firms, portfolio managers and a host of other agencies require knowledge and expertise in personal management, marketing management, funds management, investment management etc.

In short, capital market management is different and more specialised than banking. It requires a different cadre of specialists to man the increasing work of financial institutions. It is more practical and operational and the expertise needed is different, but allied to that of banking.

Conclusion

This book gives the background information for managers in capital market to function more effectively. The basic principles of management are assumed to be known to readers. On this premise, what is presented in coming chapters is only the superstructure, involving the capital market institutions, operations and practices. The word “Capital Market” is used in a wide sense including new issues market, stock market, money market, government securities market etc. The information about these markets and their operations would hopefully sharpen the tools of management as they are down-to-earth, practical and operational.