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CHAPTER 1

PRINCIPLES OF MANAGEMENT

Presented by

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Introduction

management is goal oriented and it is an art of getting things done with and through others. The practice of management helps to achieve the organizational mission and determines the future of the business enterprises.

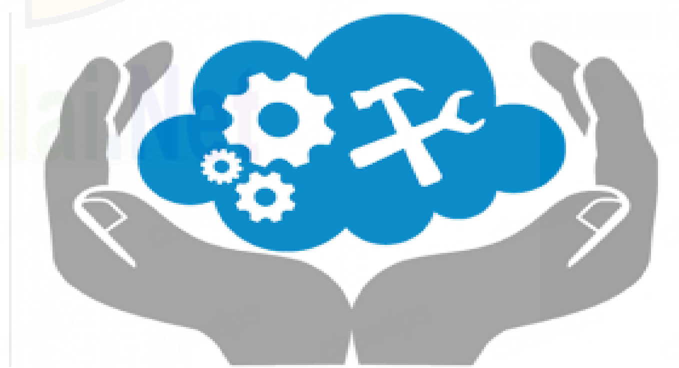
Concept/characteristic/Features of Management

1.Body of Knowledge:

- Management literature is growing in all countries.
- It has specialised body of management theory and philosophy.
- It's a best passport to enter the world of employment

2.Management Tools:

- Tools of management have been developed such as, accounting, business law, psychology, statistics, econometrics, data processing, etc. These branches of management profession have enhanced the practical utility of the science of management.



3.Separate Discipline:

- Many specialised schools of management offering master's degree in business management and administration.
- Seminars, special courses, training programmes are becoming fashionable and popular for orientation and retraining in management areas, e.g., export management, personnel management, etc

4.Specialisation:

- There is a growing tendency to select and appoint highly qualified, trained and experienced persons to manage the business in each functional areas of management.

5.Code of Conduct:

- Business management is a social institution and it has social responsibilities to be fulfilled — towards customers, employees, and the public or community.
- At present 'seller beware' in place of 'buyer beware' influencing market practices.

6.Professional Association:

- The Business Management Associations in many countries to promote the spread of knowledge in all management areas and to build up the bright public image of managerial profession.

ima

The Association of Accountants and Financial Professionals in Business

Definitions of Management

(i) **Generalized Definition of Management:**

Management is a distinct ongoing process of allocating inputs of an organisation (human and economic resources) by typical managerial functions (planning, organising, directing and controlling) for the purpose of achieving stated objectives, viz., output of goods and services desired by its customers (environment).

This definition includes principal ideas of any school of management thought:

- Functional approach sees management as a process of planning, organising, directing and controlling.
- Behavioural approach is not interested in the process only but rather in the way the process affects the organisation, i.e., with and through personnel or human resources.
- Quantitative approach wants to improve the quality of decision making, i.e., fulfilling the stated objectives of the enterprise.
- Systems approach concentrates on the entire organisation, i.e., inputs-process- outputs.
- Contingency approach emphasises dynamic nature of management process in an ever-changing business environment.

(ii) Precise Definition of Management:

- **"To manage is to forecast, to plan, to organise, to command, to co-ordinate and to control."**

  —Henry Fayol.

- **"Management is a multipurpose organ that manages a business and manages manager, and manages worker and work."**

  — Peter F. Drucker

Drucker stresses three jobs of management:

(i) Managing a business;

(ii) Managing manager; and

(iii) Managing workers and work.

- Even if one is omitted, It would not have management anymore and it also would not have a business enterprise or an industrial society.
- According to P. Drucker, the manager has to balance and integrate three major jobs of a business enterprise as mentioned above.
- Hence, a manager is a dynamic and life-giving element in every business. Without efficient management it cannot be secure the best allocation and utilisation of human, material and financial resources.

Management is an Art or Science

Science

- Management is an in-exact science, because in pure science, the principles are put into test in a laboratory and they are either proved or disproved exactly and precisely.
- Similarly the management principles can be put to test in an organization where men, machine, money and materials (4 Ms) are practically integrated towards achieving some chosen organizational goals.
- These principles cannot be exactly proved or disproved either as they tend to be flexible to changing environment, policies and practical difficulties while synchronizing them together.
- So, management can be described as an inexact science

ART

- ✓ the concept of art denotes the learning of skills and practicing them in the day to day life like a mason or carpenter or mechanic or a musician being able to perform their respective art they learnt by way of skill display before anybody under any circumstances.
- ✓ But the concept of management involves a set of required skills for any one designated as a manager, but the level or span of their managerial skills would vary from person to person and individual to individual irrespective of the countries they belonged to.

Conclusion

To conclude, Management is neither a science nor an art, but a combination of both requiring people holding managerial positions to apply the scientific management principles and displaying popular managerial skills to accomplish the organizational goals as efficiently and as quickly as possible so as to be competitive in the globalised environment of business.

MANAGEMENT IS DIFFER FROM ADMINISTRATION

- Administration is concerned with framing policies and setting objectives.
- Management is all about plans and actions.
- Administration denotes the art of 'decision making' at the top and 'evolving policies' of the business.
- Management is more 'executive' in nature.
- Board of Directors with the CEO/MD may be called Administration, Managers of various units may be called Management of the said organization.

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
Meaning	An organized way of managing people and things of a business organization is called the Management.	The process of administering an organization by a group of people is known as the Administration.
Authority	Middle and Lower Level	Top level
Role	Executive	Decisive
Concerned with	Policy Implementation	Policy Formulation
Area of operation	It works under administration.	It has full control over the activities of the organization.
Applicable to	Profit making organizations, i.e. business organizations.	Government offices, military, clubs, business enterprises, hospitals, religious and educational organizations.
Decides	Who will do the work? And How will it be done?	What should be done? And When is should be done?

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
Work	Putting plans and policies into actions.	Formulation of plans, framing policies and setting objectives
Focus on	Managing work	Making best possible allocation of limited resources.
Key person	Manager	Administrator
Represents	Employees, who work for remuneration	Owners, who get a return on the capital invested by them.
Function	Executive and Governing	Legislative and Determinative

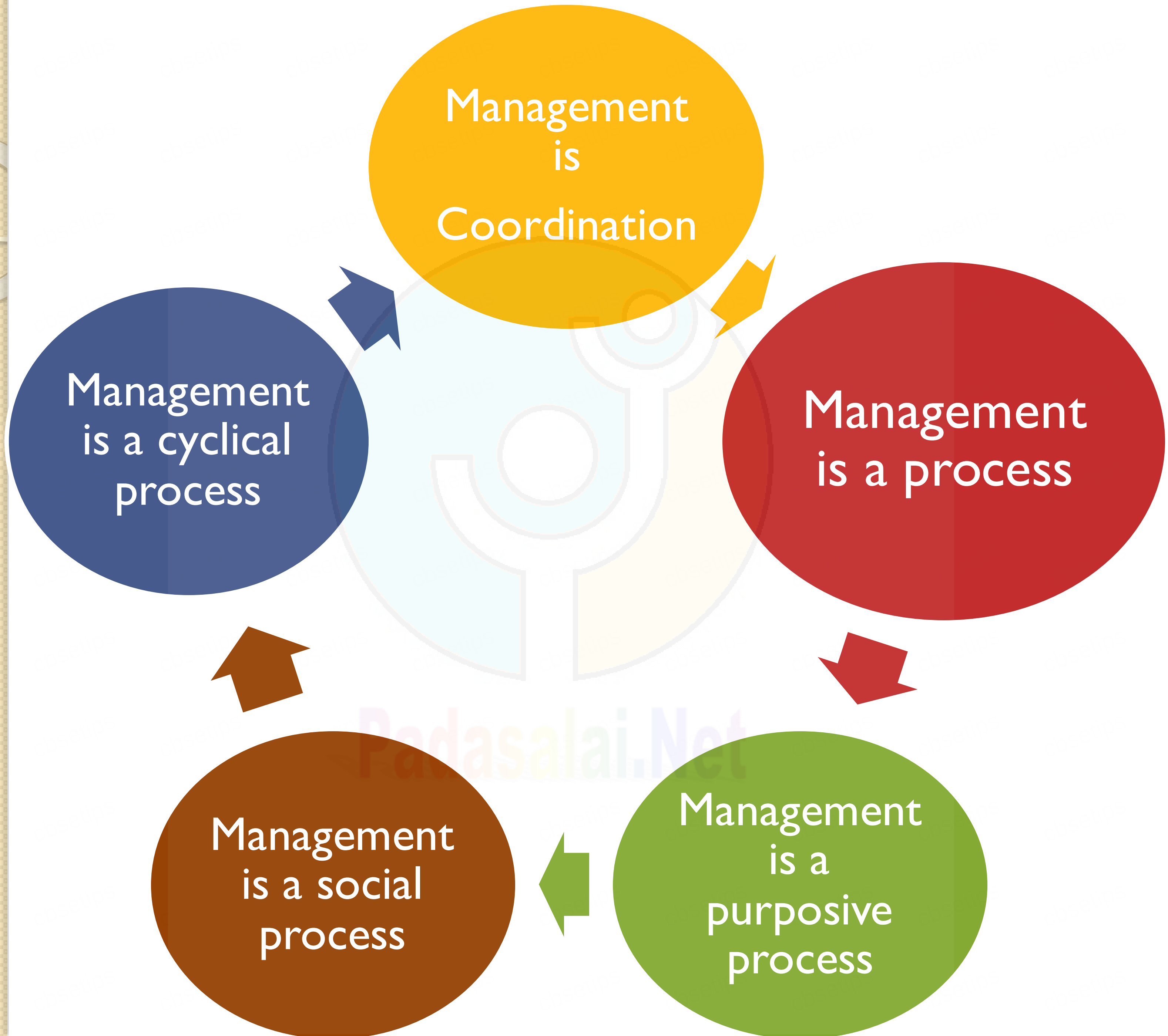
Management Process

- In management there is planning-action-control cycle.
- A process indicates the dynamic nature of management.

There are twin purposes of the management process:

(1)Maximum productivity or profitability and

(2)Maximum human welfare and satisfaction.


Management is Coordination
Management is a process
Management is a purposive process
Management is a social process
Management is a cyclical process

1.Management is Co-Ordination:

- The manager of an enterprise must effectively coordinate all activities and resources of the organisation, namely, men, machines, materials and money the four M‘s of management.

2.Management is a Process:

- The manager achieves proper co-ordination of resources by means of the managerial functions of planning, organising, staffing, directing (or leading and motivating) and controlling.

3. Management is a Purposive Process:

- It is directed toward the achievement of predetermined goals or objectives. Without an objective, we have no destination to reach

4.Management is a Social Process:

- It is the art of getting things done through other people.

5.Management is a Cyclical Process:

- It represents planning-action-control-re-planning cycle i.e., an ongoing process to attain goals.

PRINCIPLES OF SCIENTIFIC MANAGEMENT

Mr.Frederick Winslow Taylor (F.W.Taylor) brought about a scientific approach to managing the workforce after his experiments with the African and South American slaves employed in a coal field in England. His aim was absolute harmony in work place for overall productivity of the organization

1. Science, Not Rule of Thumb

- Rule of Thumb means decisions taken by manager as per their personal judgments.
- Decision should be based on scientific enquiry with cause and effect relationships.(The alarm (the **cause**) made you wake up (the **effect**)
- This principle is concerned with selecting the best way of performing a job through the application of scientific analysis and not by Perception or hit and trial methods.

2. Harmony, Not Discord

- there should be complete harmony between the workers and the management
- Both the management and the workers should realize the importance of each other.
- For example, Japanese companies, Usually, workers don't go on strike but, if at all they do so, they just wear a black badge and work even more than the normal hours just to impress upon the management that their focus is on their demands as well as organisational objectives.

3. Mental Revolution

- Management as well as the workers should aim to increase the profits of the organisation.
- workers should put in their best efforts so that the company makes profit and on the other hand management should share part of profits with the workers.

4. Cooperation, Not Individualism

- Workers should be considered as part of management and should be allowed to take part in decision making process of the management.
- Workers should be treated as integral part of organisation and all important decisions should be taken after due consultation with workers.

5. Development of each and every person to his or her greatest efficiency and prosperity:

- Efficiency of any organisation also depends on the skills and capabilities of its employees to a great extent.
- To attain the efficiency, steps should be taken right from the process of selection of employees.
- Efficient employees produce more to earn more. This ultimately helps to attain efficiency and prosperity for both organisation and the employees.

Principles of Modern **Management**

- The Father of Modern Management is Mr.Henry Fayol .
- There are 14 major principles of management which every manager has to practice for the success of the organization.

1.DIVISION OF WORK

- whole work is divided into small tasks.
- It leads to specialization which increases the efficiency of labour.

2.AUTHORITY & RESPONSIBILITY

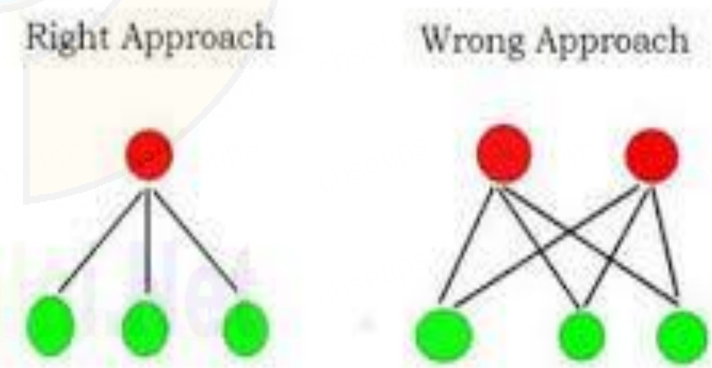
- Authority means the right of a superior to give the order to his subordinates
- Responsibility means obligation for performance.

3.DISCIPLINE

- It is obedience respect of authority, etc. It is essential for the smooth functioning of all organizations.

4.UNITY OF COMMAND

- Each subordinate should receive orders and be accountable to one and only one superior.



5.UNITY OF DIRECTION

- There should be one plan of action for them, and they should be under the control of one manager.

6.SUBORDINATION OF INDIVIDUAL INTEREST TO MUTUAL INTEREST

- The management must put aside personal considerations and put company objectives firstly.

6.Subordination of Individual Interests to the General Interest :–

7.REMUNERATION

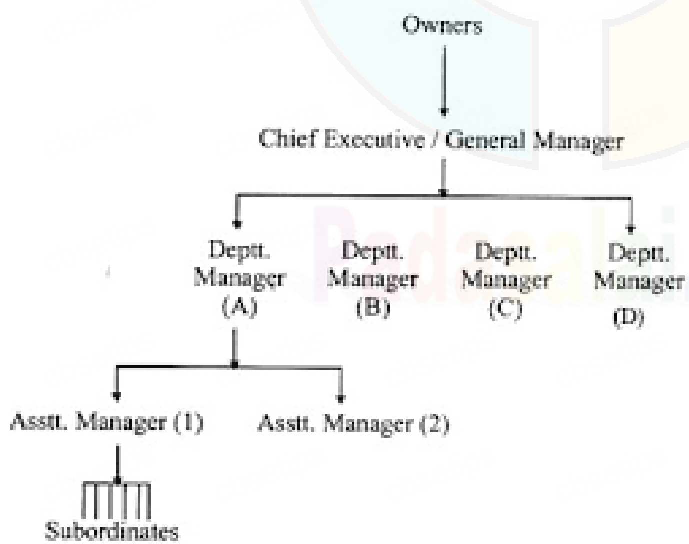
- Workers must be paid sufficiently as this is a chief motivation of employees and therefore greatly influences productivity.
- Remuneration payable should be fair, reasonable.

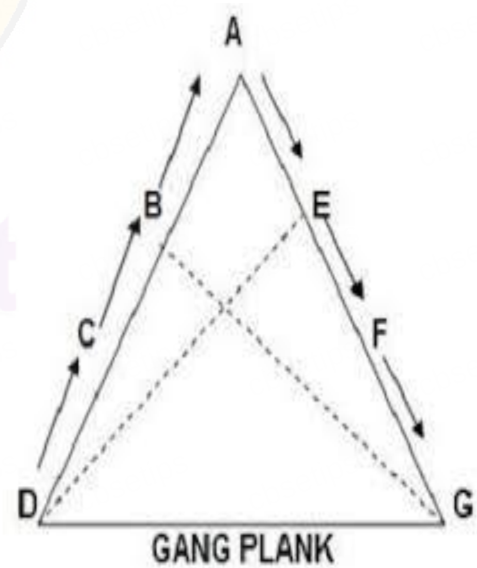
8. THE DEGREE OF CENTRALIZATION

- Centralization implies the concentration of decision making authority at the top management.
- Its depends on company size

9.LINE OF AUTHORITY/SCALAR CHAIN

- The principle suggests that there should be a clear line of authority from top to bottom linking all managers at all levels.





10.ORDER

- ✓ People and Materials must be in suitable places at appropriate time for maximum efficiency.

11.EQUITY

- Employees must be treated kindly, and justice must be enacted to ensure a just workplace.
- Equal attention towards all employees

12.STABILITY OF TENURE OF PERSONNEL

- An organization to run smoothly, personnel (especially managerial personnel) must not frequently enter and exit the organization.

13.INITIATIVE

- Initiative on the part of employees is a source of strength for organization because it provides new and better ideas.

14.ESPRIT DE CORPS/TEAM SPIRIT

- Team spirit helps develop an atmosphere of mutual trust and understanding. Team spirit helps to finish the task on time.

SPAN OF MANAGEMENT

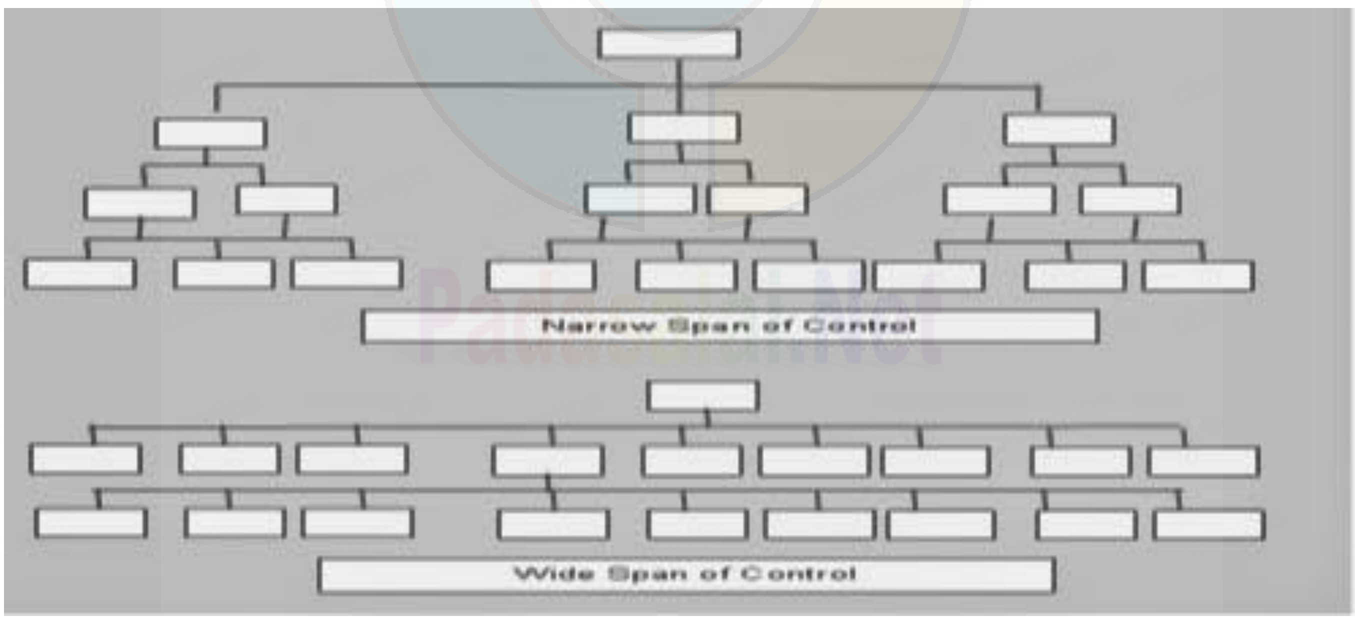
The Span of Management refers to the number of subordinates who can be managed efficiently by a superior.

The Span of Management has two implications:

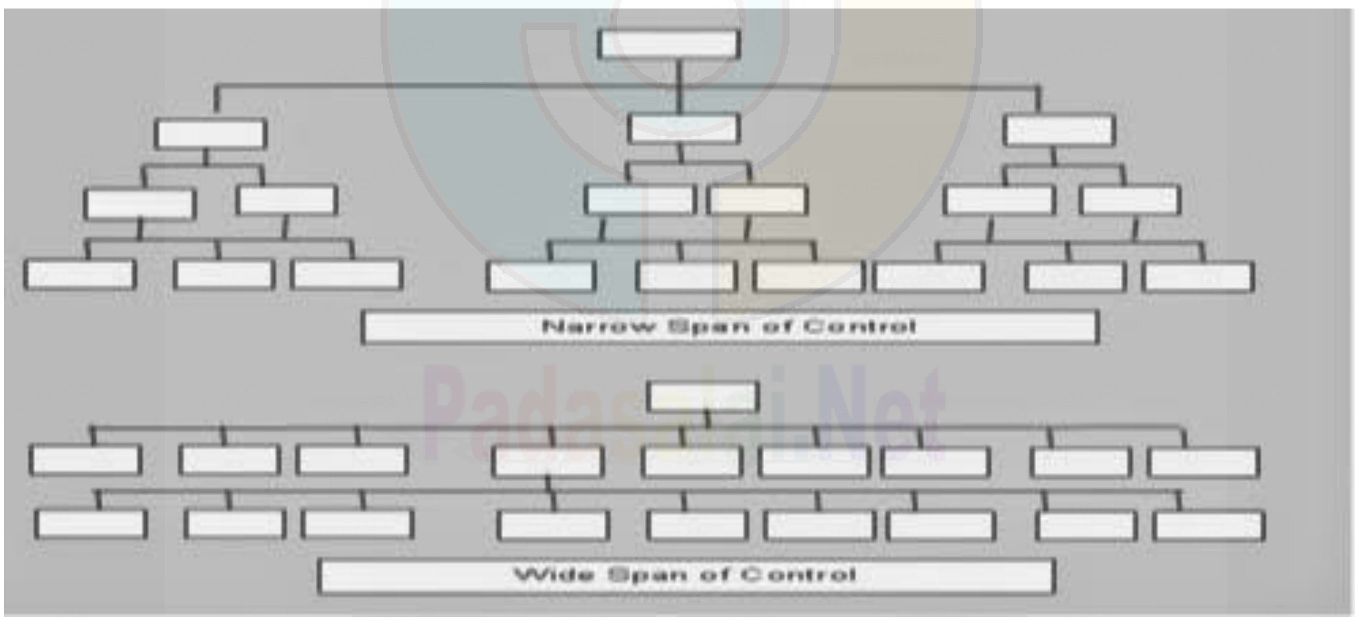
1. Influences the complexities of the individual manager's job
2. Determine the shape or configuration of the Organization

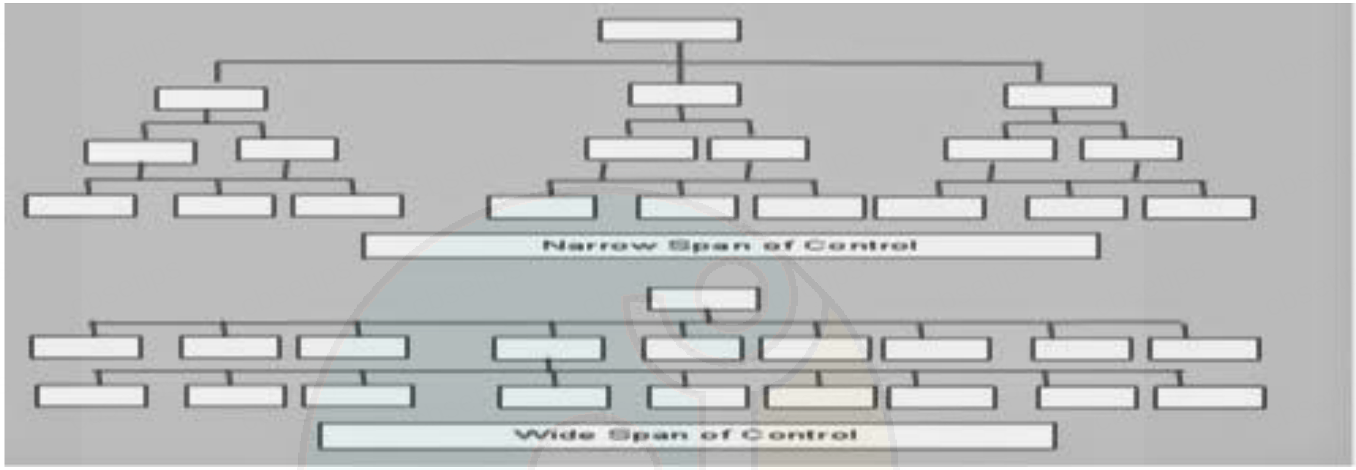
There is a wide and a narrow span of management.

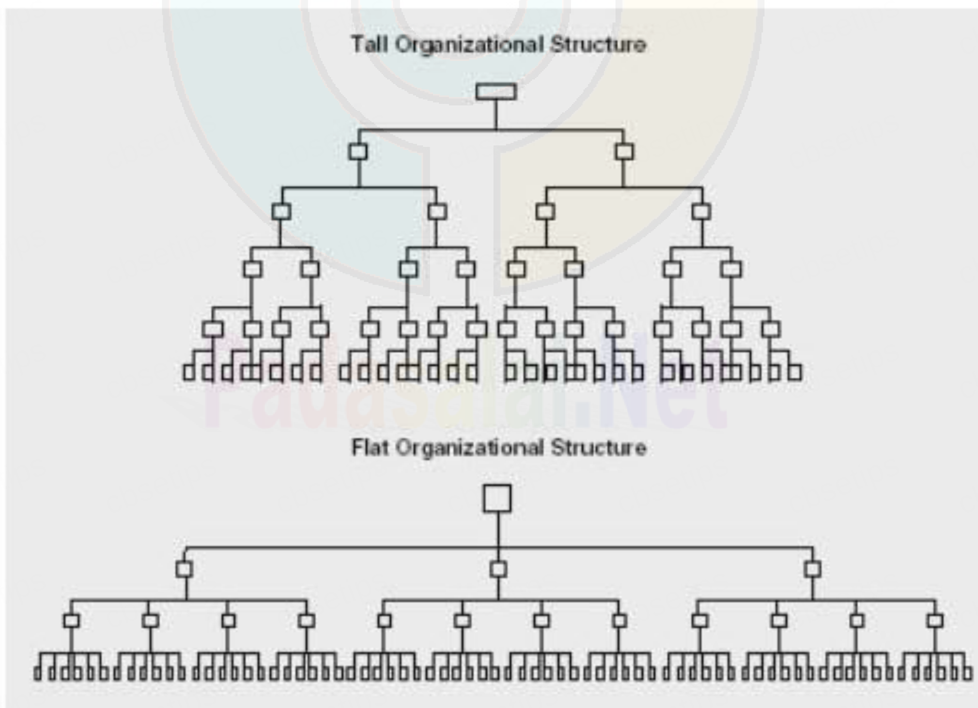
✓ With the wider span, there will be less hierarchical levels, and thus, the organizational structure would be flatter



Whereas, with the narrow span, the hierarchical levels increases, hence the organizational structure would be tall.




Narrow Span of Control
Wide Span of Control


Tall Organizational Structure
Flat Organizational Structure

- tall organizational structure imposes more challenges.
- Since the span is narrow, which means less number of subordinates under one superior, requires more managers to be employed in the organization.
- With more levels in the hierarchy, the communication suffers drastically.
- Lack of coordination and control because the operating staff is far away from the top management

benefit of using the wider span of management is that the number of managers gets reduced in the hierarchy, and thus, the expense in terms of remuneration is saved.

the subordinates feel relaxed and develop their independent spirits in a free work environment, where the strict supervision is absent.

THANK YOU

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CHAPTER 2

FUNCTIONS OF MANAGEMENT

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CONCEPT OF MANAGEMENT

management is goal oriented and it is an art of getting things done with and through others.

FUNCTIONS OF MANAGEMENT

MAIN FUNCTIONS

SUBSIDIARY FUNCTIONS

MAIN FUNCTIONS

- PLANNING
- ORGANISING
- STAFFING
- DIRECTING
- MOTIVATING
- CONTROLLING
- CO ORDINATION

PLANNING

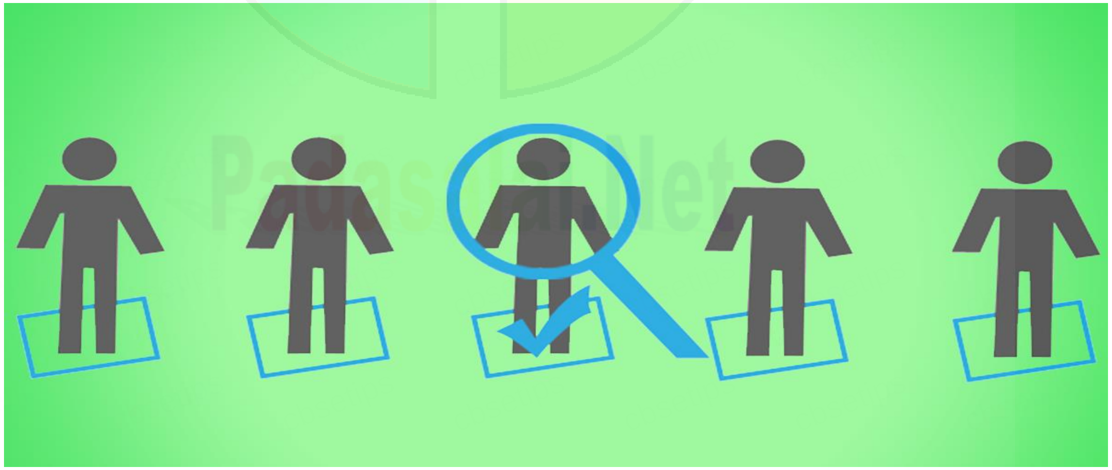
- Planning is the primary function of management.
- planning refers to deciding in advance
- Planning should take place before doing
- what shall be done, where, how and who shall do it.

ORGANISING

- Organizing function work is assigned to employees who are given authority to carry out the work assigned and made accountable for it.

STAFFING

- Staffing function comprises the activities of selection and placement of competent personnel.
- In other words, staffing refers to placement of right persons in the right jobs.



DIRECTING

- Directing denotes motivating, leading, guiding and communicating with subordinates on an ongoing basis in order to accomplish pre-set goals.

MOTIVATING

- The goals are achieved with the help of motivation. Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers.

CONTROLLING

- It is the control function which facilitates synchronization of actual performance with predetermined standards.

CO ORDINATION

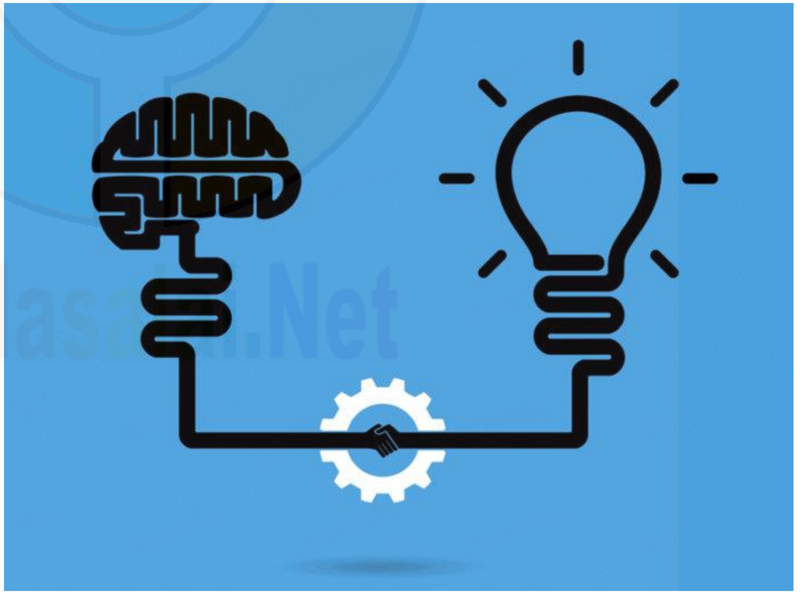
- Co-ordination is the synchronization (or unification or integration) of the actions of all individuals, working in the enterprise in different capacities .

SUBSIDIARY FUNCTIONS

1. • INNOVATION
2. • REPRESENTATION
3. • DECISION MAKING
4. • COMMUNICATION

INNOVATION

- Innovation refers to the preparation of personnel and organisation to face the changes made in the business world.



REPRESENTATION

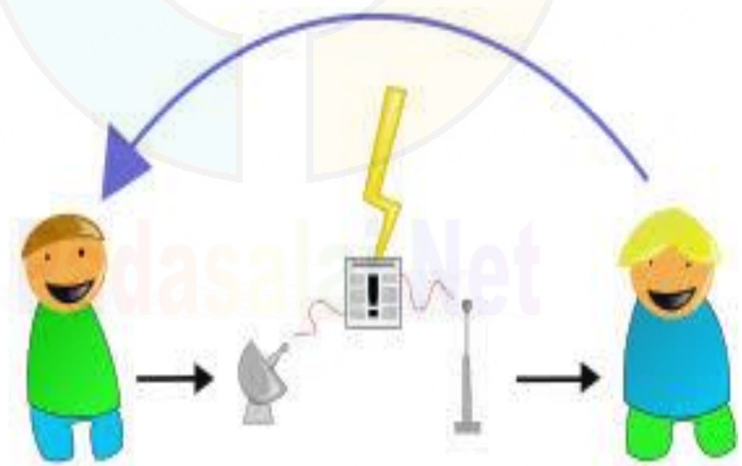
- A manager has to act as representative of a company. Manager has dealings with customers, suppliers, government officials, banks, financial institutions, trade unions and the like. It is the duty of every manager to have good relation with others.

DECISION-MAKING

- Every employee of an organisation has to take a number of decisions every day. Decision- making helps in the smooth functioning of an organisation.

COMMUNICATION

- Communication is the transmission of human thoughts, views or opinions from one person to another person. Workers are informed about what should be done, where it is to be done, how it is do be done and when it is to be done.



THANK YOU..

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CHAPTER 3
MANAGEMENT BY OBEJCTIVES (MBO) & MANAGEMENT BY EXCEPTION (MBE)

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MBO
Management By Objectives

MBO – introduction

- Peter Drucker in 1954.
- Concept of planning
- accomplishment of objectives through participation of all concerned persons
- participative and democratic style of management

Main Concept

- The principle behind Management by Objectives (MBO) is to make sure that everybody within the organization has a clear understanding of the aims, or objectives, of that organization, as well as awareness of their own roles and responsibilities in achieving those aims.
- The complete MBO system is to get managers and empowered employees acting to implement and achieve their plans, which automatically achieve those of the organization.

Definition

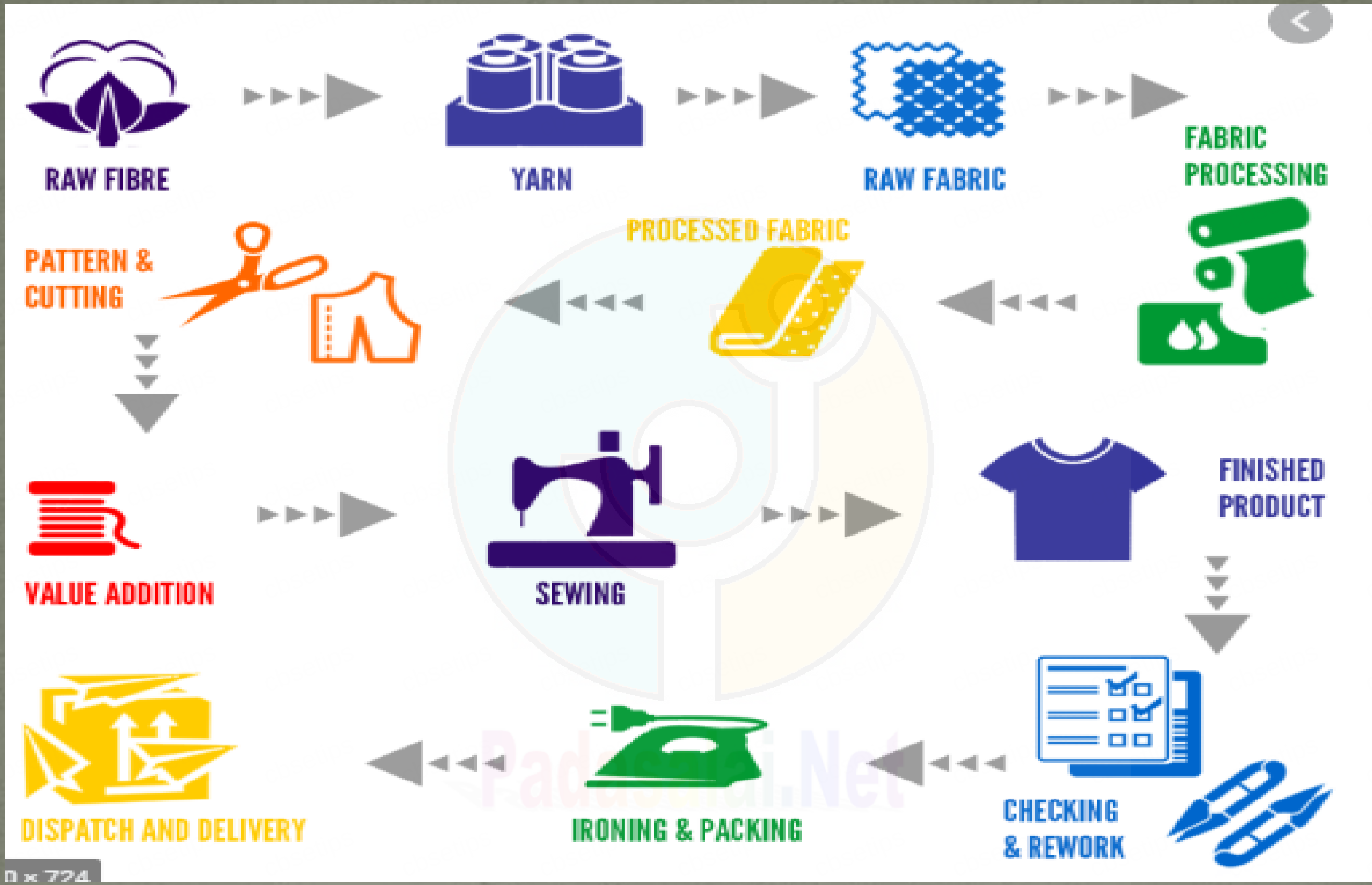
- MBO is "a process whereby superior and subordinate managers of an Organization jointly define its common goals, define each individual's major areas of responsibility in terms Of results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members."

George Odiorne

MEANING OF MBO

Management By Objectives (MBO) is a management system in which each member of the organisation effectively participates and involves himself. This system gives full scope to the individual strength and responsibility. MBO harmonises the goal of an individual with the organisation’s goal. It creates self-control and motivates the manager into action before somebody tells his to do something.

Can you name some department



EACH DEPARTMENT WILL HAVE DIFFERENT OBJECTIVES TO BE COMPLETED


Fabric Store
Cutting section
Sewing floor
Embroidery section
Printing section
Finishing section
Quality checking
Packing section
Shipping

- Management – It is an art of getting things done by others.
- Objectives -A specific result that a person or company aims to achieve within a time frame and with available resources. In general, **objectives** are more specific and easier to measure than goals.

Objectives

- What needs to be achieved as a result of project.
- <u>For example:</u> Golden Gate Bridge Construction:
- Objectives:
  - ✓ 6 lanes in total (3+3)
  - ✓ Must carry at least 2,500,000 kgs
  - ✓ Must resist at least 8.5 Richter Earth-Quake

Objectives of MBO

i. to measure and judge performance

ii. to relate individual performance to organisational goals

iii. to clarify both the job to be done and the expectations of accomplishment

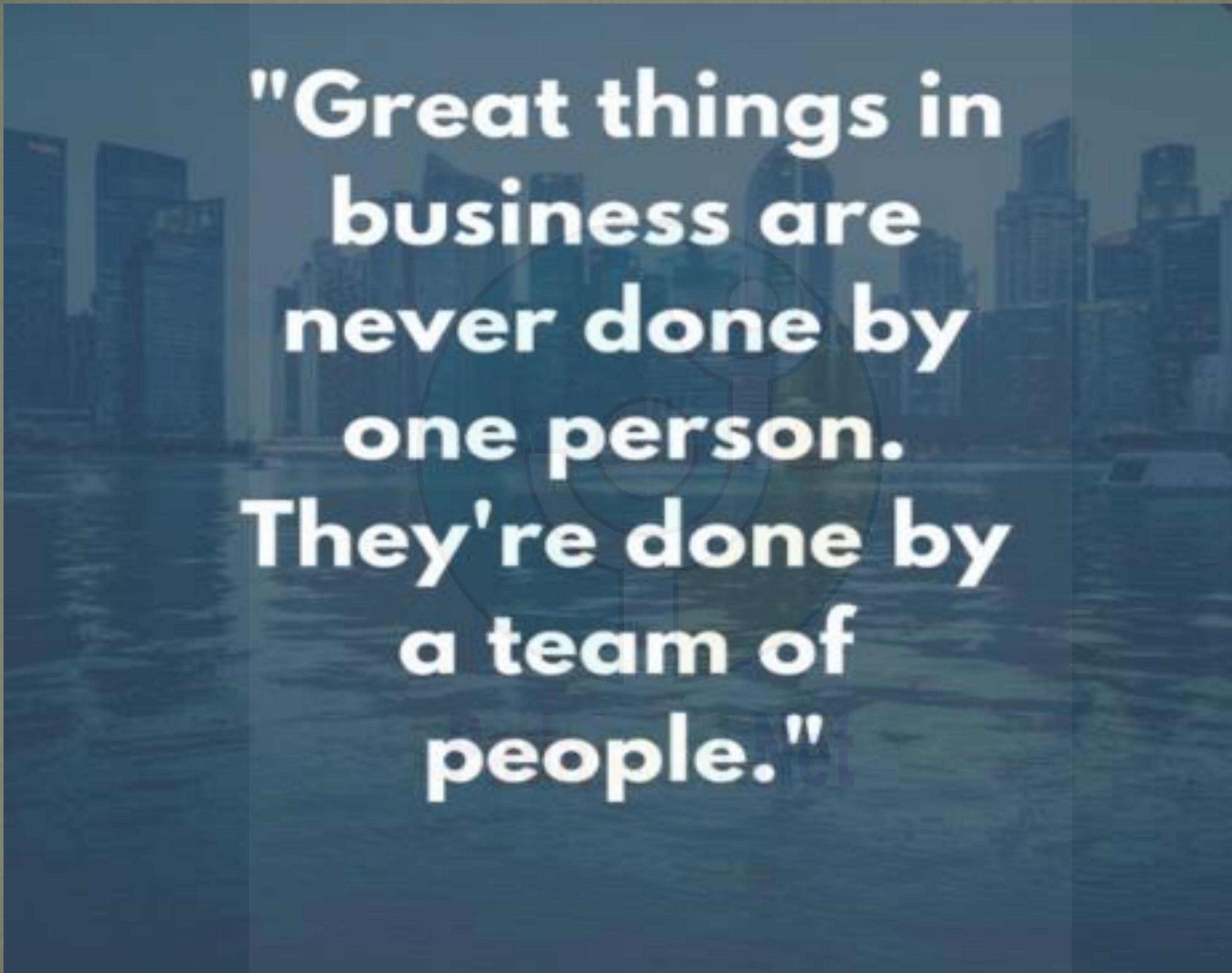
iv. to foster the increasing competence and growth of the subordinates

v. to enhance communications between superiors and subordinates

vi. to serve as a basis for judgements about salary and promotion

vii. to stimulate the subordinates' motivation

viii. to serve as a device for organisational control and integration.


"Great things in business are never done by one person. They're done by a team of people."

FEATURES

1. An attempt is made by the management to integrate the goals of an organisation and individuals. This will lead to effective management.
2. MBO tries to combine the long run goals of organisation with short run goals.
3. Management tries to relate the organisation goals with society goals.
4. MBO's emphasis is not only on goals but also on effective performance.
5. It pays constant attention to refining, modifying and improving the goals and changing the approaches to achieve the goals on the basis of experience.

6. It increases the organisational capability of achieving goals at all levels.

7. A high degree of motivation and satisfaction is available to employees through MBO.

8. Recognises the participation of employees in goal setting process.

9. Aims at replacing the exercise of authority with consultations.

10. Encourages a climate of trust, goodwill and a will to perform.

The Smart Method

Clarity of goals – With MBO, came the concept of SMART goals i.e. goals that are:

- Specific
- Measurable
- Achievable
- Relevant, and
- Time bound.


Performance Appraisal
Providing Feedback
Define Organizational Goals
Performance Evaluation
Process of MBO
Define Employees Objectives
Monitoring Performance

1. Defining Organisational Objectives

- Initially, organisational objectives are framed by the top level employees of an organisation. Then, it moves downwards. The definition of organisational objectives states why the business is started and exists. First, long-term objectives are frames. Then, Short-term objectives are framed taking into account the feasibility of achieving the long-term objectives.

2. Goals of Each Section

- Objectives for each section, department or division are framed on the basis of overall objectives of the organisation. Period within which these objectives should be achieved is also fixed. Goals or objectives are expressed in a meaningful manner.

3. Fixing Key Result Areas

- Key result areas are fixed on the basis of organisational objectives premises. Key Result Areas (KRA) are arranged on a priority basis. KRA indicates the strength of an organisation. The examples of KRA are profitability, market standing, innovation etc.

KRA

stands for

Key Result Area

4. Setting Subordinate Objectives or Targets

- There should be a free and frank discussion between the superior and his subordinates. Subordinates are induced to set standards themselves by giving an opportunity. If subordinates are allowed to do so, they may set high standards and the chances of their accomplishment are higher. In this way, the objectives or targets of the subordinates are fixed.

5. Matching Resources with Objective

- The objectives are framed on the basis of availability of resources. If certain resources (technical personnel or scarce raw material) are not adequately available, the objectives of an organisation are changes accordingly. So, there is a need for matching resources with objectives. Next, the available resources should be properly allocated and utilized.

6.Periodical Review Meetings

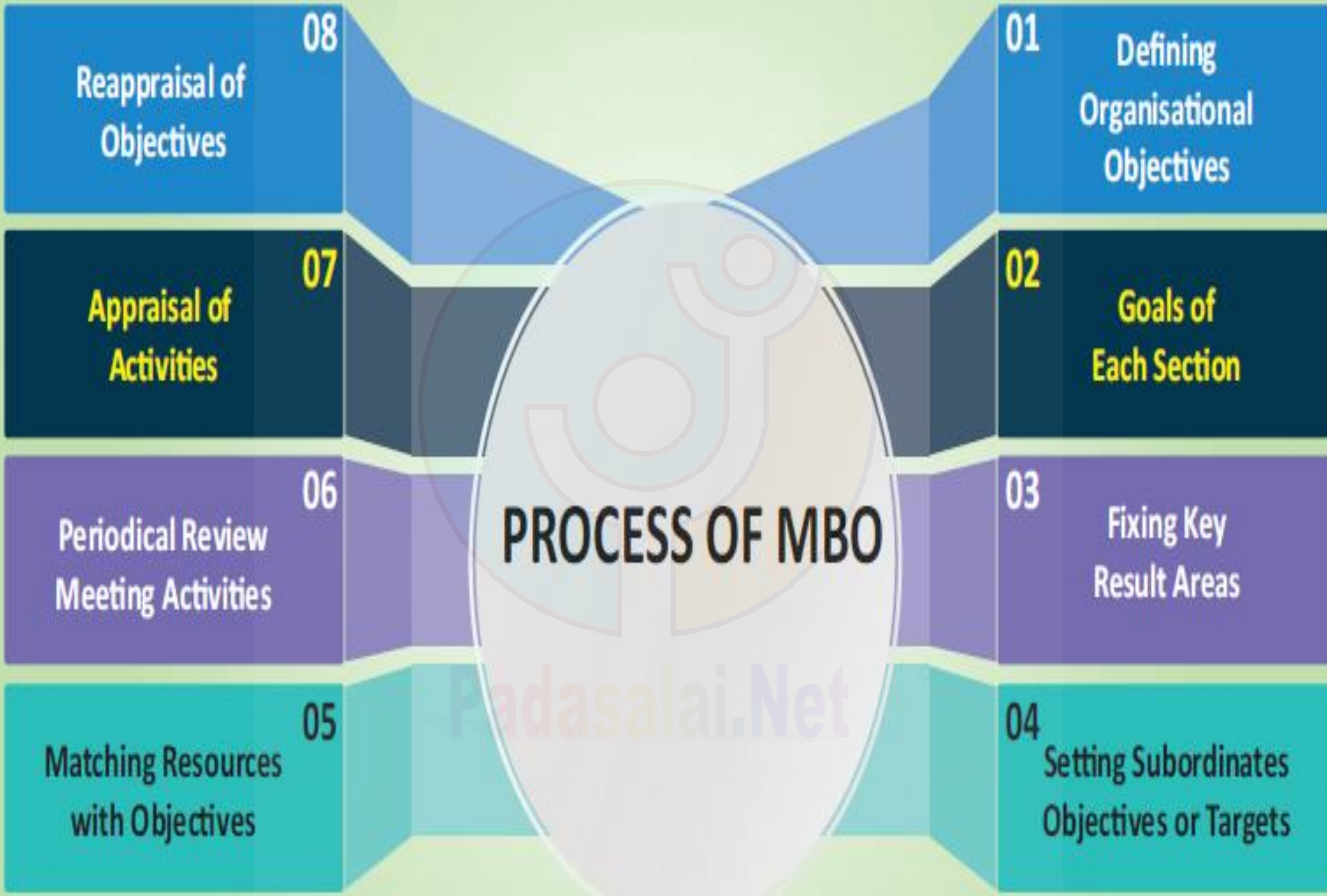
- The superior and subordinates should hold meetings periodically in which they discuss the progress in the accomplishment of objectives. The periodical review meeting is held during the period set for achieving the objectives.

7. Appraisal of Activities

- At the end of the fixed period for achieving the objectives, there should be a discussion between the superior and subordinates.
- The superior should identify the reasons for failure of achieving objectives. The problems faced by the subordinates should be identified and steps should be taken to tackle such problems.

8. Reappraisal of Objectives

- An organisation is a part of the dynamic world. There are a lot of changes within short period. The survival and growth of a modern business organisation largely depends upon putting up with the changing conditions. So, the top management executive should review the organisation's objectives to frame the objectives according to the changing situation.


08
Reappraisal of Objectives
01
Defining Organisational Objectives
07
Appraisal of Activities
02
Goals of Each Section
PROCESS OF MBO
06
Periodical Review Meeting Activities
03
Fixing Key Result Areas
05
Matching Resources with Objectives
04
Setting Subordinates Objectives or Targets

Evaluate:-

- Which is the First step in Process of MBO?.

  (a) Fixing Key Result Area

  (b) Appraisal of Activities

  (c) Matching Resources with Activities

  (d) Defining Organisational Objectives
- Expand MBO ____________
- Initially, organisational objectives are framed by the ________ level employees of an organisation. Then, it moves downwards.

Advantages of MBO
To The Organization
Better Planning
Efficient Management
Clear Organizational Roles
Increases the Level of Commitment
Facilitates Control
To Superiors
Performance Evaluation
Better Guidance and Direction
Accelerates Motivation of Subordinates
Coordinating Individual Efforts to Group Efforts
To Subordinates
Simplifies Goal Achievement
Increases Job Satisfaction
Initiates Self-Direction and Self-Control
Encourages Innovative Thinking and Ideas
Establishes Cordial Relations with Superiors
Motivates to Perform Better

Advantages of MBO

- Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.

MBO process helps the managers to understand their role in the total organisation.

- . Manager recognises the need for planning and appreciates the planning.

MBO provides a foundation for participative management. Sub-ordinates are also involved in goal setting.

A department does not work at cross purpose with another department. In other words, each department's objectives are consistent with the objectives of the whole organisation.

- Systematic evaluation of performance is made with the help of MBO.

MBO gives the criteria of performance. It helps to take corrective action.

Delegation of authority is easily done with the help of MBO.

- MBO motivates the workers by job enrichment and makes the jobs meaningful.

The responsibility of a worker is fixed through MBO.

Decision is taken by the management very quickly. The reason is that each worker knows the purpose of taking a decision and does not oppose the decision.

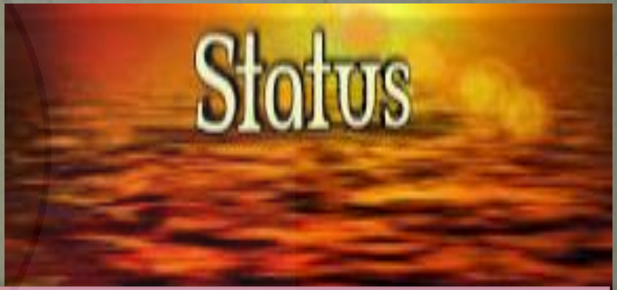
Disadvantages of MBO

- MBO fails to explain the philosophy; most of the executives do not know how MBO works? what is MBO? and why is MBO necessary? and how participants can benefit by MBO?

MBO is a time consuming process. Much time is needed by senior people for framing the MBO. Next , it leads to heavy expenditure and also requires heavy paper work.

- MBO emphasises only on short-term objectives and does not consider the long-term objectives.

- The status of subordinates is necessary for proper objectives setting. But, this is not possible in the process of MBO.



- MBO is rigid one. Objectives should be changed according to the changed circumstances, external or internal. If it is not done, the planned results cannot be obtained.


Idea
To do
Doing
Done
Management By Exception

What is Management by Exception?

- Management by Exception is an employee empowerment and management style, policy or philosophy wherein **managers intervene only when their employees fail to meet their performance standards or when things go wrong.**
- The idea behind it is that management's attention will be focused only on those areas in need of action
- If the personnel are performing as expected, the manager will take no action.
- MBE normally involves substantial delegation by the manager to his team.

Infection Control protocols in Intensive care units (ICU)

MBE Illustrated with Example

- The MBE is similar to the vital signs monitoring systems in hospital critical care units (ICUs).
- When one of the patient's vital signs goes outside the range programmed into the machine, an alarm sounds and staff runs to the rescue.
- If the machine is quiet, it's assumed that the patient is stable, and they will receive only regular staff attention.

Meaning of MBE:-

Management by exception is an important principle of managerial control suggested by the classical writers on management. It is based on the belief that an attempt to control everything results in controlling nothing. Management by exception is a style of business management that focuses on identifying and handling cases that deviate from the norm.

For example:-

- The production manager establishes quality control standards wherein five defects per 100 units produced are permissible. So long as the number of defects does not exceed 5, the supervisors/foremen (subordinates) will handle the problem. Whenever there are more than 5 defects, the matter will be reported to the production manager.

Process of MBE:

Identifying and specifying Key Result Areas (K.R.A.s)

↓

Setting standards and outlining permissible deviations, especially for K.R.A.'s

↓

Comparing actual results with the standards

↓

Computing and analyzing deviations

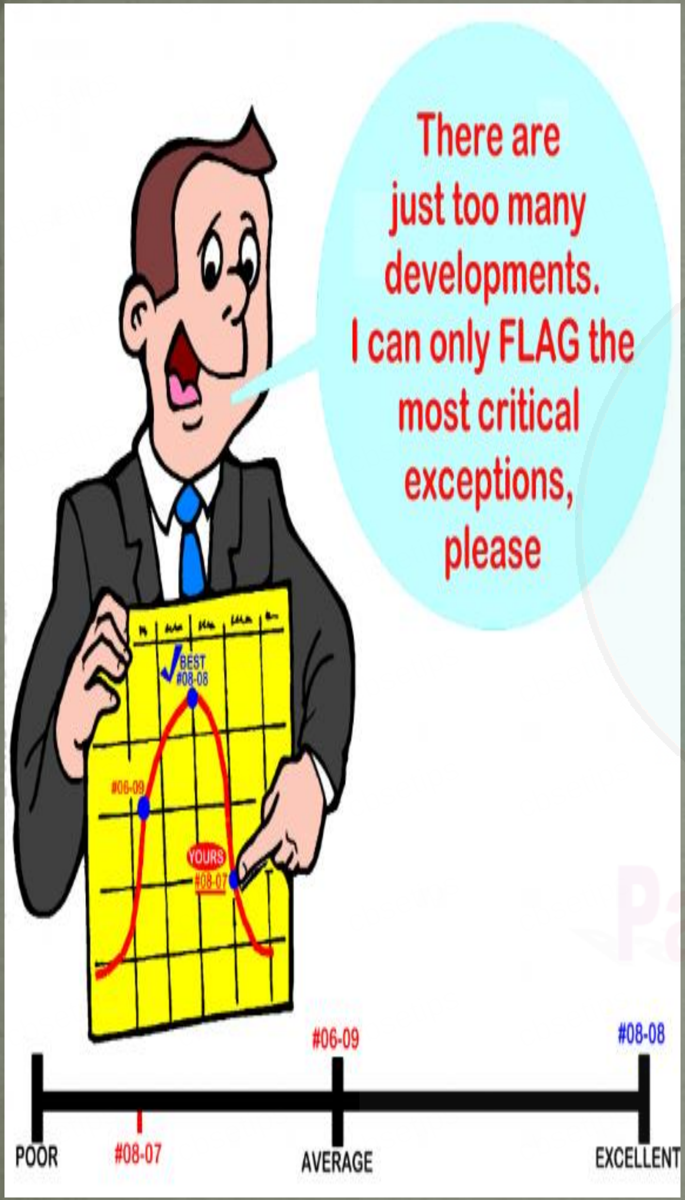
↓

Identifying non - permissible, that is, critical deviations in K.R.A.s

↓

Strategizing and taking corrective actions

Management by Exception


There are just too many developments. I can only FLAG the most critical exceptions, please
BEST #08-08
#06-09
YOURS #08-07
#06-09
#08-08
POOR
#08-07
AVERAGE
EXCELLENT


management's attention will be focused only on those areas in need of action

- i. It saves the time of managers because they deal only with exceptional matters. Routine problems are left to subordinates.

ii. It focuses managerial attention on major problems. As a result, there is better utilisation of managerial talents and energy.

iii. It facilitates delegation of authority. Top management concentrates on strategic decisions and operational decisions are left to the lower levels. There is increase in span of control. This leads to motivation and development of subordinates.

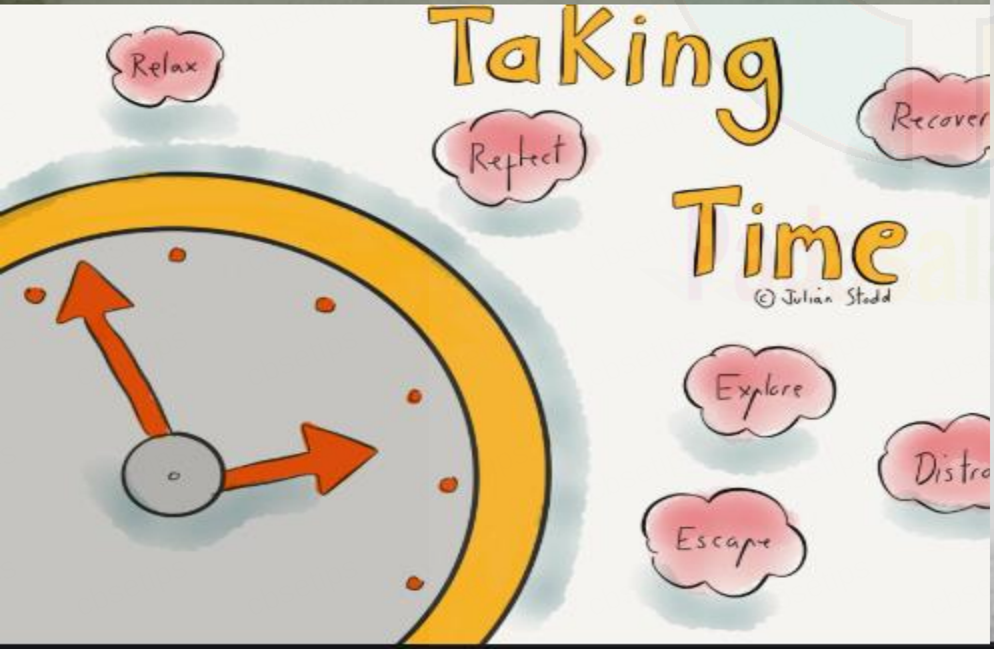
- iv. It is a technique of separating important information from unimportant one. It forces managers to review past history and study related business data for identifying deviations. There is better use of knowledge of trends, history and available business data.

- v. MBE keeps management alert to opportunities and threats by identifying critical problems. It can avoid uninformed and impulsive action.

- vi. Management by exception provides better yardsticks for judging results. It is helpful in objective performance appraisal.

- i. The main disadvantage of MBE is, only managers have the power over really important decisions, which can be demotivating for employees at a lower level.

- ii. Furthermore, it takes time to pass the issues to managers. Managing employees who deviate from the normal procedures. Because of compliance failures are considered difficult to manage and typically find themselves with limited job duties and ultimately dismissed/terminated.




Thank you

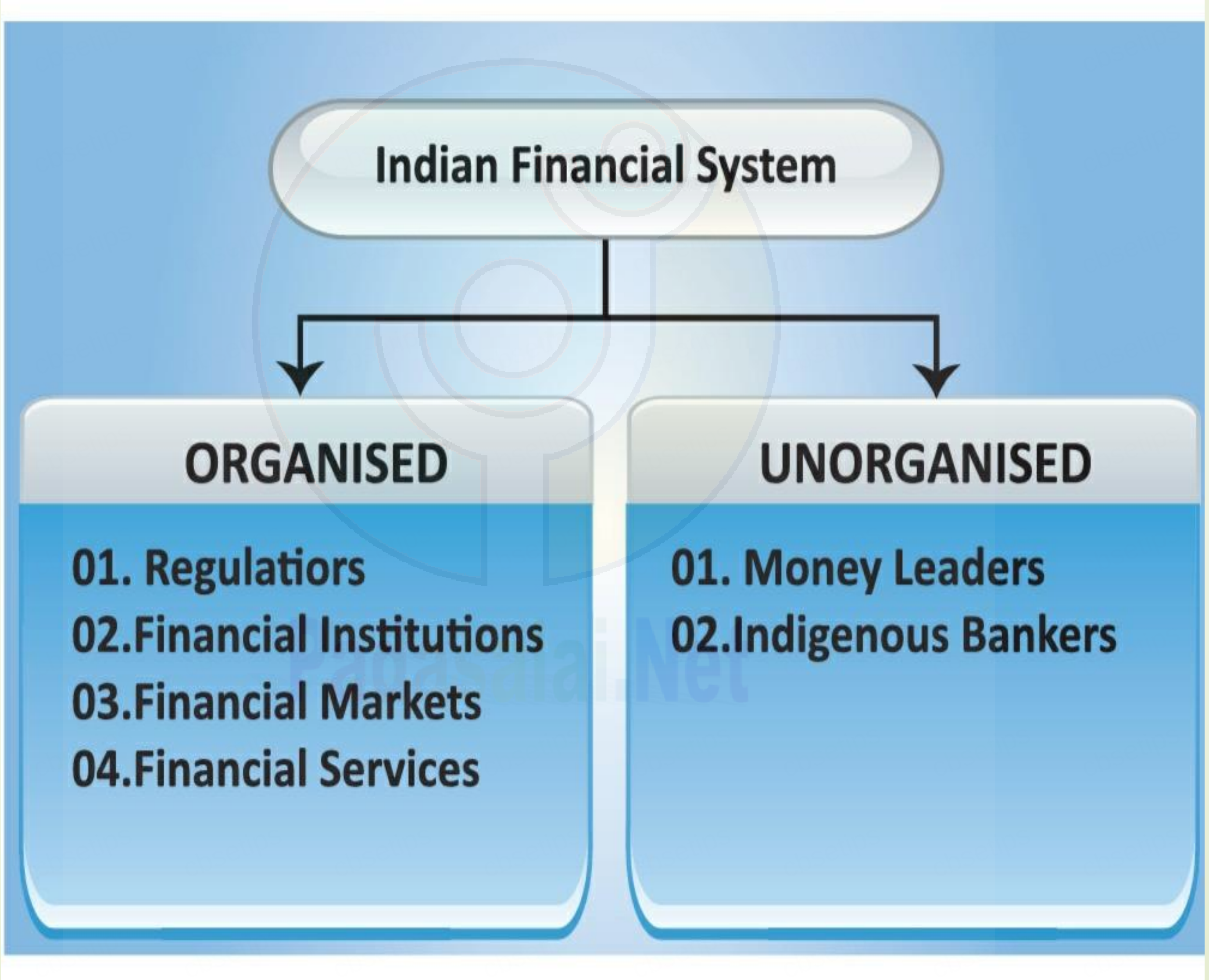
FINANCIAL MARKETS - I

Chapter 4

Presented by Chithambararaj D MBA,M.Com,B.Ed 9994154393

Introduction

- Financial market facilitates business firms as well as governments to raise the needed funds by issuing and selling different instruments.


Indian Financial System
ORGANISED
01. Regulatiors
02.Financial Institutions
03.Financial Markets
04.Financial Services
UNORGANISED
01. Money Leaders
02.Indigenous Bankers

Types of Financial Markets

- On the Basis of Type of Financial Claim

(i) Debt Market: is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, Corporate Debentures or Bonds)

(ii) Equity Market : is the financial market for trading in Equity Shares of Companies.

- On the Basis of Maturity of Financial Claim

(i) Money Market: is the market for short term financial claim (usually one year or less) E.g. Treasury Bills, Commercial Paper, Certificates of Deposit

(ii) Capital Market : is the market for long term financial claim more than a year E.g. Shares, Debentures

- On the Basis of Time of Issue of Financial Claim

(i) Primary Market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers (companies). Here the money from investors goes directly to the issuers.

(ii) Secondary Market is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.

- On the Basis of Timing of Delivery of Financial Claim

(i) Cash/Spot Market is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

(ii) Forward or Futures Market is a market where the delivery of asset and payment of cash takes place at a pre-determined time frame in future.

- On the Basis of the Organizational Structure of the Financial Market

(i) Exchange Traded Market is a centralized organization (stock exchange) with standardized procedures.

(ii) Over–the–Counter Market is a decentralized market (outside the stock exchange) with customized procedures. The above classification is not rigid. One market may come under more than one category.

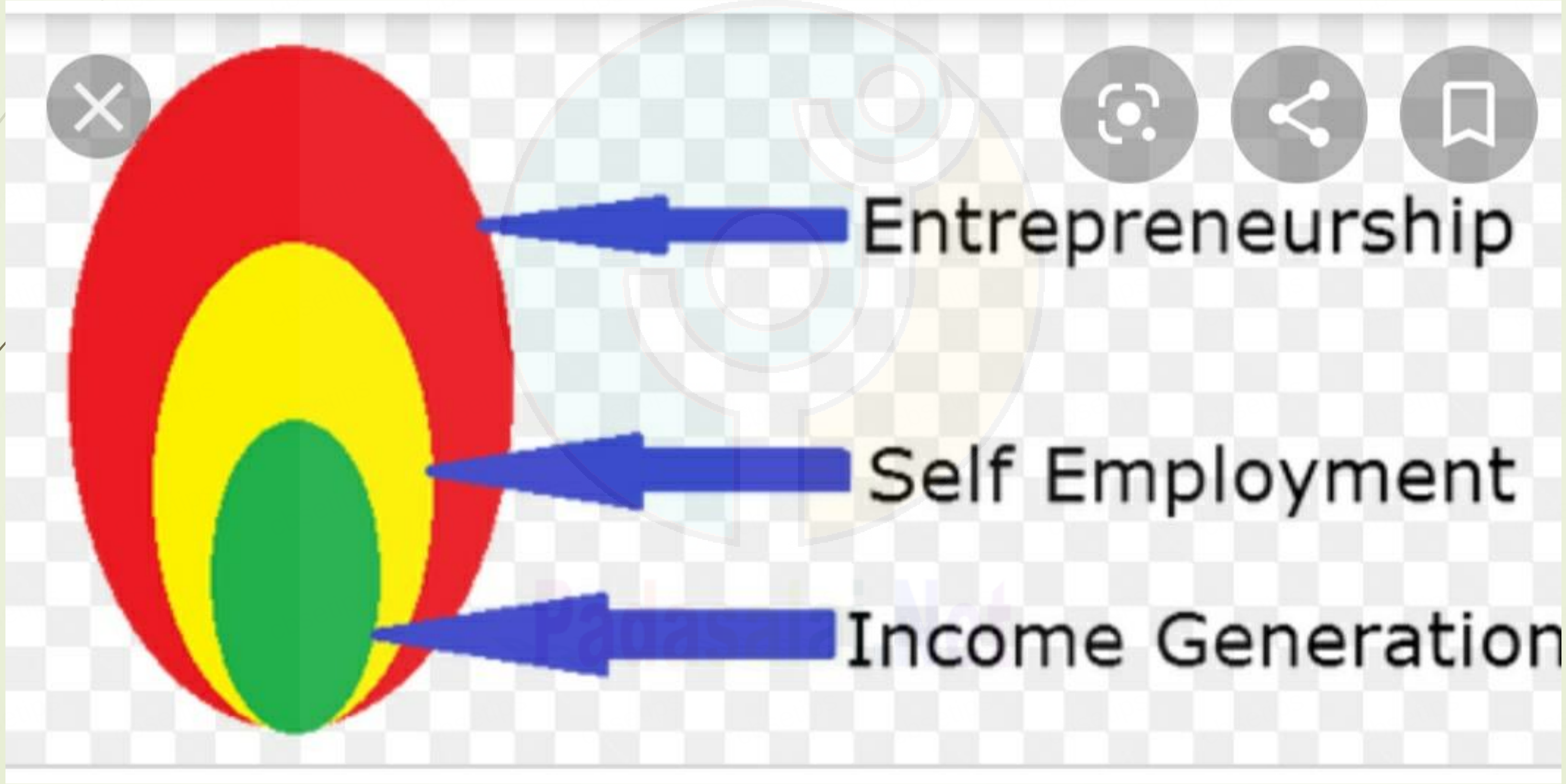
Role of Financial Market

- (i) Savings Mobilization

- (ii) Investment

- (iii) National Growth

- (iv) Entrepreneurship Growth

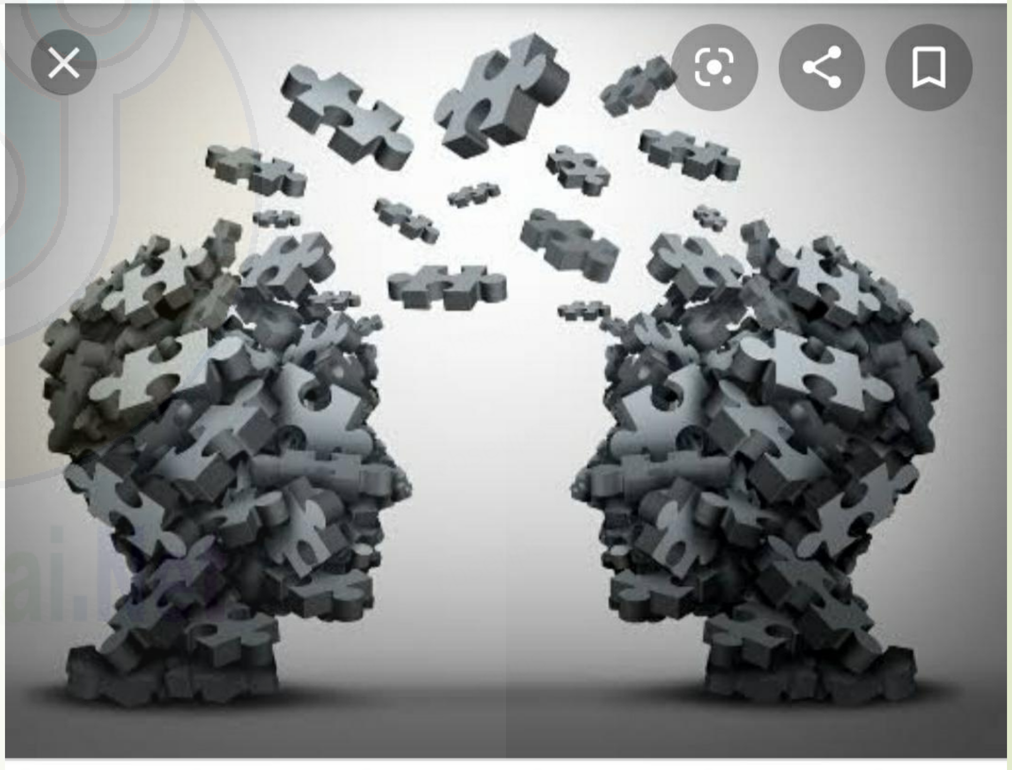


- (v) Industrial Development

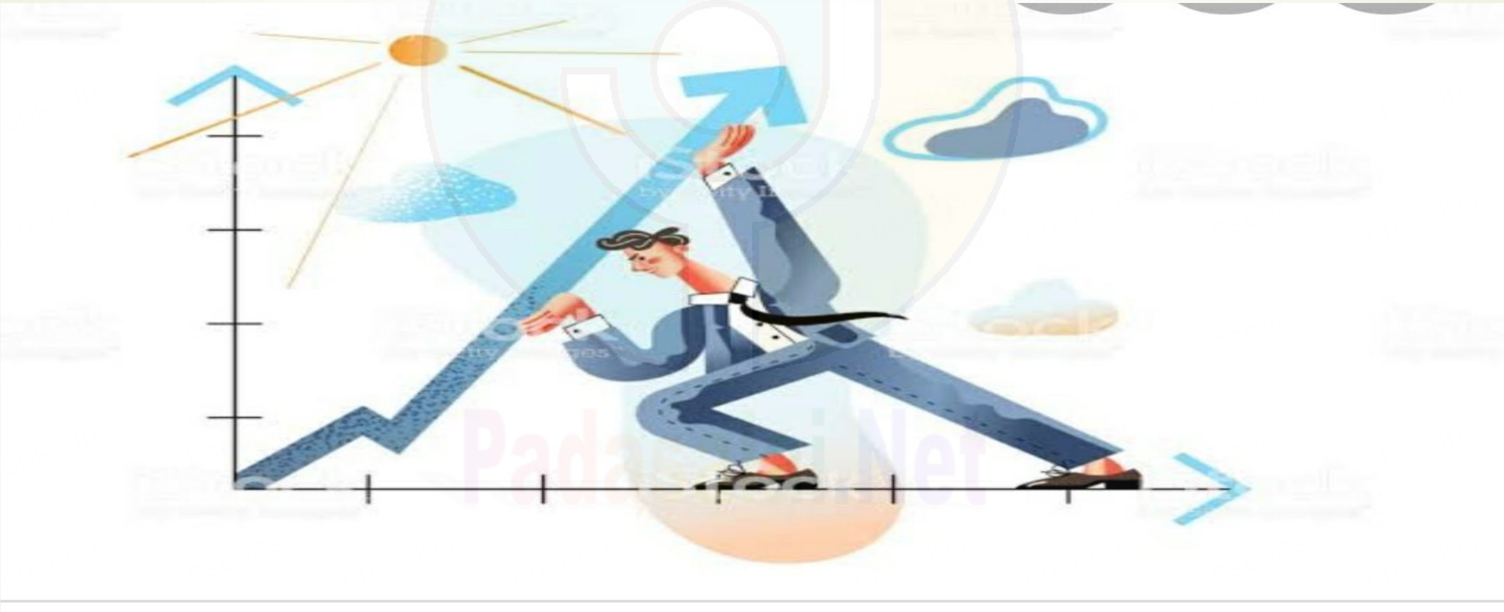
Functions of Financial Markets

- I. Intermediary Functions:

(i) Transfer of Resources:

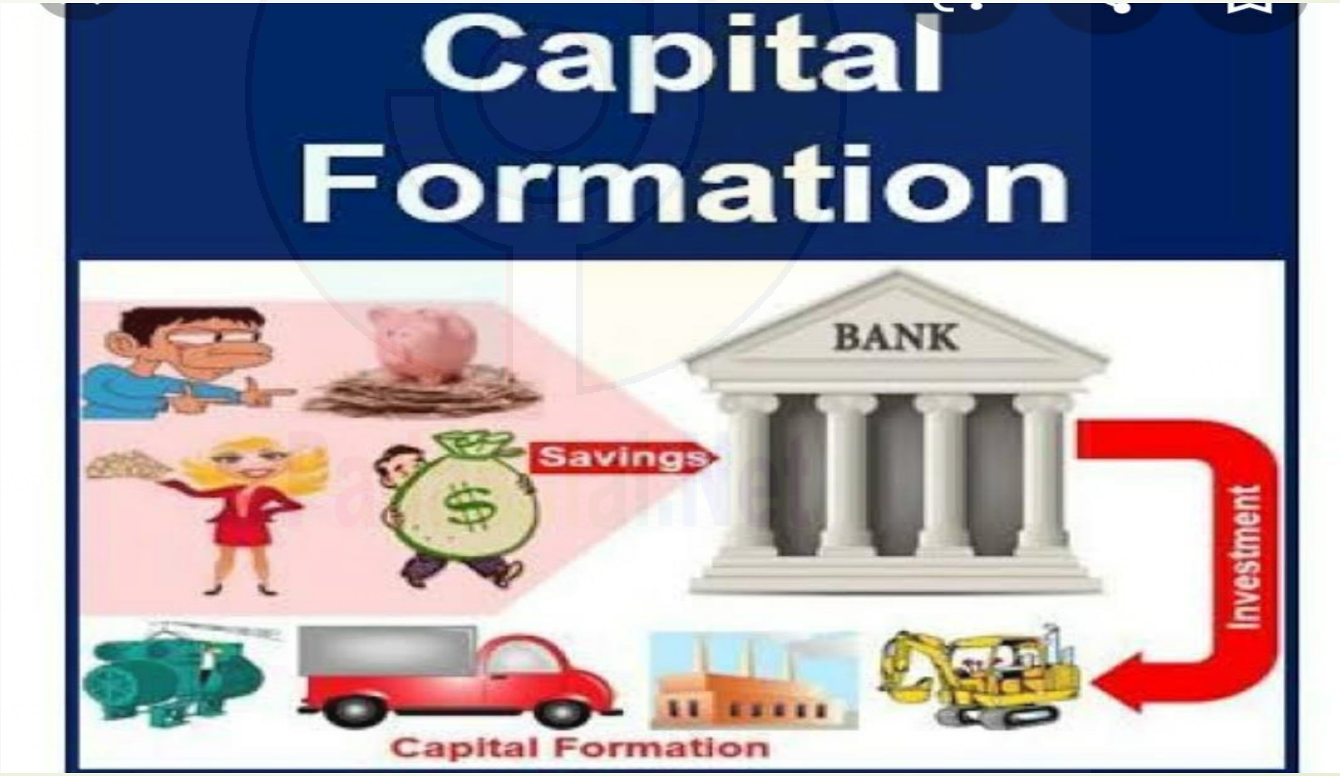


- ii) Enhancing Income:

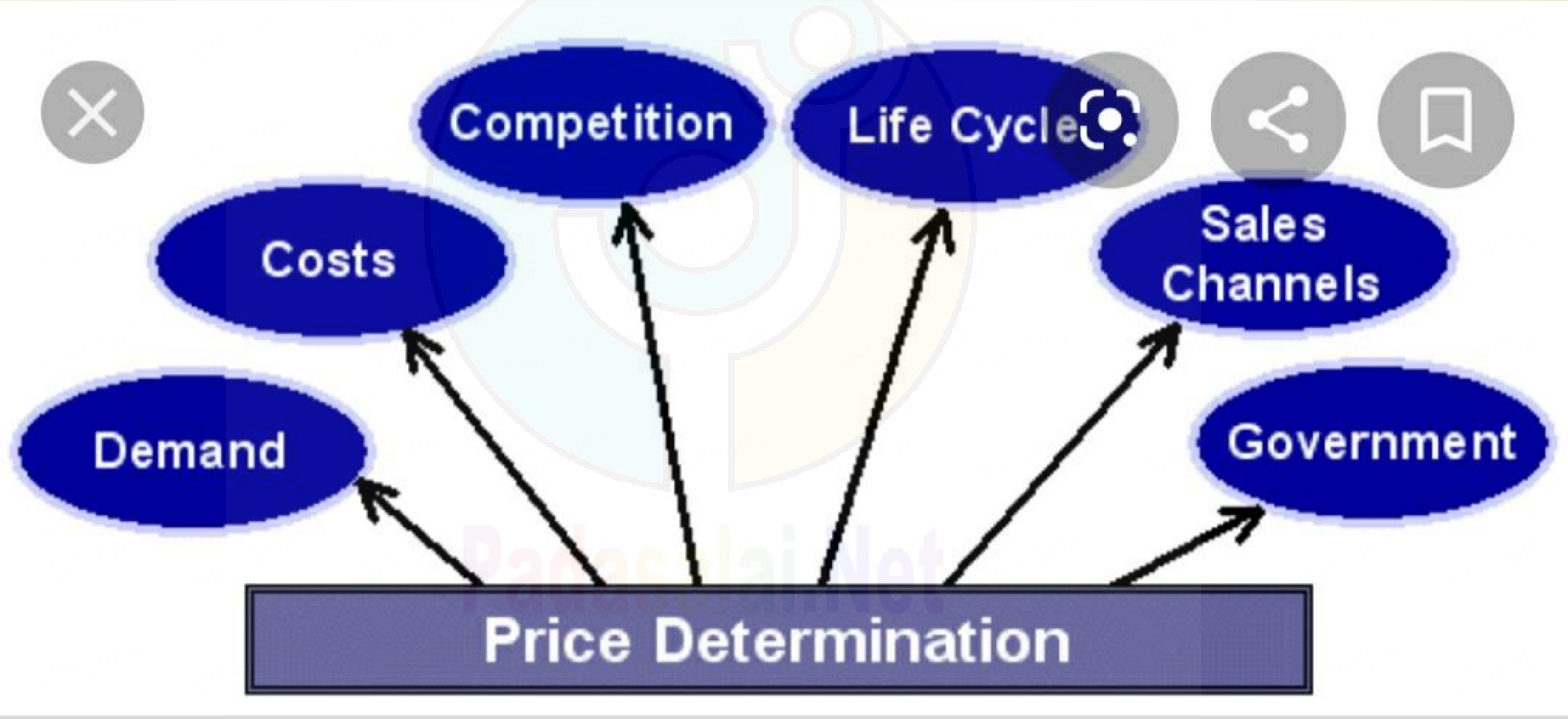


- (iii) Productive Usage:

- (iv) Capital Formation:



- (v) Price Determination:



- (vi) Sale Mechanism:

- vii) Information:

II. Financial Functions

- (i) Providing the borrowers with funds so as to enable them to carry out their investment plans
- ii) Providing the lenders with earning assets so as to enable them to earn wealth by deploying theassets in productive ventures
- (iii) Providing liquidity in the market so as to facilitate trading of funds.

4.06 New Issue Market (NIM) Vs. Secondary Market

Since his private properties are held liable for satisfying business debts, he can get more fina

assistance from others.

BASIS FOR COMPARISON	NEW ISSUE MARKET	SECONDARY MARKET
Meaning	The market place for new shares is called primary market. (Initial Issues Market)	The place where formerly issued securities are traded is known as Secondary Market. (Resale Market)
Buying	Direct	Indirect
Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification	It does not provide funding to companies
How can securities be sold?	Only once	Multiple times
Buying and Selling between	Company and Investors	Investors
Gained person	Company	Investors
Intermediary	Underwriters	Brokers
Price	Fixed price	Fluctuates, depends on the demand and supply force
Organizational difference	Not rooted to any specific spot or geographical location	It has physical existence

Classification of Financial Assets

- Marketable Assets
- Marketable assets are those which can be easily transferred from one person to another without much hindrance. Example: Shares of Listed Companies, Government Securities, Bonds of Public Sector Undertakings etc.

- Non-Marketable Assets
- On the other hand, if the assets cannot be transferred easily, they come under this category. Example: Bank Deposits, Provident Funds, Pension Funds, National Savings Certificates, Insurance Policies etc. This classification is shown in the following chart.

- Thank you...

CHAPTER 5
CAPITAL MARKET

PRESENTED BY CHITHAMBARARAJ D

MBA,M.COM,B.ED

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MEANING OF CAPITAL MARKET

The term capital market refers to the facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested.

CHARACTERISTICS OF CAPITAL MARKET

1. Securities Market:

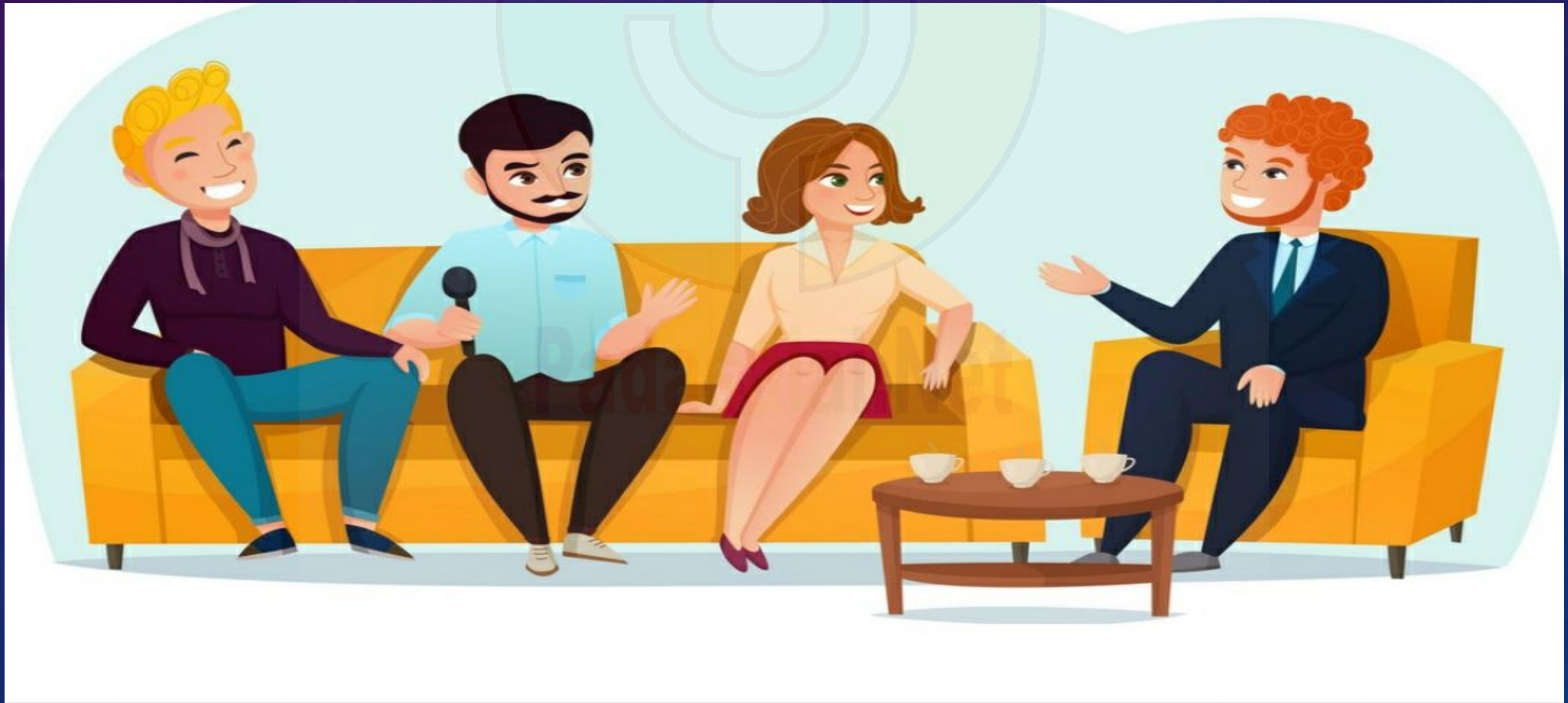
The dealings in a capital market are done through the securities like shares, debentures, etc.

2. Price:

The price of the securities is determined based on the demand and supply .

3. Participants:

Individuals, corporate sectors, Govt., banks and other financial institutions.



4. Location :

Capital market is not confined to certain specific locations, although it is true that parts of the market are concentrated in certain wellknown centers known as Stock Exchanges.

5.Market for Financial Assets:

Capital market provides a transaction platform for long term financial assets.

KINDS OF CAPITAL MARKET

Primary market

- Here, companies sell stocks to the public for the first time.
- This is done through a process known as Initial Public Offering (IPO)

Secondary market

- Here, investors and traders buy and sell stocks to each other
- The company does not participate in these transactions

PRIMARY MARKET

Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue Market.

There are three ways by which a company may raise capital in a primary market:

(i) Public Issue:

The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue.

(ii) Rights Issue:

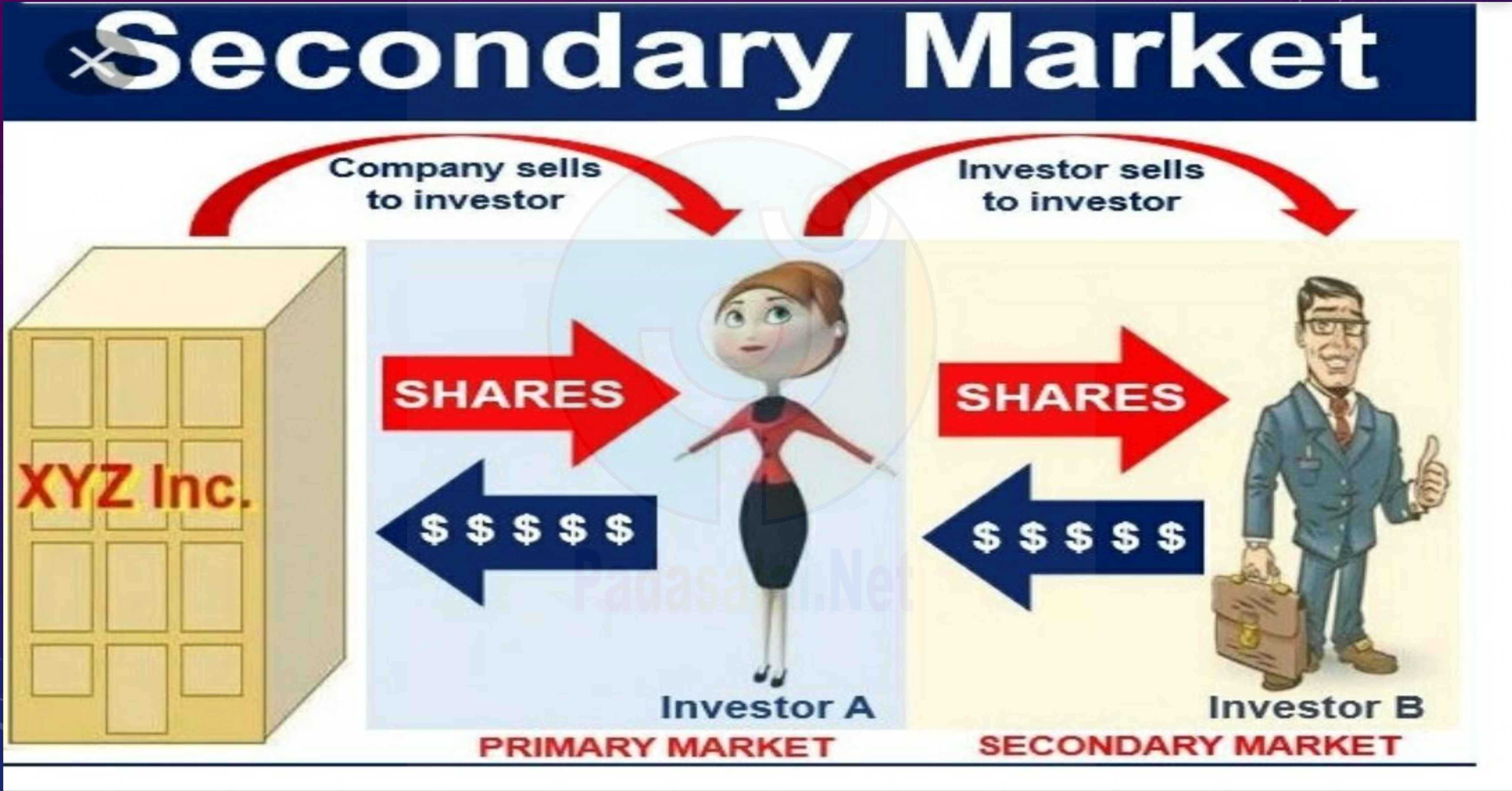
When an existing company wants to raise additional capital, securities are first offered to the existing shareholders on a pre-emptive basis. It is called rights issue.

(iii) Private Placement:

Private placement is a way of selling securities privately to a small group of investors.

SECONDARY MARKET

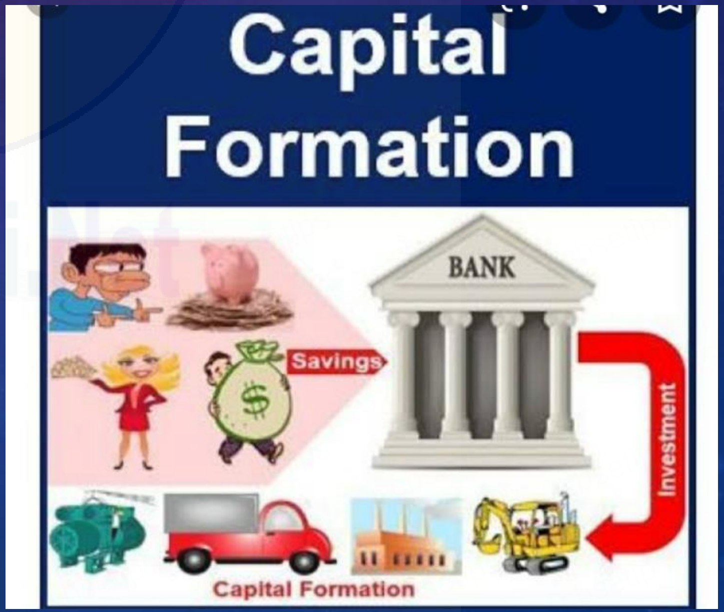
- Secondary Market may be defined as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here.


Secondary Market
Company sells to investor
Investor sells to investor
XYZ Inc.
SHARES
$ $ $ $ $
SHARES
$ $ $ $ $
Investor A
Investor B
PRIMARY MARKET
SECONDARY MARKET

FUNCTIONS AND IMPORTANCE OF CAPITAL MARKET

- (i) Savings and Capital Formation

In capital market, various types of securities help to mobilize savings from various sectors of population (Individuals, Corporate, Govt., etc.).



- (ii) Permanent Capital

The existence of a capital market/stockexchange enables companies to raise permanent capital.

- iii) Industrial Growth

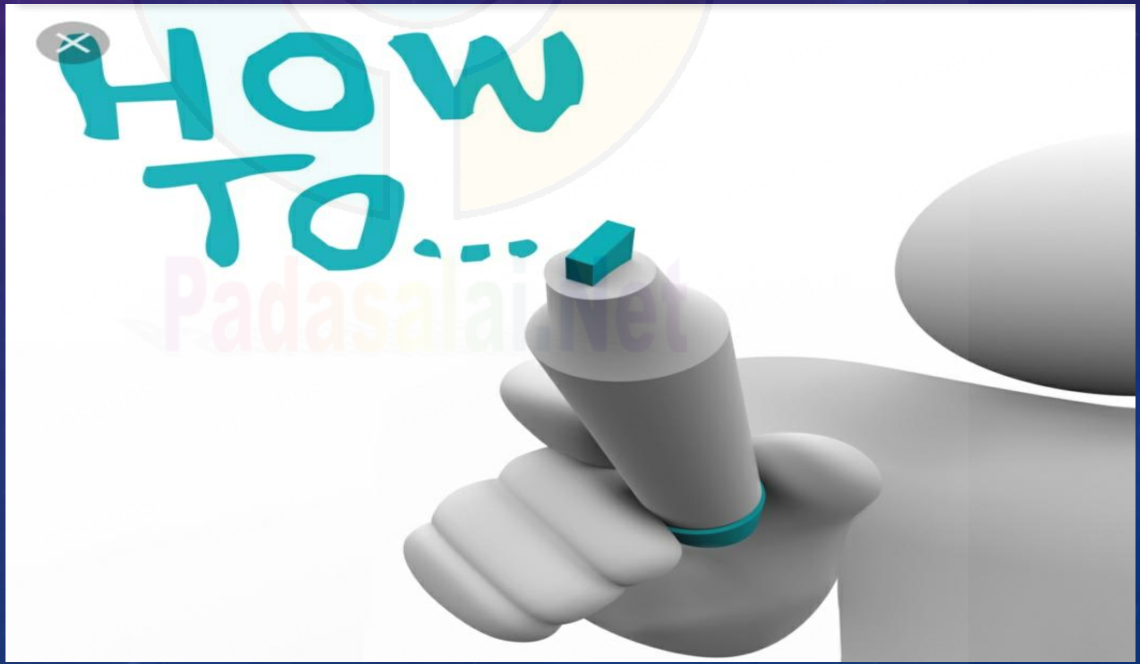
The stock exchange is a central market through which resources are transferred to the industrial sector of the economy.

(iv) Ready and Continuous Market

The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.

(v) Reliable Guide to Performance

The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency.



(vi) Proper Channelizationof Funds

The prevailing market price of a security and relative yield are the guiding factors for the people to channelize their funds in a particular company.

(vii) Provision of Variety of Services

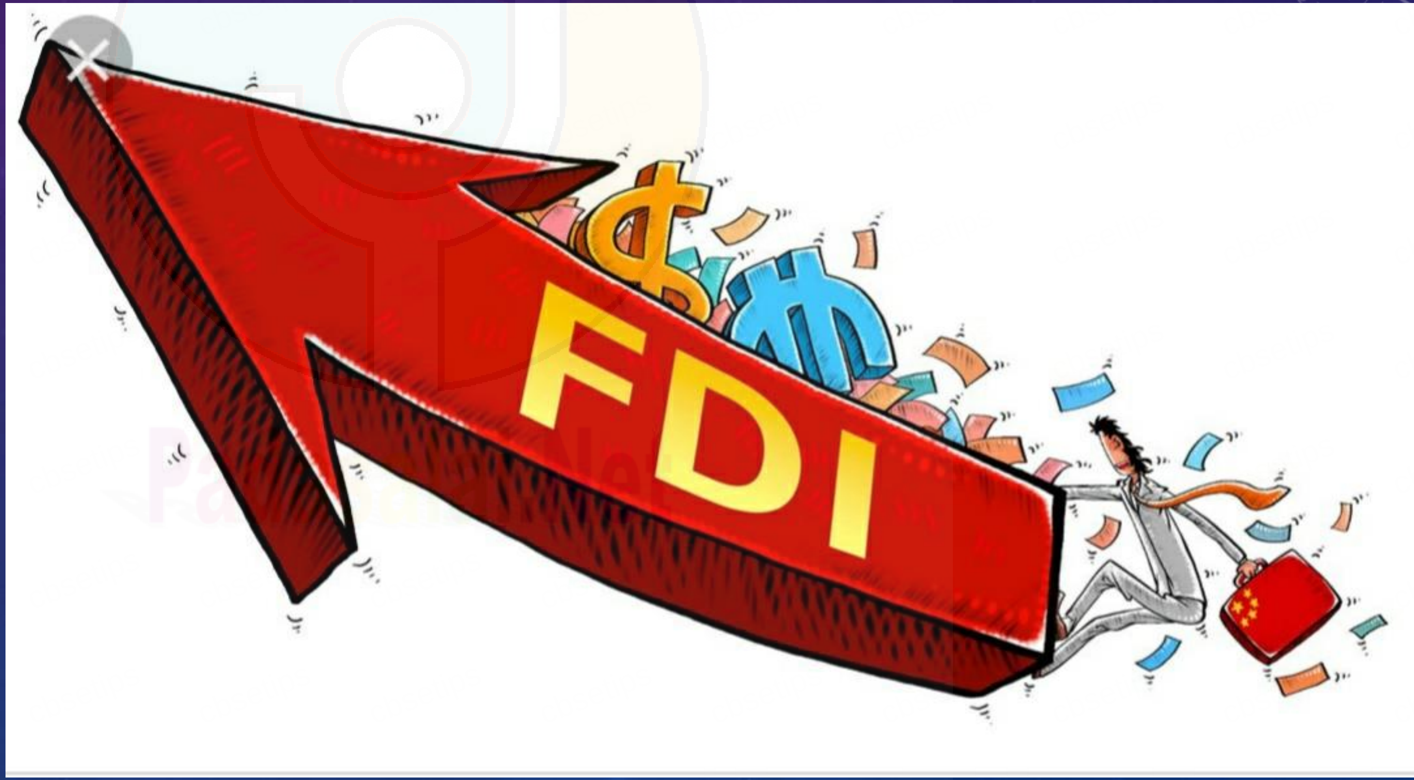
Grant of long term and medium term loans to entrepreneurs, provision of underwriting facilities, assistance in promotion of companies etc..

(viii) Development of Backward Areas

Capital Markets provide funds for projects in backward areas. This facilitates economic development of backward areas.

ix) Foreign Capital

Capital markets makes possible to generate foreign capital.



(x) Easy Liquidity:

With the help of secondary market investors can sell off their holdings and convert them into liquid cash.

INDIAN CAPITAL MARKET – EVOLUTION AND GROWTH

- The period between 1947 and 1973 marked the development of infrastructure for capital market. During this period, a network of development financial institutions such as IFCI, ICICI, IDBI and UTI, SFCs and SIDCs were established. These financial institutions strengthened the capital market.

DURING THE PERIOD BETWEEN 1980 AND 1992

- debenture emerged as a powerful instrument of resource mobilization in the primary market. The public sector bonds were introduced. A number of stock exchanges came into existence. There was a momentous growth in the secondary market.

SEBI

- SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors. New financial services such as credit rating was introduced.

- A number of committees were constituted in order to suggest measures to revamp and restructure the working of the secondary market Some of these committees were: Committee on Organization and Management of Stock Exchange, Working group on the Development of the Capital Market, A Study Group for Guidelines Relating to Valuation and New Instruments, etc

NEW FINANCIAL INSTITUTIONS

- (i) Venture Fund Institutions

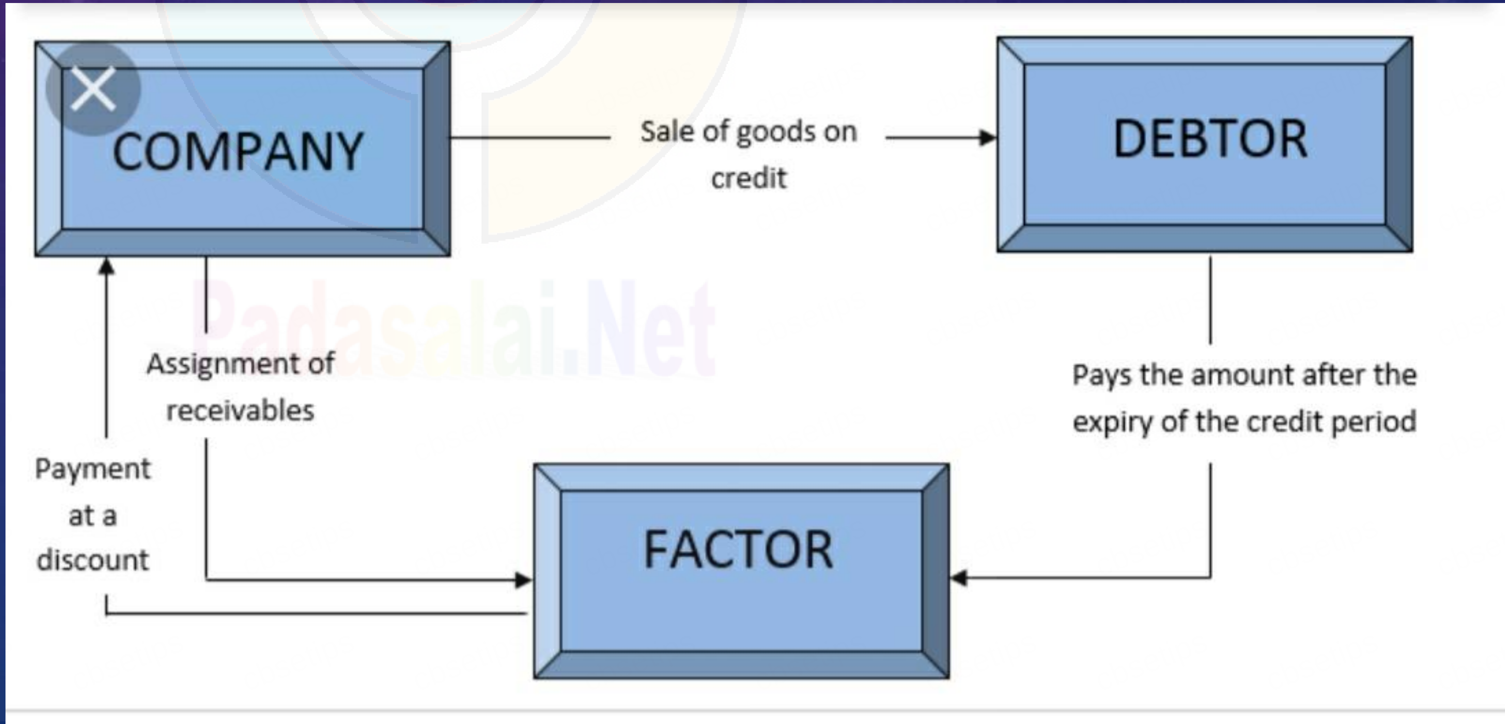
Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas. Venture capital funds bring into force the hi-technology projects which are converted into commercial production.

(II) MUTUAL FUNDS

- Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called ‘Mutual Funds’

(III) FACTORING INSTITUTIONS

- The factoring institutions collect the book debts for and on behalf of its clients.



IV) OVER THE COUNTER EXCHANGE OF INDIA (OTCEI)

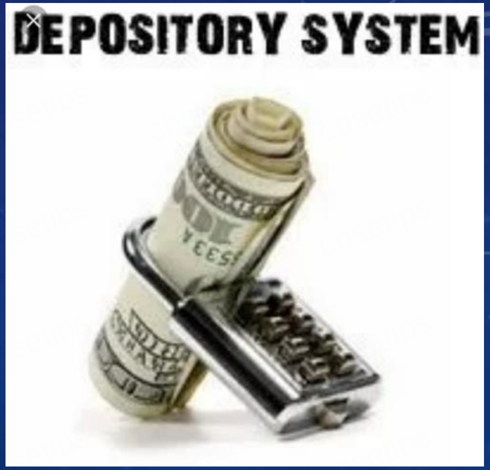
- The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country

(V) NATIONAL STOCK EXCHANGE OF INDIA LIMITED (NSEI)

- The Exchange aims at providing the advantage of nationwide electronic screen based “scripless” and “floorless” trading system in securities.

VI) NATIONAL CLEARANCE AND DEPOSITORY SYSTEM (NCDS)

- National Depository System which arranges to provide for the transfer of ownership of securities in exchange on payment by book entry on electronic ledgers without any physical movement of transfer deed



VII) NATIONAL SECURITIES DEPOSITORIES LIMITED

- The NSDL was set up in the year 1996 for achieving a time bound dematerialization as well as rematerialization of shares.

VIII) STOCK HOLDING CORPORATION OF INDIA LIMITED (SHCIL)

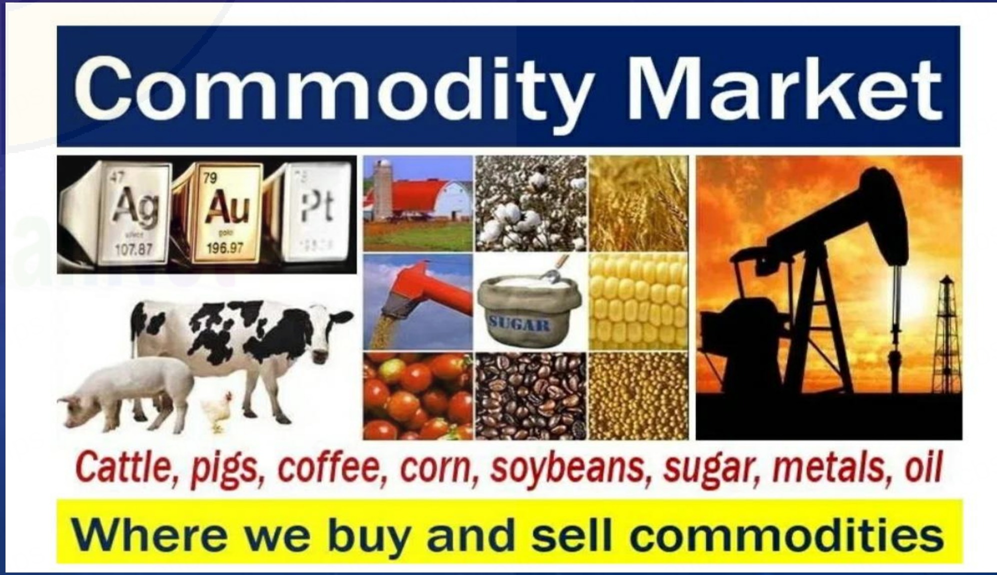
- Stock Holding Corporation of India Limited (SHCIL) aims at serving as a central securities depository in respect of transactions on stock exchanges.

FOREIGN EXCHANGE MARKET

- It is the largest, most liquid market in the world with an average traded value of more than $5 trillion per day. It includes all of the currencies in the world and any individual, company or country can participate in it.

COMMODITY MARKET

- Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron, and ore. Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee, and sugar.



DERIVATIVES MARKET

- Derivatives market facilitates the trading in financial instruments such as futures contracts and options used to help control financial risk.

- Thank you…

MONEY MARKET
CHAPTER -6

Presented by D.Chithambararaj
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MEANING

Money Market is a market for purely short-term funds. It deals with the financial assets and securities whose maturity period does not exceed one year

Examples: Treasury Bills, Commercial Bills, Certificate of Deposits, Government Securities, etc.,

OBJECTIVES

1. Providing an equilibrium mechanism for ironing out short-term surplus and deficits.
2. Providing a focal point for Central Bank intervention for influencing liquidity in the company.
3. Providing access in uses to users of short term money to meet their requirements at a reasonable price.

CHARACTERISTICS

1. Short-term Funds :

It is a market purely for short-term funds or financial assets called near money.

2. **Maturity Period :**

It deals with financial assets having a maturity period upto one year only.

3. Conversion of Cash:

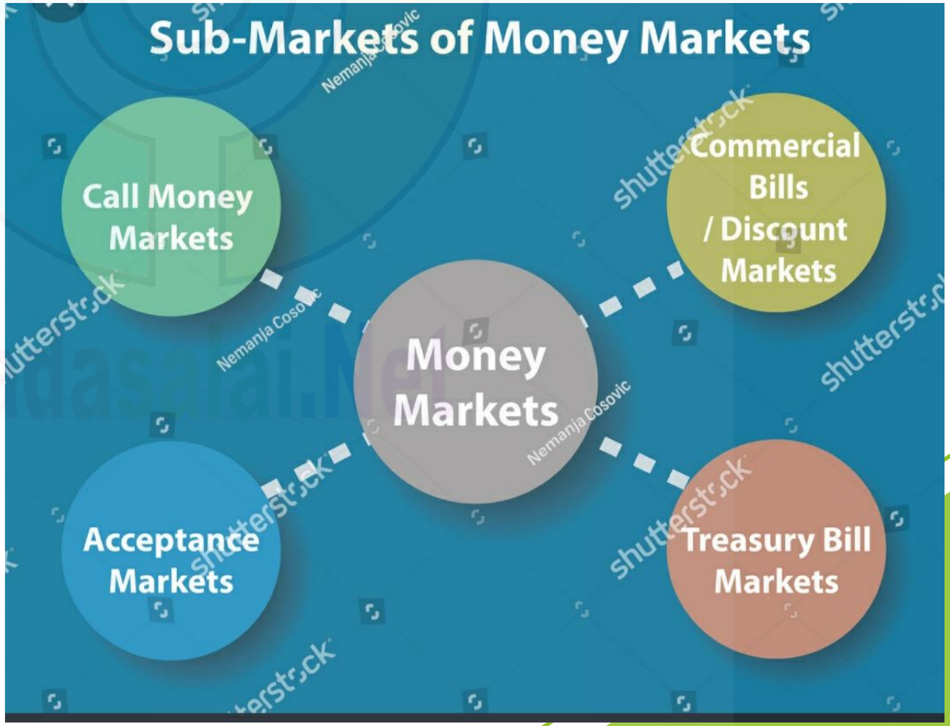
It deals with only those assets which can be converted into cash readily without loss and with minimum transaction cost.

4. No Formal Place:

Generally, transactions take place through phone, i.e., oral communication. Relevant documents and written communications can be exchanged subsequently.

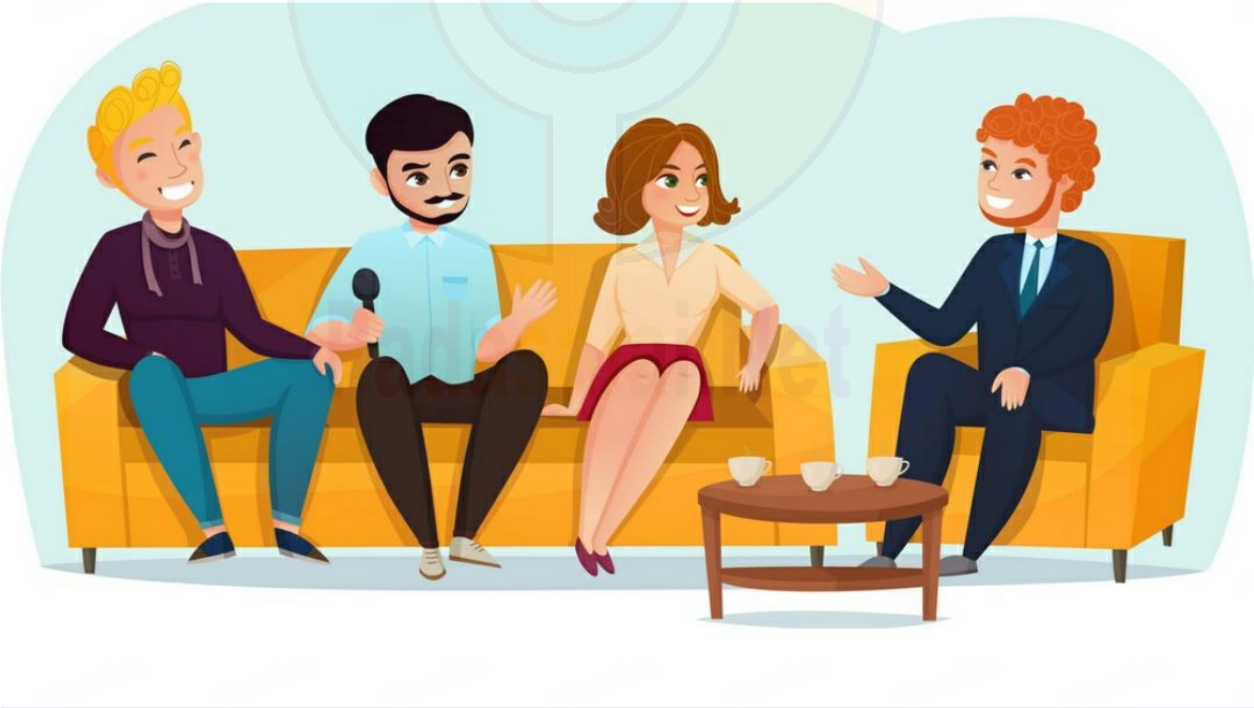
5. Sub-markets:

It is not a single homogeneous market. It comprises of several sub-markets each specialising in a particular type of financing. E.g., Call Money Market, Acceptance Market, Bill Market.



6. Role of Market OR Participants:

The components of a money market are the Central Bank, Commercial Banks, Non-Banking Financial Companies, Discount Houses and Acceptance House.



7. Highly Organized Banking System :

The Commercial Banks are the nerve centre of the whole money market. They are the principal suppliers of short-term funds.

8. Existence of Secondary Market :

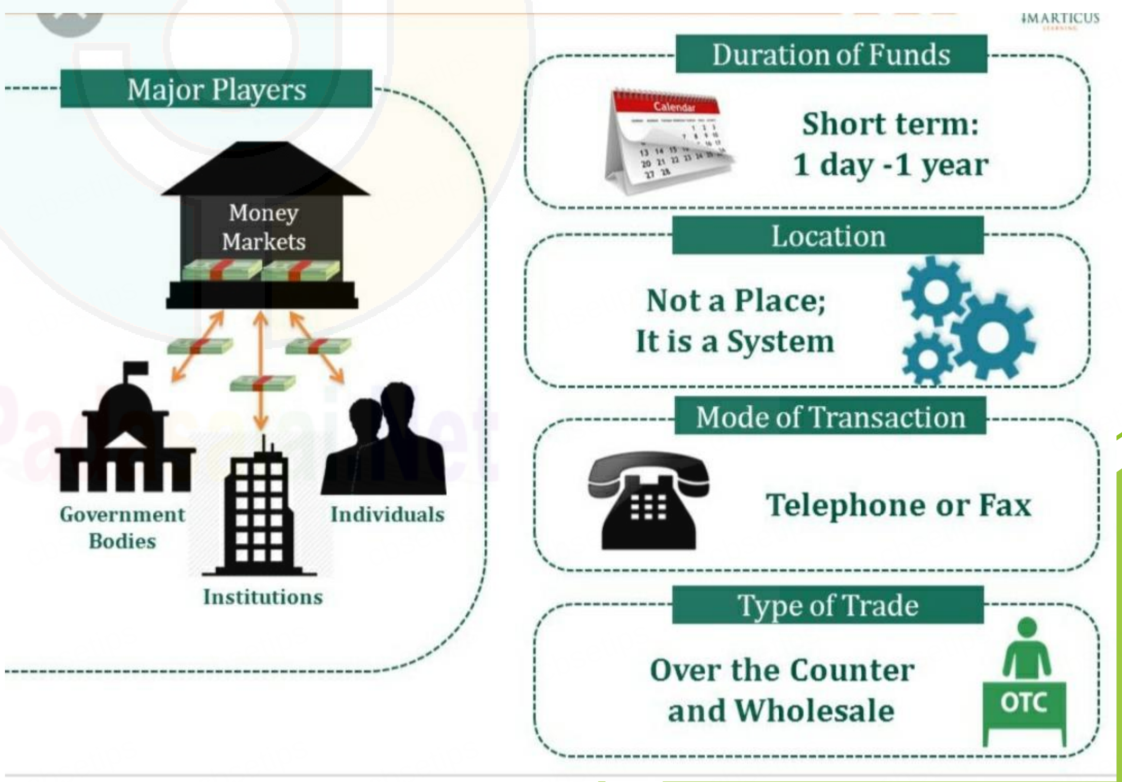
There should be an active secondary market for these instruments.

9. Demand and Supply of Funds:

There should be a large demand and supply of short-term funds. It presupposes the existence of a large domestic and foreign trade.

10. Wholesale Market:

It is a wholesale market and the volume of funds or financial assets traded in the market is very large



11. Flexibility :

Due to greater flexibility in the regulatory framework, there are constant endeavours for introducing new instruments.

12. Presence of a Central Bank :

The central bank keeps their cash reserves and provides them financial accommodation in difficulties by discounting their eligible securities

DIFFERENCE BETWEEN MONEY MARKET AND CAPITAL MARKET

SL.NO	FEATURES	MONEY MARKET	CAPITAL MARKET
1	DURATION	SHORT TERM FUNDS, NOT EXCEEDING ONE YEAR	LONG TERM FUNDS, EXCEEDING PERIOD OF ONE YEAR
2	SUPPLY OF FUNDS	WORKING CAPITAL REQUIREMENTS	FIXED CAPITAL REQUIREMENTS
3	DEALS WITH INSTRUMENTS	BILL OF EXCHANGE, COMMERCIAL PAPER ETC.	SHARES,DEBENTURES,BONDS ETC
4	MONEY VALUE	EACH INSTRUMENT HAS HIGH VALUE commercial paper is for minimum of Rs 25 lakh	EACH INSTRUMENT HAS LOW VALUE Each share value is Rs 10.
5	MAJOR INSTITUTIONS	COMMERCIAL BANKS,CENTRAL BANK	DEVELOPMENT BANKS AND INSURANCE COMPANIES
6	PLACE OF TRANSACTIONS	NO FORMAL PLACE	HAS FORMAL PLACE
7	RISK	LOW	HIGH
8	LIQUIDITY	HIGH	LOW

Participants in Money Markets

1. Government of different countries
2. Central Banks of different countries
3. Private and Public Banks
4. Mutual Funds Institutions
5. Insurance Companies
6. Non-Banking Financial Institutions
7. RBI and SBI
8. Commercial Banks
9. State Governments
10. Public

Money Market Instruments

i. Treasury Bills in the Treasury Market

ii. Money at Call and Short Notice in the Call Loan Market

iii. Commercial Bills and Promissory Notes in the Bill Market

iv. Commercial Papers

v. Certificate of Deposits

vi. Inter-Bank participation Certificates.

vii. Repo Instruments.

Treasury Bills

MONEY MARKET INSTRUMENTS

1. **Treasury bills:**

- A Treasury bill is basically an instrument of short-term borrowing by the Government of India maturing in less than one year.
- They are also known as Zero Coupon Bonds issued by the reserve Bank of India on behalf of the Central Government to meet its short-term requirement of funds.
- They are issued at a price which is lower than their face value and repaid at par.
- Treasury bills are available for a minimum amount of rs 25,000 and in multiples thereof.

General Features

Treasury Bills incorporate the following general features.

1. Issuer
2. Finance Bills
3. Liquidity
4. Vital Source
5. Monetary Management

91\182\364 DAY T BILLS

- Ninety one days Treasury Bills are issued at a fixed discount rate of 4 per cent as well as through auctions.
- The RBI holds 91 days and 182 Treasury Bills and they are issued on tap basis throughout the week.
- 364 days Treasury Bills do not carry any fixed rate.
- The discount rate on these bills are quoted in auction by the participants and accepted by the authorities. Such a rate is called cut off rate.

Certificate of Deposits

4. Certificate of deposit:

- It is issued by commercial banks and development financial institutions.
- They can be issued to individuals, corporations and companies during periods of tight liquidity when the deposit growth of banks is slow but the demand for credit is high.
- They help to mobilise a large amount of money for short periods.

Features of Certificate of Deposit

- 1. Document of title to time deposit
- 2. It is unsecured negotiable instruments.
- 3. It is freely transferable by endorsement and delivery.
- 4. It is issued at discount to face value.
- 5. It is repayable on a fixed date without grace days.

Commercial Bills

5.Commercial bill:

- When goods are sold on credit, the buyer becomes liable to make payment on a specific date in future.
- The seller could wait till the specified date or make use of a bill of exchange. The seller (drawer) of the goods draws the bill and the buyer (drawee) accepts it.
- On being accepted, the bill becomes a marketable instrument and is called a trade bill.
- These bills can be discounted with a bank if the seller needs funds before the bill matures. When a trade bill is accepted by a commercial bank it is known as a commercial bill.


Bangalore
1st June, 2018

₹4,00,000

Two months after date, pay to me or my order, the sum of Rupees Four lakh only, for value received

STAMP

Accepted
(Signed)
Raj Kiran
14, Bangalore

(Signed)
Kunal Singh
Lal Bagh, Bangalore

features of the Commercial Bills

1. Drawer
2. Acceptor
3. Payee
4. Discounter
5. Endorser
6. Assessment
7. Maturity
8. Credit Rating

TYPES OF COMMERCIAL BILLS

- a. Demand and Usance Bills:
- A demand bill is one wherein no specific time of payment is mentioned. So, demand bills are payable immediately when they are presented to the drawee.
- Usance bills are the bills payable by the drawee at a specified period.

b. Clean bills and documentary Bills:

Bills that are accompanied by documents of title to goods are called documentary bills.

Clean bills are drawn without accompanying any document. E.g. Railway Receipt and Lorry Receipt

c. Inland bills and Foreign Bills :

Bills that are drawn and payable in India on a person who is resident in India are called inland bills.

Bills that are drawn outside India and are payable either in India or outside India are called foreign bills

d. Indigeneous Bills:

The drawing and acceptance of indigenous bills are governed by native custom or usage of trade.

e. Accommodation and supply Bills Accommodation bills are those which do not arise out of genuine trade of transactions.

Government or Gilt-Edged Securities Market

A market whereby the Government or gilt-edged securities can be bought and sold is called 'Government Securities Market'

Government securities are issued for the purposes of refunding the maturing securities, for advance refunding securities, which have not yet matured and for cash financing, i.e., raising fresh cash resources.

Characteristics

1. Agencies :

Government securities are issued by agencies such as Central Government, State Governments, semi-government authorities like local Government authorities..

2. RBI Special Role:

RBI takes a special and an active role in the purchase and sale of these securities as part of its monetary management exercise.

3. Nature of Securities:

Securities offer a safe avenue of investment through guaranteed payment of interest and repayment of principal by the Government.

4. Liquidity Profile :

The liquidity profile of gilt-edged securities varies. Accordingly liquidity profile of securities issued by Central Government is high.

5. Tax Rebate:

A striking feature of these securities is that they offer wide-range of tax incentives to investors. This has made these securities very popular for this benefit

6. Market :

As each sale and purchase has to be negotiated separately, the Gilt-Edged Market is an Over-The-Counter Market. The Government securities market in India has two segments namely primary market and secondary market.

7. Forms :

The securities of Central and State Government take such forms as inscribed stock or stock certificate, promissory note and bearer bond.

8. Participants:

The participants in Government securities market include the Government sector comprising Central and State Governments whose holdings represent governmental transfer of resources.

9. Trading:

Although the secondary market for Government securities is narrow, small and less active, banks and corporate holders who purchase and sell Government securities on the stock exchanges participate in trading.

10. Issue Mechanism:

The Public Debt Office (PDO) of the RBI undertakes to issue government securities

11. Issue opening :

A notification for the issue of the securities is made a few days before the public subscription is open.

12. Grooming Gradual:

Acquisition of securities nearing maturity through the stock exchanges by the RBI in order to facilitate redemption is described as 'grooming'.

13. Switching :

The purchase of one security against the sale of another security carried out by the RBI in the secondary market as part of its open market operations is described as 'Switching'.

14. Auctioning :

A method of trading whereby merchants bid against one another and where the securities are sold to the highest bidder is known as 'auctioning'.

THANK YOU