CHAPTER-IV

SOCIAL ACTORS OF THE FINANCIAL MARKETS

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CHAPTER-IV
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4.1 Introduction:

Financial markets are well defined complex systems. This chapter traces the socio-historical context in the emergence of a financial market in order to place the social actors within the broader milieu of the society. As with all social institutions, the financial markets and the stock market are social constructions. They are put in place to aid in an economic pursuit. Nevertheless, in this pursuit they are not devoid of the social environmental influences. The chapter traces the growth of these markets and also explores the patterns of stratification. The various market actors are all hierarchically arranged and find themselves embedded in a social setting constructed over the ages. These patterns of stratification are both formal and informal.

This chapter seeks to explore the following research objectives:

RO 1: To study the social structure of stock market.
RO 2: To find the pattern of social stratification in the stock markets.
RO 3: To examine socio economic profile of the actors within the stock market.

A financial market is a market where the financial assets are created or transferred. A financial market is different from the conventional market which involves exchange of money for real goods and services. A financial transaction involves creation or transfer of a financial asset. The financial system of a nation is a set of complex and closely connected or interlined
A financial market is different from the conventional market in terms of the market place where the transaction occurs, the object traded and the actors involved. The market place normally is the location where the object is displayed for the buyers and sellers to contemplate on the transaction. The stock exchange, which is the market place here, is not the place where the good is kept for transaction, but is rather a place which is only facilitating the transactions.

The object that is traded here is also not a conventional commodity. The stocks themselves do not have any value devoid of the social meaning ascribed to them. Further, the actors in the stock market are also distinct from the conventional sense. Here, the roles that the actors play are not permanent as either the seller or the buyer. Here the roles are not fixed, but are assigned depending upon the action to be performed. This is elucidated in detail in the earlier chapters.

The Indian Financial system comprises of the financial intermediaries, financial markets and financial assets and instruments. The Financial markets in general and the secondary markets or the stock markets in particular are the locus of study in this research work. The secondary markets are a part of the capital market and are traded with the stock exchange playing the role of an intermediary. The diagram is representation of the Indian Financial System. It shows that the financial system is divided into three parts of which the financial markets are one component. This is further divided into capital market, money market and credit market. The capital markets deal with the long term need for money among investors while the money markets focus
on short term requirements of money for liquidity purposes. These markets are significant parts of the financial system of a nation. The study considers only the secondary market part of the money market set up.

The money which is the focus of this study comprises the primary and secondary markets. The primary market is the setting where the initial stock offers are made to the public. This is also called as “Initial Public Offering” (IPO). The IPO are traded in the secondary market in the form of stocks or shares. This secondary market is the setting for the current study which is even more focused.

**FIGURE 4.1: THE FORMAL ORGANIZATIONAL MATRIX OF INDIAN FINANCIAL SYSTEM**
A stock market is represented in the form as the stock exchange. It is the center of a network of transactions where securities buyers meet sellers at a certain price. A stock market or exchange is not necessarily a physical facility and with the advancement of information technology, it is increasingly rare to find traders exchange their stocks in the floor of a major stock exchange.

Stock exchanges function by the interaction dynamics of various social actors playing different roles. These social actors and the roles that they play are discussed in this chapter. Before going into the study of the roles of these actors, it is necessary to trace the socio-historical context of the stock markets in India.

**Roles and Functions of Stock Exchanges:**

The chief function of a stock exchange is to facilitate the buying and selling of stock. By having a generally accepted place for exchange, the costs of buying and selling stock is dramatically reduced. This efficiency saves considerable resources when compared to the option of a seller trying to locate a buyer on his own.

**4.2 The socio-historical context of Stock Markets:**

The history of stock exchanges calls for an examination of the history of markets in general and the concept of market place in particular. There were many types of markets in different societies at different points of time. The markets created are specific to the social settings of a society and cater to the needs of the people. The units for transaction and measurements have never been the same. It is now in a globalized world that a formal structured market is setup.
In this backdrop, the stock exchanges can be located as a unique arrangement made for catering to the specific need of the society at the present times. Stock markets are nothing but the market place where transactions of shares are conducted. This section seeks locate the stock markets in the broader context of the society.

**a) History of Stock Exchanges:**

The origin of stock broking in India goes back to the time when share, debentures and bonds representing titles to property were first issued on the condition of transfer from one person to another. It is not clear as to exactly when or where the first stock exchange was established. In the global setting, there are records of exchanges, largely focused on agricultural debts, as early as the 12th and 13th century in France, Belgium and Italy. The New York Stock Exchange in the United States formed on May 17th, 1792, was the first stock exchange.

Focusing on the Indian stock market, it can be noted that the Indian stock market marks to be one of the oldest stock market in Asia dating back to the close of 18th century when the East India Company used to transact loan securities. In the 1830s, trading on corporate stocks and shares in Bank and Cotton presses took place in Bombay. Though the trading was broad, the brokers were very few; just about half a dozen during 1840 and 1850.

Though Stock Broking was practiced in this form, the members had neither any code of conduct for guidance, nor any permanent place for congregation. However, actual beginning which generated a lot of investor interest in corporate securities can be traced to the enactment of the companies Act in 1850 which introduced the feature of limited liability and generated investor interest in corporate securities.
Formation of the native share and stock brokers association in Bombay in 1875, which is the precursor of the present day Bombay Stock Exchange provided another important impetus. This association was recognized by the government of India as the Bombay stock exchange (BSE). It went on to become the first stock exchange in the country under the Securities Contracts (Regulation) Act.

The period after 1992 can be considered as the turning point in the history of the exchange. A major scandal with market manipulation involving a BSE member named Harshad Mehta, led to radical changes in the system. Because of which, the National Stock Exchange (NSE), with an electronic marketplace was created. NSE started trading on 4 November 1994.

The stock market in India comprises of the stock exchanges recognized by the government. There are presently 22 stock exchanges located at Bombay, Calcutta, Delhi, Madras, Ahmadabad, Bangalore, Hyderabad, Indore, Pune, Kanpur, Cochin, Ludhiana, Mangalore, Patna, Gujarat, Bhubaneswar, Raipur, Sarasota, Surat, Baroda, Coimbatore and Rajkot.

Bangalore Stock Exchange is currently the largest stock exchange in South India. Having seen the history of the global and national stock exchanges, the inception and growth of BgSE, which is a regional stock exchange can be better appreciated. The Bangalore Stock Exchange (BgSE) is one of the regional exchanges in India and it the largest stock exchange in South India. It is managed by the Council of Management consisting of members nominated by Securities and Exchange Board of India, public representatives, elected members and Executive Director.
Background

The Bangalore Stock Exchange Limited (BgSE), established in 1963, is the one of the leading Stock Exchanges of India. BgSE is a Self Regulatory Organization located in the Garden City of India. The Exchange is managed by the Governing Board consisting of Five Public Interest Directors nominated by Securities Exchange Board of India (SEBI), Five Shareholder Directors (elected by Poll) and Executive Director, who is an Ex-Officio Director on the Governing Board of the Exchange.

The Exchange came into being in 1963 and has grown exponentially since then. As per the statistics provided by the BgSE, there are 595 companies listed on the exchange out of which over 300 companies are non-regional companies. Currently, more than 5000 companies belonging to listed and permitted category can be traded at the Exchange.

Members

The Exchange has 257 members serving the diverse needs of investors. Out of which 123 are Corporate Members and the remaining 134 are Individual members (SEBI, 2011).
The graph shows the number of corporate and individual brokers the period from 1994 to 2011. It must be noted that the number of corporate brokers was just 12 in 1994. This has risen greatly over the years and at the end of 2011, there were 128 corporate brokers.\footnote{www.thebengaluretimes.blogspot.in}

The chart also reveals the number of corporate brokers and institutional brokers resisted with the stock exchange. The individual brokers deal with the transaction majorly involving individual retail investors. These segments of the brokers are considered for the studied as against the corporate brokers. This is because the study aims to identity the dynamic of brokers and investors and this group is most apt for the purpose.
It can be seen that initially the number of corporate brokers as a ratio of the total was very less. It shows that the exchange was predominantly consisting of the institutional investors. But this scenario has changed now with the individual and institutional brokers being almost equal.

Further the statistics show that the numbers of individual brokers have actually decreased in the exchange. It has peaked during 1996-97 and has increased by just 3 from 1994-95 to December 2011. This is opposite to what is observed in the case of corporate brokers, whose strength in the exchange seems to be on a continuous raise.

The BgSE has the distinction of being the first stock exchange in south India to start electronic trading of securities. The electronic trading system became functional on 29th July 1996. This system is known as “Bangalore Electronic Securities Trading” (BEST) system. It facilitates automatic order matching of trades. When trade takes place, the automated system generates unique trade number and execution happens of a time bound priority basis. This is to ensure reliability and transparency in the transactions.²

This is measure has succeeded in creating trust among the investors. This is reflected in the in a sharp growth seen in volumes of shares traded on the Exchange. The Turnover raised sharply from Rs.4300 cores in 1996-97 to Rs.8300 cores in 1997-98, an increase of 97%.

The stock market is a setting inhabited by the social actors who are competing for limited resources, the demand for which is ever increasing. This results in conflict among the members when their mutual interest goes against each other. The BgSE has recognized the importance of resolving the

²www.karnataka.com
grievances of the investors. For this purpose, an Investor Services Centre has been established. The center proposes to co-ordinate with the companies, members and investors in resolving any problems that might emerge. It also offers counseling services to settle the disputes amicably. The Investor Services Committee consists of Public Representatives, members, Vice-President and Executive Director. It oversees the functioning of the Cell is authorized to take appropriate steps for amicable solution of the grievances.

Spatial proximity is an important factor that plays a prominent role in inducing investment aspirations among the people of a region. Most often, stock exchanges are located in urban, metropolitan areas. This creates a barrier for those interested to invest, but are located in other areas. For this purpose, the exchange has proposed to set up similar centers across Karnataka to enable the investors at other places to have access to the services. The Exchange also has a well equipped library and Investor Information Centre to cater to varied information needs of investors.

b) Listing

A security, to be traded in a stock exchange, must be listed in the exchange. The securities listed at the Exchange include a number of different sectors of industry. As on 31st December 2012, the number of companies listed on the Exchange was 301 and out of which 143 companies are Regional Companies and remaining 158 are Non-Regional Companies. Further, out of the total 301 companies, 121 companies are exclusively listed at BgSE (BgSE, 2012).
c) Subsidiary Company

The BgSE has a Subsidiary Company viz. BgSE Financials Limited (BFSL). It was started in 2001-02 and has been instrumental in enlarging its client base both in terms of trading activities as well as depository. BFSL has achieved a significant milestone under Depository division by crossing 1,00,000 client accounts. BFSL is a Category I SEBI registered "Registrar and Share Transfer Agents" and also accepting membership with trading rights without voting rights via the parent exchange, Bangalore Stock Exchange Ltd. BFSL is a Dividend paying Company for the last seven years consecutively.

4.2.1. Informal ‘mandi’ to the formal ‘market’:

As discussed earlier, the history of Indian stock exchange reflects very modest beginnings. It emerged as a response for the social need for an institution that could cater to the emerging needs of a special group of people who wished to trade in an commodity that was hitherto unexplored. Not only did a new commodity in the form of stocks emerge, but also a market place where it could be traded also emerged.

The beginnings of the Indian stock trading saga can be traced to the mid of 1850’s when an informal group of 22 stockbrokers began trading in Bombay, the present day financial capital of India, under a banyan tree opposite the Town Hall. Each of them had to invest a (then) princely amount of Rupee 1. What began in a very informal way as ‘mandi’ or a place for trading eventually got more formal in order to meet the demands of the times. This banyan tree still stands as a testimony to the humble beginnings in Mumbai. By 1860, the exchange flourished with 60 brokers.
A product becomes widely accepted if more of the peer’s participate. The American civil war acted as a trigger and a sudden spurt in trading occurred. This was later termed as “share mania’. Because of the war, the cotton supply from the US to Europe stopped. Further the brokers increased to 250. From 60 in 1860 to 250 the informal group of stockbrokers organized themselves as the “The Native Share and Stockbrokers Association”. A further step in this process of market evolution occurred when it was formally organized as the Bombay Stock Exchange (BSE).

The surging numbers also necessitated the need for a more formal place of trade than the shade of a tree. BSE was shifted to an old building near the Town Hall. In 1928, the plot of land on which the BSE building now stands (at the intersection of Dalal Street, Bombay SamacharMarg and Hammam Street in downtown Mumbai) was acquired, and a building was constructed and occupied in 1930.

The credit setting out traditions, conventions, and procedures for the trading of stocks goes to Premchand Roychand, a leading stockbroker of that time. It was he who assisted in the formalization process at Bombay Stock Exchange. The norms that he put in place are still being followed. Thus, to meet the demands of the times standardization took place and thereby began the formalization process of the BSE in particular and the Indian stock market in general.

The leading stock exchanges in India have developed itself to a great extent since then. These stock exchanges aim at offering the investors and traders better transparency, genuine settlement cycle, honest transaction and to reduce and sole investor grievances.

The process of formalization can be traced by considering the operational features of the exchange. What began as a process of shouting
in a crowd to transact or ‘badla’ has now evolved to such an extent that orders get matched at the convenience of the investor with a press of the button online. When both the price and the quantity match in the buy and sell order, order gets executed.

The present research work has not has taken into consideration all the operational features, but only those which are important to understand the operational dynamics of the stock exchanges. The aim to point these operational features is for better understand of the process of the exchanges become more formal. Some of the general operational features are:

**Market timings:**

The first step taken to formalize the system was to fix standard timings for trading. Trading in stocks takes place on all days of the week from Monday to Friday while Saturdays, Sundays and days declared by the Exchange in advance are holidays. The market operates between 09:55 hours to 15:30 hours. The Post Closing Session is held between 15.50 to 16.00 hours. In the later chapter time is analysed as a sociological parameter as Indian society has given different meaning to time. It has assigned auspicious and inauspicious attributes to different time periods as Rahu, Guli, Yamaganda kala etc.

**Automated Trading System:**

This is in order to avoid any discrepancies and have total transparency, the stock exchanges which operated on the manual matching of the bids is now replaced by an advanced trading system which is a fully automated screen based trading system. This system adopts the principle of an order driven market as opposed to a quote driven system. The automated system adopted by different exchanges are as follows:
1. NSE operates on the 'National Exchange for Automated Trading (NEAT)
2. BSE operates on the BSE’s Online Trading (BOLT) system.
3. The BgSE uses Bangalore Electronic Securities Trading (BEST) system

**Trade settlement:**

The settlement process comprises of allotting of shares to the buyers and money to the sellers. This process which was wrought with many problems now has been systematized. The settlement cycle varies from same day settlement in case of Rolling settlement trading (T) to about 9 days (T+9) in case of close out of re-bad delivery.

**Brokerage and other transaction costs:**

Brokerage is the amount paid to the broker for facilitating the trade. Brokerage is negotiable. The Exchange has not prescribed any minimum brokerage. The maximum brokerage that can be charged is 2.5 percent of the contract value. While the minimum is much lower. This can be attributed to the bargaining abilities of the client or the offers made by the broker for members of their own network.

**Transfer of Ownership**

Transfer of ownership of securities happens in two forms. That is either in demat (de-materialized) form or effected through a date stamped transfer-deed which is signed by the buyer and seller.

**Listing of Securities**

Listing means admission of the securities to dealings on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi governmental and other financial institutions/corporations, municipalities, etc.,
Surveillance

This is yet another feature put into place to ensure smooth conduct of transactions and to avoid any discrepancies. The main objective of the Surveillance function of the Exchange is to promote market integrity in two ways, first, by monitoring price and volume movements (volatility) as well as by detecting potential market abuses at a nascent stage, with a view to minimizing the ability of the market participants, both in Cash and Derivative market, to influence the price of the scrip/ series in the absence of any meaningful information, and second, by managing default risk by taking necessary actions timely.

Brokers’ contingency fund and Investors’ protection Fund:

The exchange has set up funds to meet the contingency of Brokers and investors. Considering the unprecedented movements of the stock markets, this move gives the participants a sense of security. Financially the brokers themselves are not in a position to bear the brunt if a decision goes wrong. They are just professional doing their job as mediators for an income. Hence, they feel assured when the exchange gives them the security for covering up any mistakes that might happen by chance.

Redressal of Investors Grievances And Arbitration Procedure

The grievances of investors against listed companies and members of the Exchange are redressed by the Exchange. The Exchange also assists in arbitration process both between members & investors. In all, these parameters have been dealt sociologically in network, actors, time, space etc.
4.2.2 ‘Badla’ to ‘bid’ – the social bonds behind these:

The stock market, as seen earlier, has come a long way since its inception in an informal manner with a few participants. It has now grown to a great extent. In all its various ‘avatars’ over the years, one factor has remained unchanged, that is the social bonds behind these transaction. The modes of transaction were not in the written form, but were most often, a verbal contract, hence trust. One of the informal practices that were prevalent is the practice of Badla also known as ‘Vyajbadla trades’. The transition from Badla to bid system of today is a story of the journey of the stock markets and its attempt to formalize. This also is a reflection of the social relationships and the strength of the network bonds exhibited by the market participants.

The understanding of this necessitates the conceptual clarity of the terms Badla and Bid. The badla system of finance is an indigenous carry-forward system invented by the traders on the BSE. This was an arrangement that required a lot of trust on the part of the traders and the broker. Because of the perpetual lack of liquidity in the secondary market in those times, this system was put into practice as a solution. The mechanism of badla involved all the key participants of the market - a trader, the broker and the exchange. What happened in these transactions was suppose person “x” has to buy 10 shares of a company at 50 rupees, but does not have enough money to execute the transaction at present, then person ‘y’ who has the money will buy it for ‘x’ by paying the money to the broker. The broker pays the money to the exchange and the shares are transferred to ‘y’. But, the exchange keeps the shares with itself on behalf of ‘y’. Later, when ‘x’ has the money required to buy the share, he gives the money to ‘y’ and takes the shares. The money ‘x’ gives to ‘y’ is higher than the total value of shares. The
difference between the two values is the interest to the 'temporary' loan. The rate of interest was also decided by the exchange.

This process, as is easily evident, calls for a lot of faith on all the parties involved. This happened without any form of security. The participants were themselves responsible for the maintenance of the trading ethics. What must be noted here is the fact that the exchange which is supposed to ensure the best practices is also cooperating in this activity. This system was abolished in India by the SEBI in 1993. The power of the practice was such that it was legalized again in 1996 as in a different form as the futures contracts.

While Badla marks the initial patterns of trade, spanning back to the current practice it can be seen that the concept of 'Bid' is in practice. A bid price is the highest price that a buyer (i.e., a trader or a dealer) is willing to pay for a stock. It is usually referred to simply as the "bid."

The social bonds in stock markets are evident since its inception. The buyers and sellers were never bothered that there was no formal agreement in place. This was because, if a person were to do wrong, they could easily trace him through his network. If a buyer fails to pay, the prescription to correct his behavior was within his network itself. More than formal methods of coercion like that of the legal system, the informal methods like ostracizing was practices. The individual’s identity would be marred in his network and he would automatically be ostracized. This would make it impossible for him to survive in the society. This way networks not just influence the behavior of the self and understanding of other, but also defined rules for the roles played. Social networks, by rewarding role-appropriate behaviour and punishing wrong doers, paved the way for smooth transactions.
4.3 **Social structure of the stock markets:**

Markets do not function in a social vacuum (Hamilton & Feenstra, 1995). There exists a social structure with predefined roles which can be called the structure of the market. Social structure is understood in this research work as “structure of social relationships between actors”. Sociologists view markets as evolving formal and informal governance structures between a plurality of real people – potential buyers and sellers. This section deals with the Research objective that seeks to study the structure of the networks.

The arguments of market structure stem from the work of Polayni, 1944, who opined that;

“... man’s economy, as a rule, is submerged in his social relationships’. He does not act so as to safeguard his individual interest in the procession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only insofar as they serve this end.” (Polanyi 1944, 46)

The stock markets structure in the early phase comprised of informal actors who functioned on norms that were in nascent stages. as the number of people involved in such interactions were few, it was possible to functioning in these informal modes. But, as the market became bigger and bigger by including more number of social actors in its ambit, it became inevitable that the rules be formalized. Even this formalization process did not occur all of a sudden. It was a gradual process as it normal is in case of evolution of social institutions.
A structure defining the market actors as buyers-sellers and mediators evolved eventually. The Indian financial system, as we see it today is a product of this gradual process. The transformation is till happening in order to cater to the emerging needs. It must be noted that only 20% of the Indian population is participating in the stock markets. It is a matter of great interest to see how the markets would modify to adapt themselves to cater to the burgeoning investor needs. If even half the Indian population started investing, then the changes that would occur would be phenomenal.

Human economic activity takes place against a backdrop of social relationships – within a social structure. A structure which includes actors and institutions these actors and institutions are, as Granovetterelucidated “embedded” in a network of social relations.

Fligstein (1996), speaks of an elementary order of social structure which included of four types of social structures that make markets work “property rights, governance structures, rules of exchange, and conceptions of control.” .... “Each of these types of social structure is directed at different problems... Some are related to the general problem of creating a market in the first place, and others have to do with ensuring the stability of firms in a particular market.

**FIGURE 4.3 SOCIAL DYNAMICS OF PRIMARY MARKET**
The concept of “social structure” is used in this research work as it appears to be best conceptualized by social network analysis. In fact, network analysis is sometimes described as a "fundamental tool for the study of social structures." (Rauch & Hamilton, 2001)

**RO 1: To study the structure of networks**

The structure of the capital market in India is divided into two segments viz:

a) Primary Market

b) Secondary Market.

**The primary market:**

The primary market caters to the needs of the companies started privately by the promoters. When in need of more funds, the promoters look towards the general public for finance. By issuing securities such as debt or equity, they raise the required funds. The selling of these securities happens in the primary market. Among the different roles played in the stock markets, the promoters of the company play a social role that remains hidden in the stock markets as they do not participate in the markets directly.

**The secondary market:**

The secondary market is the main component for the trade of stocks. It is here that the investors who had purchased stocks from the initial public offer by the company or from other investors from the secondary market, trade the stocks that they possess. Once a company issues stocks through IPO, the stocks remain in the secondary markets. The main purpose or the secondary markets is to provide liquidity to the investors in the primary market. It provides a platform for trading of those securities initially offered in the primary market. Trading in the secondary market is done through the stock exchanges.
4.4 **Social participants of the stock market:**

Stock Exchange provides a trading platform, where buyers and sellers can meet to transact in securities. It must be noted here that the stock markets, as elucidated earlier are role based. The role of an investor changes on the basis of the transactions made. If an investor is selling stocks, then he is designated the role of a seller and immediately afterwards, when he looks to buy, he is assigned the role of a buyer. This transaction is facilitated by the mediation of the brokers who bridge the gap between the buyer and the seller. They bring together two matching participants for transacting together.

An important consideration in the study of social institutions is the variety of roles which the members play toward one another, toward the institution itself, and toward the general public. In order to insure the efficient functioning of the institution these roles should be clearly defined at all times, with no ambiguity as to the role the member is assuming in a particular situation (Francis & Carroll, 1934). All these are social entities and are bound to perform social roles within the structure and influence the structure’s function.

**FIGURE 4.4 SCHEMATIC REPRESENTATIONS OF THE CHIEF STOCK MARKET PARTICIPANTS**
4.4.1 The Traders

The traders are the main components of the stock market. The stock markets, as mentioned earlier are role based markets and not identity based. The put on the role depending on which side of the transaction they are on as either the buyer or the seller. A stock trader refers to a person or entity engaging in the trading of equity securities, in the capacity of agent, hedger, arbitrageur, speculator or investor. A stock investor is an individual or firm who puts money to use by the purchase of equity securities, offering potential profitable returns, as interest, income, or appreciation in value (capital gains). A trader is also called an Investor. An ‘investor’s someone who allocates capital with the expectation of a financial return.

4.4.2 The Brokers

A stockbroker is a social actor playing a professional role in the stock market setting. The stock broker is usually associated with a brokerage firm which is intern a member of a stock exchange. The broker buys and sells shares and other securities for retail as well as institutional clients, through a stock exchange or over the counter. The broker renders this service in return for a fee or commission. Stockbrokers are known by numerous professional designations, depending on the license they hold, the type of securities they sell, or the services they provide. The stock brokers are also referred to as investment advisor or financial advisors also.

4.4.3 Market regulators

The stock markets as seen in the earlier sections are an arena populated with various social actors playing a number of roles. Sociological studies stand testimony to the fact that where ever a group of individuals with
conflicting interests are present, there arises conflict. The members of the Exchange are faced with a difficult problem of control over their own actions. They must so regulate their dealing on and about the Exchange that the members will not cheat one another and at the same time impose only those restrictions which will not interfere with the maximum freedom of trading (Francis & Melchior, 1938).

Hence, the dilemma of self-discipline, involving, on the one hand, a minimum regulation necessary and on the other, the maximum free play of resources, has given rise to the need for effective market regulators.

The traditionally individualistic activities of the stock exchange, which began in an informal way under a tree, as seen earlier, have now been formalized. In this process various types of social control has been put in place.

Of these, the following are some of the representations of social control and regulation:

1. The control exerted by the BgSE over its members, as defined by the constitution and the by-laws of the exchange
2. The control exerted by the exchange over the companies whose stocks are listed and traded through it.
3. The control over the exchange itself by the government in the form of various regulatory authorities like the SEBI.

These types of regulators are in place to respond to the expectations arising out of the relations of the members. These relations are not always written, they are many times informal and unwritten code of ethics (Francis & Carroll, 1934).
An important consideration in the study of social institutions is the variety of roles which the members play toward one another, toward the institution itself, and toward the general public. In order to insure the efficient functioning of the institution these roles should be clearly defined at all times, with no ambiguity as to the role the member is assuming in a particular situation (Francis & Carroll, 1934).

4.5 **Patterns of stratification:**

This section deals with the research objective concerned with finding the pattern of social stratification in the stock markets. The patterns of stratification can be delineated by considering the hierarchical patterns followed in the market. For this purpose, the formal and informal hierarchical structure of the stock markets is discussed in the upcoming segment.

The structure of every organization is ordered in a triangular pattern. With the top being very small - indicative of a small percentage of the social actors, and the bottom being broad based. Sociologically, if we see the investors and brokers, these groups of either the broker or the investors at the base are a numeral big group. But in terms of the volume traded the volume they generate is low. As we go up in the hierarchy, we can see a small group of social actors accounting for large volumes of money and dealing with large investors.

In terms of monetary benefits, an inverse triangle can be seen. The top ranks will transact huge volumes every day when compared to the lower stratum. The logic of every drop accounting for the totality is evident here. Hence, sociologically, every investor no matter what social background, counts, they count on all.
4.5.1 Formal hierarchy

**Broker-dealer:** A broker-dealer is a term used to refer to a natural person, a company or other organization that trades securities for its own account or on behalf of its customers. When executing trade orders on behalf of a customer, the institution is said to be acting as a broker. When executing trades for its own account, the institution is said to be acting as a dealer. Securities bought from clients or other firms in the capacity of dealer may be sold to clients or other firms acting again in the capacity of dealer, or they may become a part of the firm's holdings.

The two social entities in the larger market system where the nomenclature is old as market of course they are borrowed and appropriated at times. The formal hierarchy and functions performed in each is explained below:

**Floor broker:** A floor broker is an independent member of an exchange who can act as a broker for other members who become overloaded with orders, as an agent on the floor of the exchange.

**Floor trader:** A floor trader is a member of a stock or commodities exchange who trades on the floor of that exchange for his or her own account.

**Investor:** An investor is someone who allocates capital with the expectation of a financial return. The types of investments include, gambling and speculation, equity, debt securities, real estate, currency, commodity, derivatives such as put and call options, etc...
**Market maker:** A market maker is a company, or an individual, that quotes both a buy and a sell price in a financial instrument or commodity held in inventory, hoping to make a profit on the bid-offer spread, or turn.

**Proprietary trader:** A proprietary trading occurs when a firm trades stocks, bonds, currencies, commodities, their derivatives, or other financial instruments, with the firm's own money as opposed to its customers' money, so as to make a profit for itself.

**Quantitative analyst:** A quantitative analyst is a person who works in finance using numerical or quantitative techniques. Similar work is done in most other modern industries, but the work is not always called quantitative analysis. In the investment industry, people who perform quantitative analysis are frequently called quants.

**Stock trader:** A stock trader refers to a person or entity engaging in the trading of equity securities, in the capacity of agent, hedger, arbitrageur, speculator, or investor. A stock investor is an individual or firm who puts money to use by the purchase of equity securities, offering potential profitable returns, as interest, income, or appreciation in value (capital gains). This buy-and-hold long term strategy is passive in nature, as opposed to speculation, which is typically active in nature.

**Brokers vs. Traders:** While both brokers and traders purchase and sell securities, brokers are also sales agents, either on their own behalf or for a securities or brokerage firm. Traders, on the other hand, tend to work for a large investment management firm and buy and sell - or trade - securities on behalf of the assets managed by that firm.
Brokers tend to have direct contact with clients, either individual or institutional, and buy and sell securities based on those clients' wishes. Traders, on the other hand, tend to buy or sell securities based on the wishes of a portfolio manager (or managers) at an investment firm.\(^3\)

### 4.5.2 Informal arrangement prototypes

The pervious section was a discussion about the formal hierarchical arrangement prototypes. But, as is often seen, along with the formal arrangements, all institutions have an informal structure. The real markets also have an informal arrangement model. As Adler and Adler (1980) put it: “...the formal market structure is supplemented and occasionally subverted by an informal social structure or network of roles, relationships and social organization.” These informal arrangement patterns are discussed here.

Markets are a coalition of social actors engaged in economic pursuits who compete with each other in the role of buyers and sellers. The interactions in this system are based upon an agreed upon system of “Informal norms among traders, formal rules of trade and organizational arrangements to coordinate collective action.” (Abolafia, 1996), Abolafia, studying a stock market floor, describes the activity and the sense making dynamics as... “A the opening bell traders begin making offers to buy or sell. They use hand signals and strong voices to offer and accept trades across the pit. These trades are recorded by each party to the trade. Trading does not stop after each transaction. It continues this way ... until the closing bell rings in the afternoon” (Loc. cit. 132 f), Rudolf (2006).

\(^3\)www.investopedia.com
This activity to an unassuming outsider such gatherings of buyers and sellers would appear to be total chaos. But to a trader operating within this setting, it is a system full of meanings—meanings evolved over time to facilitate the activity in the best possible way of a perfectly competitive market. While economists are interested only in the resulting equilibrium price(s), sociologists focus on the context of all this dramatic action. In fact, what seemed to be near-anarchy is steered by a coordination and control system whose task it is “...to discover problems in the pit (e.g. under-capitalized traders or market concentration) and taking whatever corrective action necessary to protect market efficiency” (loc. cit. 147),

Informal settings of the stock market have evolved to a great extent. It is in this arrangement that participation and what entails the prerequisites for participation decided. It has boundaries that often the actors themselves would not be aware of. Participation in a network is not based on membership status. Instead, on the "position" that the actors occupy which frequently extends beyond their own awareness.

4.6 **Socio-economic profile of the stock market actors:**

Socio economic status connotes one’s position in the social hierarchy. It also provides a description of how the hierarchy is structured. Very often one’s consequent life chances are determined by the socio-economic status occupied. Since Socio-economic status is a construct that necessarily entails political ideologies about existing and desired social structures, there is no agreed upon definition of SES. In case of this research work, the socio-economic factors analyzed were age, gender, family size educational attainment, annual income, and experience in trading.
This section deals with the RO: To examine socio economic profile of the actors within the stock market. To chart the socio economic profile three important variables were considered, they are gender, Income, and Educational attainment. These are the three factors the most crucial prerequisites in determining the entry of an individual into the stock markets.

**Income**

Income is the most commonly used measure of SES. An investors’ annualized income is considered here as one of the indicators of SES aiming to captures one’s ability to literally purchase desired resources. The respondents were requested to provide an approximate amount of their annual income. This is because the income of the market participants can be extremely volatile and fluctuate considerably over the course of a year. The income of a broker depends on the transactions made by the investors and the investors’ income is based on the outcome of their investments. Profits would reflect as higher incomes, losses as lower. It is observed here that income is also fairly age-dependent.

**Educational Attainment**

For those older than 25 years, educational attainment is an effective proxy measure of SES. One reason for this is that after age 25, educational attainment is relatively constant. Another reason is that educational attainment is relatively easy to measure and, unlike income, respondents are willing to answer questions truthfully. This research measured educational attainment by highest degree obtained. The use of education as an indicator of SES is used in an individualistic approach does not incorporate information about the education level of other members of the household.
Age group of Respondents

### TABLE 4.1 SHOWING THE CORRELATION BETWEEN THE AGE GROUP OF INVESTORS AND BROKER

<table>
<thead>
<tr>
<th>Age group</th>
<th>Investors</th>
<th>Brokers</th>
</tr>
</thead>
<tbody>
<tr>
<td>below 25</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>26-30</td>
<td>76</td>
<td>12</td>
</tr>
<tr>
<td>31-35</td>
<td>105</td>
<td>4</td>
</tr>
<tr>
<td>36-40</td>
<td>51</td>
<td>5</td>
</tr>
<tr>
<td>41-45</td>
<td>24</td>
<td>7</td>
</tr>
<tr>
<td>46-50</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>51-55</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>56-60</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>270</strong></td>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

### FIGURE 4.5 SHOWING THE CORRELATION BETWEEN THE AGE GROUP OF INVESTORS AND BROKER

There is clear cut visibility of young age group investors and brokers. The correlation between the age group is 0.64587 graphically also there is a clear indication of youth participation in large number at least in the study sample. It also signifies that new economy is investing in the new companies.
4.6.1 Brokers

The socio economic profile of the brokers is sought to be elucidated here, the brokers were:

Gender composition: the gender composition is an indicator of the representation of men and women in the profession. The traditional division of labour matrix, has most often than not, excluded women from various professions. The domain of finance was one such excluded areas. Despite claims on the contrary, this is evident to this day. The gender matrix of the respondents shows a significantly higher number of men in comparison to women.

The implication drawn from this is that the profession of stock markets, it to this day seen as a male bastion. Only recently women are venturing into this profession.

FIGURE 2.5: GENDER COMPOSITION (BROKERS)
Any external activity in the present society especially in India, a male dominated one, nevertheless, 30% of the total brokers constitute women, and it is interview to observe. Such visibility is formed among investors also.

**Age composition of the Broker**

![Age composition of the Broker](image)

The age group of the brokers shows that most of them are youngsters in the age group of 25-35. The new market structure demands new skills, volatility, and educational qualification speed and sharpness. These are timely constructed and hence younger generation stands a better chance.

**Marital status:**

**Table 4.1 Gender * Marital Status**

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Female</th>
<th>Male</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Married</td>
<td>4</td>
<td>15</td>
<td>19</td>
</tr>
<tr>
<td>Widowed</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>21</td>
<td>30</td>
</tr>
</tbody>
</table>
Marital status does not show any significant values. It is a normal representation of the Indian scenario. But the figure indicated again youngsters are plying and significance role in this system.

**FIGURE 4.6 : EDUCATIONAL QUALIFICATIONS OF THE BROKER**

Education is a parameter that has a significant role in the acquisition of the role of a broker. It is a consideration that determines membership into the profession. As a qualifying variable, the graphical representation shows that the members have the required educational qualification. The respondents belonging to the age group of 26 -30 comprise the majority of 33.3 percent. The mean age of the brokers is 26 years, which is representative of the national population along with including the parameter of required educational requirement.
The annual income of the brokers is represented in lakhs. What is noteworthy is the fact that the new entrants with just a year’s experience have an income level in the range of 8 to 14 lakhs. This is significant when compared with the variable of education. Those possessing a master’s degree and Ph.D are paid more even though their experience is less than 1 year.

4.6.2 Investors

A stock trader refers to a person or entity engaging in the trading of equity securities, in the capacity of agent, hedger, arbitrageur, speculator, or investor. A stock investor is an individual or firm who puts money to use by the purchase of equity securities, offering potential profitable returns, as interest, income, or appreciation in value (capital gains).
The stock investors considered for this study are individuals who purchase stocks with the intention of holding them for an extended period of time, usually several months to years, for passive income objectives such as dividend accumulation. They are not professionals and pursue stock trading only as a part-time activity while maintaining other professions.

FIGURE 4.8 GENDER AND AGE DISTRIBUTION OF THE RESPONDENTS

TABLE 4.2: EDUCATIONAL QUALIFICATION

<table>
<thead>
<tr>
<th>Count</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.U or equivalent</td>
<td>10</td>
<td>30.7</td>
</tr>
<tr>
<td>Bachelor's degree</td>
<td>125</td>
<td>46.3</td>
</tr>
<tr>
<td>Master’s Degree</td>
<td>114</td>
<td>42.2</td>
</tr>
<tr>
<td>Ph.D</td>
<td>9</td>
<td>30.3</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
<td>40.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>270</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
Education is a qualifying variable which is a prerequisite for participation in the stock market. The participation in markets entails a requirement of certain education without which, discerning the nuances of the market becomes difficult. A cursory look at the educational qualification profile of the investors reflects this fact. 46 percent of the respondents possess a bachelor’s degree and 42 percent, master’s degree.

**TABLE: 4.3 ANNUAL INCOMES OF Investors**

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 5 lakhs</td>
<td>60</td>
<td>22.2</td>
</tr>
<tr>
<td>5 to 10 lakhs</td>
<td>176</td>
<td>65.2</td>
</tr>
<tr>
<td>10 to 15 lakhs</td>
<td>29</td>
<td>10.7</td>
</tr>
<tr>
<td>Above 15 lakhs</td>
<td>5</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>270</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Income is another variable which is a prerequisite for market participation. 176 respondents from the investors group reported an income level of 5 lakhs to 10 lakhs. Which represents the burgeoning middle class participation in the markets?

**Conclusion:**

This chapter dealt with three important research objectives. The chapter analyses different aspects pertain to the social actors of the stock market. The social actors and placed within the context of the socio-historical scenario of the stock market in general and the society in particular. The various participants and their roles are discerned along with the delineation of the patterns of striation. Finally, a socio-economic profile of the market actors has been dealt with. These pave the foundation for the further chapters where the social actors and their networks are dealt with in detail.