

Exploring the Influence of Investment Banking on Corporate Governance

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Abstract: Investment banking is a segment of the finance sector which builds a bridge between corporate clients and financial matters. Investment banking serves corporate entities with a plenty of financial affairs and does services such as capital raising, mergers and acquisitions and financial advising. Investment bankers are basically underwriters who intermediates security issuers and investors. They are big people in the financial sector, aiding in the financial growth of Corporates, government entities and startups researching on the dramatically developing, fast pacing financial industry, understanding the new trends and developments pitching for the greater development of the nation's financial market as a whole. Investment banker is a highly paid professional with tremendous pressure and immense accountability and commitment towards the money matters of a company. This scholarly article does a doctrinal and non-empirical research about the role of investment banking in corporate governance. The researchers have referred to Indian and foreign authored books to draw inference and review in this article. The areas on the evolution, purpose and objectives of the concept, leading investment banks and the activities done by them have been analysed for a qualitative approach to research. An in-depth examination of the role, functions, legal ramifications, regulatory structures, evolution of investment banking, and a concise critique of the investment banking concept.

Key Words: Investment Banking, financial institutions, Corporate Governance, Underwriting, Raising funds.

I. Introduction

The investment banking sector in India is relatively nascent, and has been operating around for more than 40 years. Over this period, there have been notable changes in the structure, functions, and significance of investment bankers. They now serve a crucial advisory capacity in areas such as capital formation, mergers and acquisitions, disinvestment, and various other corporate advisory services. As the definition of investment banking has broadened, the essential elements of expertise, foresight, and genuine counsel have remained unchanged. It is significant to emphasize that a successful investment banker is characterized by their reputation, credibility, and the trust they establish with clients¹. Initially, investment banking in India was primarily focused on basic capital raising activities, such as underwriting and issuing securities. However, as the Indian economy liberalized in the 1990s and worldwide markets of finance have become more interconnected, the role of investment bankers expanded dramatically. Investment banking institutions serve as intermediaries that provide advisory services to companies, facilitate the distribution of securities, and assume principal positions. Throughout these processes, valuable information is generated. The majority of investment banking firms operate as vertically integrated entities, encompassing services such as merger and acquisition (M&A) advisory, capital raising, securities trading and brokerage, as well as research coverage². In the realm of capital formation, investment bankers assist companies in raising funds through equity and debt offerings, helping them find the issues of public offerings and private placements. Their expertise in structuring deals and understanding market dynamics is extremely valuable for the overall betterment of the capital structure and achieving their financial objectives. Mergers and acquisitions have become a focal point for investment bankers, who provide strategic advice to clients looking to expand their market presence, diversify their operations, or achieve synergies through consolidation. The intricate nature of M&A transactions requires an expound understanding of valuation, negotiation, and regulatory compliance, areas where investment bankers excel. Their role often extends beyond mere transactional support; they act as trusted advisors, guiding clients through the entire process from initial discussions to final execution. Disinvestment, particularly in the context of government-owned enterprises, has also emerged as a significant area of focus for investment bankers. As the Indian government seeks to privatize certain sectors and enhance efficiency, investment bankers play a pivotal role in advising on the best strategies for divestment, ensuring that the process is conducted transparently and effectively. Moreover, the definition of investment banking has broadened to encompass a wider range of services, including risk management, financial restructuring, and strategic advisory. Despite these changes, the essential elements of expertise, foresight, and genuine counsel have remained unchanged. Successful investment bankers are not only experts at financial analysis and market assessment but also possess the ability to anticipate trends and provide insightful recommendations that align with their clients' long-term goals. The role of investment banker in corporate governance is wide and requires a lot of attention to details, research and commitment.

¹ Singh, Sanjeet, Gagan Deep Sharma, and Mandeep Mahendru. "An Appraisal of Investment Banking in India." *Available at SSRN 1854247* (2011).

² Ritter, Jay R. "Investment banking and securities issuance." *Handbook of the Economics of Finance*. Vol. 1. Elsevier, 2003. 255-306.

II. Research methodology

This research study includes historical, analytical, comparative and doctrinal methodology. Further the authors have tried to bring out a few findings, recommendations and suggestions addressed to various stake holders including policy makers.

Evolution of Investment Banking

Investment banking evolved in the early 19th century where banking services were blooming and there was a mushroom growth in merchant banks³. Commercial banks offer services to the normal and general citizens of this country, but there are some banks which offer services to the companies and investors but not to the public. They are investment banks and merchant banks. A merchant bank is defined as a financial entity that primarily focuses on international finance. Its operations are closely associated with corporate investments, trade financing, and real estate investments. The principal functions of merchant banks include managing issues, overseeing portfolios, and providing corporate advisory services. An investment bank, on the other hand, is a financial institution that engages with established corporations to meet their long-term capital needs, serving as an intermediary between these companies and potential investors⁴. The origins of investment banking in India can be understood by the establishment of trading houses by European merchant banks in the 19th century. Following this initial development, foreign banks have largely controlled investment and merchant banking operations within the country. In the 1970s, the Bureau of Merchant Banking was founded by the State Bank of India, while ICICI Securities came to the fore as the first Indian financial institution to provide merchant banking services. By 1980, there was a mushroom growth of the merchant banks and the number was more than 30. This bloom in the financial services industry resulted in the fleeting burgeoning of commercial banks and other financial entities⁵. During the initial days of the 1990s, the merchant banking sector in India experienced phenomenal florishment, resulting in the registration of more than 1,500 merchant bankers with the Securities and Exchange Board of India (SEBI). To foster standardized practices and enhance the quality of operations within the merchant banking industry, the establishment of a Self-Regulatory Organization became imperative. Consequently, this initiative culminated in the formation of the Association of Merchant Bankers of India (AMBI). In the year 1993, AMBI incorporated as a public limited company under section 25 of the Companies Act of 1956 which corresponds to Section 8 of the present Act. It was recognized by SEBI and granted permission to set up professional standards for providing efficient services in merchant banking activities⁶. In order to more accurately reflect the wide variety of activities carried out by investment bankers in India, it was decided to rename AMBI the Association of Investment Bankers of India (AIBI) in 2010. Making sure that its members provide services to all constituencies within a predetermined framework of ethical principles and practices is AIBI's main goal. Plus, AIBI strives to advance the interests of its members and the industry⁷.

Purpose of Investment Banking

The goal of investment banking is to connect businesses in need of funding for their investments with buyers (private and institutional) who have savings through the financial markets. It no longer appears that this succinct definition, which views investment banks as financial intermediaries, can encompass all of the operations that these operators have evolved over time. Investment banks have evolved and diversified their business over time, adding a wide range of other services to their traditional underwriting activity (helping with the issuance of stocks and locating buyers, which will be discussed later).. Investment bank or investment banking firm, plays a crucial role in assisting various entities, including governments, corporations, and individuals, in the process of raising capital through activities such as underwriting securities or acting as a representative for clients during security issuances. Beyond these primary functions, investment banks also offer a diverse range of supplementary services that are essential to the modern financial landscape. These additional services encompass crucial aspects like market making, facilitating foreign exchange transactions, engaging in trading activities involving derivatives, commodities, equities, and fixed-income securities⁸. Moreover, these institutional entities extend their expertise to assist corporations in complex processes such as mergers and acquisitions, thereby contributing significantly to the evolution and growth of businesses across different sectors. Overall, the multifaceted role of investment banks encompasses a wide array of financial activities, making them indispensable contributors to the global financial ecosystem.

These are the primary purposes of Investment Banking⁹

1. Acquiring Funds and Identifying Capital Opportunity

³ Fohlin, Caroline. "A brief history of investment banking from medieval times to the present." *The Oxford Handbook of Banking and Financial History*. 2014.

⁴ Williamson, J. Peter. *The investment banking handbook*. Vol. 11. John Wiley & Sons, 1991.

⁵ <https://corporatefinanceinstitute.com/resources/career/investment-banking-india> Accessed on 12th February 4 pm

⁶ <http://aibi.org.in/about.asp> accessed on 12th February 2025 at 4 pm

⁷ Ibid

⁸ Iannotta, G. (2010). *Investment Banking A guide to underwriting and Advisory services*. Springer.

⁹ Morrison, A. D., & Wilhelm, W. J. (2007). Investment of banking: Past, present, and future. *Journal of Applied Corporate Finance*, 19(1), 42-54.

2. Act as an intermediary
3. Issuance of security
4. Consulting
5. Research and analysis
6. No deposit

Acquiring Funds and Identifying Capital Opportunity

Investment banking is a branch of banking that helps businesses raise money. Apart from obtaining fresh capital, investment banking provides guidance for a variety of activities a business may undertake. Investment bankers carry out both private and public financial transactions, negotiate and structure agreements, and spot capital opportunities. An investment bank's primary role is to serve as a middleman between people looking for capital and possible investors. Individuals, mutual funds, governments, public companies, and private organizations are all examples of investors.

Acting as an intermediary

Investment banking acts as an essential intermediary for these companies, assisting them in structuring and managing the process of offering securities to investors. By leveraging the expertise and networks of investment banks, companies can access the necessary support to locate complex capital markets and raise capital effectively. Furthermore, investment banks play a crucial role as intermediaries in client transactions. They facilitate the trading of securities and investment products, ensuring smooth and efficient transactions between market participants. Investment banks provide valuable insights and guidance to clients, helping them make sane decisions and navigate the intrinsic nuances of financial markets.

Issuance of Security

Public and private companies have the opportunity to access the primary market for issuing securities with the valuable assistance provided by investment banking entities. This service is pivotal in enabling these companies to raise capital by issuing stocks, bonds, or other financial instruments to potential investors. The role of investment banking in this process is multifaceted, encompassing tasks such as underwriting the securities, facilitating the offering process, and ensuring regulatory compliance. Through collaboration with investment banks, companies gain access to a wide network of investors, increasing the likelihood of a successful offering. Moreover, investment banking institutions bring their expertise in market trends and financial structuring to the table, helping companies navigate the complexities of the primary market effectively. By engaging with investment banking services, companies can tap into specialized knowledge and resources that streamline the process of issuing securities, making it a seamless and efficient experience. In essence, the symbiotic relationship between public and private companies and investment banking institutions in the primary market serves as a cornerstone of the broader financial ecosystem, fostering capital formation, investment opportunities, and economic growth.

Research and analysis

Research reports use a company's rating to determine whether to buy, sell, or hold. This allows one to determine the company's worthiness. Analyzing and contrasting different reports and company performance reports is how research is carried out. The main activity of investment banks is research, which can take many different forms, including qualitative, fixed income, equity, and macroeconomic studies. These reports, which are shared with clients by investment banks, assist investors in making money through trading and sales.

No deposit

Investment banking assists investors with handling their financial assets, purchasing and trading securities, and giving them financial advice. Investment banks are not like commercial banks in that they don't take deposits or offer retail loans.

Activities or Functions of Investment Banking¹⁰

- Intermediary between issuer and investor
- Initial Public Outsourcing
- Risk Management
- Offering brokerage services to public & institutional investors
- Provide access to equity and fixed income capital
- Underwriting and distributing new security issues

¹⁰ Liaw, K. T. (2011). The business of investment banking: A comprehensive overview.

Providing financial advice to corporate clients especially on security issues

Financial advice for mergers and acquisitions

Due Diligence

Providing financial research to investors, corporate customers

Merchant Banking, Venture Capital Investing

Providing Bridge Loans for mergers and acquisitions

Leading Investment Banks In India¹¹

Many banks and other financial institutions are currently registered. These are the following companies that are AIBI-registered and have established a solid reputation in India's investment banking sector:

Axis Bank Ltd.

Barclays Bank PLC

BNP Paribas

Central Bank of India

Credit Suisse Securities (India) Private Ltd.

Deutsche Equities India Private Ltd.

Edelweiss Financial Services Ltd

HDFC Bank Ltd.

HSBC Securities & Capital Markets (India) Private Ltd. ICICI Securities Ltd.

IDBI Capital Market Services Ltd.

JP Morgan India Private Ltd.

Morgan Stanley India Co. Private Ltd.

Relegate Capital Markets Ltd.

SBI Capital Markets Ltd.

SMC Capitals Ltd.

Regulatory Framework

India way of Investment banking is characterized by a robust regulatory framework that places a high premium on ensuring ethical conduct throughout the industry. The regulatory bodies overseeing this sector play a crucial role in upholding transparency and accountability, thereby bolstering investor trust and market stability. Furthermore, the emphasis on ethical behavior is pervasive across all facets of investment banking operations, from deal structuring and valuation to compliance and risk management processes. This culture of integrity and adherence to ethical standards not only sets a solid rock basement for sustainable growth but also fosters long-term relationships with clients and investors. By upholding best practices and ethical principles, the investment banking industry in India demonstrates its commitment to maintaining a level playing field and promoting fair and equitable treatment for all stakeholders involved. Ultimately, this dedication to ethical conduct and behaviour not only uplifts and aids the industry as a whole but also contributes to enhancing India's reputation as a trusted and reliable destination for investment opportunities.

These are the regulatory mechanisms:

1. The Companies Act 1956¹²

¹¹Top Investment Banking companies in 2025

https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://quintedge.com/investment-banking-companies-in-india/&ved=2ahUKEwiv1azQj8uLAxV4SGwGHYRUBdsQFnoECBoQAQ&usg=AOvVaw2kos2zR3zJWzKH4fN40i_o

accessed on 12th february 2025 at 6:30 pm

¹² Act 18 of 2013

2. Reserve Bank of India Act, 1934¹³ and the Banking Regulation Act, 1949¹⁴.

The Securities and Exchange Board of India (SEBI) Act, 1992, as well as the rules and regulations enacted under it, regulate many functional elements of investment banking. They are as follows:¹⁵:

SEBI (Issue of capital & Disclosure Requirements) regulations, 2009

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

SEBI (Prohibition of Insider Trading) Regulations, 1992

SEBI (Foreign Institutional Investors) Regulations, 1995

SEBI (Venture Capital Funds) Regulations, 1996

SEBI (Foreign Venture Capital Investors) Regulations, 2000

SEBI (Mutual Funds) Regulations, 1996

SEBI (Merchant Bankers) Regulations, 1992

SEBI (Buy-Back of Securities) Regulations, 1998

Private Limited Company and Unlisted Public Limited Company (Buy-Back of Securities) Rules, 1999

SEBI (Underwriters) Regulations, 1993

Securities Contracts (Regulation) Act, 1956

The Foreign Exchange Management Act of 1999 governs foreign direct investment in investment banks established in India.¹⁶

Investment banks are subject to general rules that apply to all other enterprises in India, such as tax laws, contract laws, arbitration laws, etc., in addition to the aforementioned specific regulations.

III. Conclusion

For businesses, organizations, and governments, investment banking makes it easier to raise capital, conduct intricate financial transactions, and make strategic decisions. Even though the industry has experienced difficulties and changes over the years, its fundamental roles in supporting financial stability and facilitating economic growth have not changed. Investment banks must adjust, welcome innovation, and respect moral principles as the business environment changes in order to stay relevant and provide value to their customers. Investment banking is also an area which has challenges and shortcomings. Certain shortcomings are, one being the confidentiality issues, as the investment banker will have all the financial details. Secondly, there is conflict of interest between the investment banker and the other parties, apart from these challenges there shall be other challenges also and one way to overcome these challenges is transparency and communication.

¹³ Act 2 of 1934

¹⁴ Act X of 1949

¹⁵ <https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=3&smid=0> accessed on 13th February 2025 at 2:30 pm

¹⁶ Act no 42 of 1999