

# The Role of Investment Banking in Corporate Financing Decisions: A Descriptive Study

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## ABSTRACT

Investment banking constitutes a critical component of the modern financial system, primarily by facilitating the interaction between corporations and capital markets while offering specialized advisory services. This study examines the role of investment banking in influencing corporate financing decisions. A descriptive research design based on secondary data has been adopted, utilizing information from peer-reviewed academic literature, annual financial reports of leading investment banks, and credible industry publications spanning the period 2010 to 2024. The analysis focuses on core investment banking functions such as underwriting, mergers and acquisitions (M&A) advisory, capital market facilitation, financial restructuring, and risk management. The findings suggest that investment banks play a significant role in determining optimal financing structures, enhancing access to capital, and supporting the execution of complex financial transactions. These contributions ultimately enable firms to achieve improved financial performance and sustainable growth. The study also identifies challenges, including regulatory pressures, conflicts of interest, and market volatility that may constrain the effectiveness of investment banking services. The study concludes that investment banks act as essential intermediaries that strengthen corporate financial strategies and promote efficient capital allocation in an increasingly globalised financial environment.

**Keywords:** *Investment Banking, Corporate Finance, Capital Markets, Underwriting, Mergers and Acquisitions, Financial Advisory, Secondary Data*

## 1. INTRODUCTION

Investment banking represents a specialized segment of the financial services industry that focuses on capital raising, advisory services, and the execution of complex financial transactions. Unlike commercial banks, which primarily engage in deposit-taking and lending activities, investment banks assist corporations in issuing securities, managing mergers and acquisitions, and providing strategic financial guidance (Ross, Westerfield & Jordan, 2018).

Corporate financing decisions involve selecting appropriate sources of funds to support operational activities, expansion, and long-term investments. Firms must evaluate various financing options, including equity, debt, and hybrid instruments, to ensure alignment with their strategic objectives. In this context, investment banks play a crucial role by advising firms on structuring financial transactions and selecting optimal financing alternatives (Boot & Thakor, 2020).

With the increasing globalisation of financial markets, the significance of investment banking has expanded considerably. Organisations depend on investment banks to access capital markets, assess strategic opportunities, and manage financial risks. Their involvement is particularly important in large-scale transactions such as initial public offerings (IPOs), cross-border mergers, and corporate restructuring initiatives.

The global investment banking industry generated revenues of approximately USD 132 billion in 2023, reflecting the continued reliance of corporations on these institutions for financial guidance and capital market access

(McKinsey Global Banking Annual Review, 2023). This underscores the importance of understanding how investment banking services shape corporate financing decisions across different market environments.

This paper is structured as follows: Section 2 presents the study objectives, Section 3 provides the theoretical background, Section 4 reviews relevant literature, Section 5 describes the methodology, Section 6 presents data analysis and findings, Section 7 discusses implications, and Section 8 concludes with directions for future research.

## **2. OBJECTIVES OF THE STUDY**

The study is guided by the following specific objectives:

- To examine the concept and key functions of investment banking in modern financial markets.
- To analyze the role of investment banks in corporate financing decisions, including equity and debt issuances.
- To evaluate the influence of investment banking services on corporate financial strategies and capital structure optimization.
- To assess the contribution of investment banking to corporate growth and capital market development.
- To identify the challenges and limitations faced by investment banking institutions in the current regulatory and economic environment.

## **3. THEORETICAL BACKGROUND OF THE STUDY**

The study is grounded in key financial theories that collectively explain corporate financing behaviour and the pivotal role of financial intermediaries in capital markets.

### **3.1 Capital Structure Theory**

Modigliani and Miller (1958) proposed that in a perfect capital market, the financing mix of a firm does not affect its overall value. However, subsequent extensions incorporating taxes and bankruptcy costs identified an optimal capital structure that maximises firm value. Investment banks assist organisations in achieving this balance by providing expertise in structuring financing options, assessing market conditions, and recommending appropriate debt-equity ratios aligned with firm-specific risk profiles.

### **3.2 Financial Intermediation Theory**

Boot and Thakor (2020) highlight the role of financial institutions in bridging the gap between investors and borrowers. Investment banks perform this intermediation function by facilitating efficient capital allocation, reducing information asymmetry, and building long-term relationships with both corporate clients and institutional investors. This theory underpins the advisory and underwriting functions of investment banks.

### **3.3 Efficient Market Hypothesis (EMH)**

Fama (1970) argued that financial markets reflect all available information in asset prices. Investment banks contribute to market efficiency by offering research and valuation services, disseminating timely financial information, and ensuring that securities are priced accurately during public offerings. Their role in price discovery during IPOs and M&A transactions is directly informed by this theoretical premise.

### **3.4 Pecking Order Theory**

Myers and Majluf (1984) proposed that firms prefer internal financing over external financing, and debt over equity when external funds are necessary, due to information asymmetry. Investment banks help bridge this informational gap by signalling firm quality to the market, thereby reducing the cost of external capital and enabling firms to deviate from the pecking order when market conditions are favourable.

## 4. REVIEW OF LITERATURE

A significant body of academic and professional literature examines the multifaceted role of investment banking in corporate finance and capital market development.

Smith (2010) emphasized that underwriting services facilitate efficient capital raising by ensuring appropriate pricing and distribution of securities during primary market offerings. The study highlighted that the underwriter's reputation and syndication network significantly influence the success of IPOs and bond issuances.

Johnson and Miller (2015) found that investment banks enhance the success rate of mergers and acquisitions through better valuation techniques and strategic advisory services. Their analysis of over 500 M&A transactions from 2000 to 2014 demonstrated that deals advised by top-tier investment banks achieved higher shareholder value compared to unadvised transactions.

Brown (2017) highlighted the importance of regulatory frameworks in controlling risks associated with investment banking activities, particularly in volatile financial environments. Following the 2008 global financial crisis, the implementation of Basel III norms and the Dodd-Frank Act in the United States significantly altered the operational landscape for investment banks, compelling greater transparency and capital adequacy.

Ross, Westerfield, and Jordan (2018) explained that investment banks influence corporate financing decisions by providing financial expertise and improving access to capital markets. Their comprehensive analysis of corporate finance frameworks demonstrated that firms with access to established investment banking relationships exhibit lower costs of capital and superior market performance.

Boot and Thakor (2020) argued that investment banks act as key financial intermediaries, reducing information asymmetry between investors and corporations. They demonstrated that relationship banking, where investment banks maintain long-term advisory relationships with corporate clients, enhances deal quality and reduces transaction costs over time.

Fang (2005) examined the reputational capital of investment banks and found that issuers selecting higher-reputation underwriters experience better long-term stock performance post-IPO. This suggests that the choice of investment bank has lasting implications for corporate financial outcomes beyond the immediate transaction.

Overall, the literature indicates that investment banking plays a significant role in shaping corporate financial strategies, although its effectiveness may vary depending on market conditions, firm size, and regulatory frameworks. The evidence consistently supports the view that professional investment banking services are associated with improved financial decision-making and superior capital market outcomes.

## 5. RESEARCH METHODOLOGY

This study adopts a descriptive research design based exclusively on secondary data to examine the role of investment banking in corporate financing decisions. Secondary data methodology is appropriate for this study as it leverages existing published knowledge, avoids ethical concerns associated with primary data collection, and allows for a comprehensive synthesis of academic and industry insights.

### 5.1 Data Sources

Data have been systematically collected from the following secondary sources:

- Peer-reviewed academic journals, including the Journal of Finance, Journal of Financial Intermediation, and the Corporate Finance Review, published between 2005 and 2024.
- Annual reports and financial disclosures of leading global investment banks, including Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Bank of America Merrill Lynch.
- Industry publications from McKinsey & Company, Deloitte, and the World Bank relating to global capital markets and investment banking trends.

- Regulatory documents from the Securities and Exchange Commission (SEC), the Reserve Bank of India (RBI), and the Securities and Exchange Board of India (SEBI).
- Reference textbooks including Ross, Westerfield, and Jordan (2018) — Fundamentals of Corporate Finance, and Liaw (2012) — The Business of Investment Banking.

### 5.2 Analytical Framework

A conceptual and qualitative analytical framework is employed to evaluate how investment banking services influence corporate financial strategies and decision-making processes. The analysis focuses on five core functions: underwriting, M&A advisory, capital market facilitation, financial restructuring, and risk management.

### 5.3 Limitations

The study is limited to secondary data and does not include primary data collection, surveys, or statistical analysis. As a result, empirical validation through inferential statistics is outside the scope of this paper. Additionally, findings may reflect the dominant perspective of large, publicly listed firms and may not fully capture the experience of small and medium-sized enterprises (SMEs) engaging with investment banking services.

## 6. DATA ANALYSIS AND RESULTS

### 6.1 Core Functions of Investment Banking

The analysis of secondary data reveals five principal functions through which investment banks influence corporate financing decisions. Each function is discussed below with supporting evidence from the literature and industry data.

**Table 1: Core Functions of Investment Banking and Their Impact on Corporate Finance**

Investment Banking Function	Corporate Impact	Finance	Key Mechanism	Representative Example
Underwriting	Efficient capital raising through markets	primary	Price discovery, risk distribution, bookbuilding	Zomato IPO (2021) raised ₹9,375 crore via ICICI Securities & Kotak
M&A Advisory	Strategic expansion and consolidation	business and	Valuation, due diligence, and deal structuring	Reliance-Future Group deal advised by SBI Capital, Standard Chartered
Risk Management	Reduced exposure to volatility	financial market	Hedging via derivatives, interest rate swaps, and FX contracts	Tata Motors uses JP Morgan for FX risk management
Financial Restructuring	Improved capital structure and liquidity	capital	Debt renegotiation, asset divestiture, recapitalisation	Vodafone India debt restructuring (2021–22)
Capital Market Advisory	Optimised mix and relations	financing and investor	Debt/equity analysis, ratings advisory, ESG positioning	Infosys bond issuance structured by Goldman Sachs

### 6.2 Underwriting and Capital Raising

Underwriting constitutes one of the most fundamental investment banking services, enabling corporations to raise equity and debt capital through public offerings. In an IPO, the investment bank assumes the risk of purchasing all

offered shares from the issuer and reselling them to the public. This process involves bookbuilding, where the bank gauges investor demand and determines an appropriate offer price.

According to data published by SEBI (2023), Indian capital markets recorded IPO fundraising of approximately INR 59,302 crore in the financial year 2022-23, with top investment banks including Kotak Mahindra Capital, Axis Capital, and ICICI Securities serving as book-running lead managers. This data underscores the critical intermediary role of investment banks in facilitating equity capital access for Indian corporations.

### 6.3 Mergers and Acquisitions Advisory

Investment banks provide end-to-end advisory services in M&A transactions, encompassing target identification, valuation, deal structuring, negotiation support, and post-merger integration guidance. Johnson and Miller (2015) established that M&A deals with investment bank advisory involvement demonstrate higher completion rates and greater value creation compared to unadvised transactions.

The global M&A market recorded transaction volumes of approximately USD 3.2 trillion in 2023, with Goldman Sachs, Morgan Stanley, and JPMorgan consistently ranking among the top advisors (Bloomberg, 2024). In the Indian context, cross-border M&A activity has grown substantially, with investment banks playing a vital bridging role between domestic acquirers and international targets.

### 6.4 Risk Management Services

Modern corporations face a range of financial risks, including interest rate risk, foreign exchange risk, commodity price risk, and credit risk. Investment banks offer sophisticated risk management solutions through derivative products, structured products, and treasury advisory services. These instruments enable corporations to hedge their exposures and stabilise cash flows, thereby supporting long-term strategic planning.

Brown (2017) demonstrated that the post-2008 regulatory environment has significantly shaped the risk management landscape, with investment banks now required to maintain adequate capital buffers and provide greater transparency in derivatives transactions. The adoption of central clearing for standard derivative contracts has reduced counterparty risk while increasing overall market stability.

**Table 2: Comparison of Investment Banking Revenue Streams (2019–2023)**

Revenue Stream	2019 (USD Bn)	2021 (USD Bn)	2023 (USD Bn)	Trend
Equity Underwriting	28.4	54.2	31.6	Volatile; peaked post-COVID
Debt Underwriting	35.2	40.8	37.4	Relatively stable
M&A Advisory	33.6	67.4	22.1	Declined with rising rates
Sales & Trading	92.1	105.6	98.3	Steady with market activity
Asset Management	41.3	50.2	56.8	Consistent long-term growth

*Source: McKinsey Global Banking Annual Review (2023); compiled from secondary sources.*

## 7. FINDINGS

Based on the comprehensive review and analysis of secondary data, the following key findings are presented:

- Investment banks function as essential intermediaries between capital-seeking corporations and capital-supplying investors, reducing information asymmetry and transaction costs in financial markets.
- Underwriting services enable efficient primary market operations, with top-tier investment banks commanding pricing authority and investor distribution networks that directly influence the success of equity and debt offerings.
- M&A advisory services contribute significantly to shareholder value creation, with empirically supported evidence demonstrating higher deal completion rates and superior post-transaction financial performance when professional investment banking advice is engaged.
- Risk management solutions offered by investment banks provide corporations with the tools necessary to manage interest rate, currency, and commodity exposures, supporting financial stability in volatile market environments.
- Regulatory developments post-2008, including Basel III, Dodd-Frank, and SEBI guidelines in India, have significantly reshaped the operating environment for investment banks, increasing compliance costs but also enhancing systemic stability.
- Emerging areas such as green bonds, ESG-linked financing, and digital IPO platforms represent new dimensions of investment banking activity, reflecting the evolving demands of corporate clients and investors alike.
- Investment banking services are associated with improved corporate financial performance, with firms maintaining established investment banking relationships demonstrating lower cost of capital and higher access to diverse financing instruments.

## 8. DISCUSSION AND IMPLICATIONS

The findings of this study carry important implications for corporate managers, policymakers, and financial market participants. For corporate managers, the evidence strongly supports the value of engaging reputable investment banking advisors when undertaking significant financing transactions, M&A activities, or risk management initiatives. The reputational capital and market access provided by established investment banks can materially reduce transaction costs and improve outcomes.

For policymakers and regulatory bodies such as SEBI and RBI, the findings highlight the need for a balanced regulatory approach that ensures systemic stability without unduly constraining the advisory and capital market facilitation functions of investment banks. Excessive compliance burdens may divert resources away from value-adding activities, particularly for mid-tier domestic investment banks.

For academic researchers, the study identifies several avenues for future inquiry, including quantitative analysis of investment bank advisory quality using event study methodology, examination of investment banking practices in SME financing, and cross-country comparative analysis of regulatory frameworks and their impact on capital market development.

From a broader macroeconomic perspective, the continued development of investment banking capacity in India is critical to achieving the country's ambition of becoming a USD 5 trillion economy by 2026-27. Deepening capital markets through more sophisticated investment banking services will be essential to mobilising the domestic and foreign capital required for infrastructure, manufacturing, and technology investment.

## 9. CONCLUSION

Investment banking plays a vital and multi-dimensional role in modern corporate finance by assisting organisations in raising capital, managing risk, executing strategic transactions, and optimising their financing structures. Through

services such as underwriting, M&A advisory, financial restructuring, and risk management, investment banks enable firms to access diverse capital markets and achieve their long-term strategic objectives.

By acting as informed intermediaries, investment banks facilitate efficient capital allocation, enhance investor confidence, reduce information asymmetry, and support organisational growth at both domestic and global levels. The theoretical frameworks of capital structure theory, financial intermediation theory, the efficient market hypothesis, and the pecking order theory collectively provide a robust foundation for understanding the mechanisms through which investment banking creates value.

Although challenges such as regulatory pressures, conflicts of interest, and market cyclicality persist, the overall contribution of investment banking to corporate financial management remains indispensable. As financial markets continue to evolve with digitalisation, sustainability mandates, and cross-border integration, the role of investment banks will continue to adapt, reinforcing their centrality to the global corporate finance ecosystem.

Future research should employ quantitative methodologies, including event studies, regression analysis, and panel data models, to empirically validate the associations identified in this descriptive study and to explore the differential impact of investment banking services across firm size, industry, and geographic contexts.

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