Porter’s 5 forces model and investment banking crisis essay sample

Finance, Banks

The ongoing investment banking crisis is hereby being addressed from Porter’s Five Model perspective. The five forces have somehow contributed to the current crisis. The open entry and exit from the competitive financial industry has continued to pressure existing firms to improve quality of services and products supplied to the market. This resulted to investment banks making serious blunders in their investments, especially in the mortgage sector. The rivalry from existing competitors had been developing products that attract each other’s clientele. The availability of many products and investment banks to choose from had given consumes more power over these companies. Problems in the investment banks resulted from the ongoing global credit crunch (Doran, 2007). The declining value of company shares resulted to companies finding themselves with low capital to continue operating; it is due to this reason that companies such as Lehman Brothers and Merrill Lynch filed for bankruptcy.

The remaining investment banks had to convert from their stand alone model as a measure of surviving the crisis. Like their counterparts in the larger financial industry, investment banks had been involved in reckless lending to mortgage consumers without adequate security; they relied on the then ever rising real estate prices as guarantee that money would be paid back. This is a mistake that will serve as a lasting lesson for the global financial industry. Given the grave impact of the current crisis on the American economy, the US government has provided a US $700 Billion to buy off the mortgage debts from the troubled institutions. The government has also supported moves of selling the affected firms to well capitalized banks such as Bank of America, Citi and JP Morgan Chase. The most noble idea has been converting investment banks (specifically Goldman Sachs and JP Morgan) to become deposit taking institutions, which would provide them with access to more stable source of capital (The Economist, 2008).

References

Doran J. (2007). *Credit Crunch Hits Investment Banks* . Retrieved September 26, 2008,

from, http://www. guardian. co. uk/business/2007/sep/09/money4

The Economist (2008). *The Investment Bank* . Retrieved September 26, 2008, from,

http://www. economist. com/finance/displayStory. cfm? source= hptextfeature&story_id= 12305537