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Factors affecting the finance of commercial companies in the country's capital market

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Abstract

Financing instruments have increasingly developed in recent years. The development of instruments and methods of financing has faced financial managers with a crucial decision that what financial instrument can be useful in providing corporate finance requirements. In this study, using hierarchical approach tried to be identified and prioritized the factors affecting the choice of the method of financing. The data is collected using a questionnaire and research sample is selected among financial managers of the country's capital market. Factors affecting the selection of financing have been classified in three general categories of factors related to the source of financing, financed company and macro-economic and political factors. The results show superiority of financed criteria than other criteria and attract attention of managers to internal factors such as capital structure and credit status at the time of decision making.

Keywords: Finance, ranking, Analytic Hierarchy

1. Introduction

Strategy of corporate finance is the most important topics of accounting and finance scholars. Of important objectives of financing is investment in companies to more profitability. Different ways of financing included domestic and foreign financing or a combination of the two types. Managers of commercial companies in the current era, due to the limitations of financial resources, especially in global business arena and narrowing of competition are under increasing pressure to reduce operating costs and cost and select the lowest cost of capital structure to carry out activities of commercial companies in order to increase corporate value, timely payment of debts, continuity of activity and greater presence in domestic and foreign markets (Ghanizadeh and Barani, 2015).

Also among the permanent concerns of financial managers of companies is finance. Financial managers of companies to carry out development projects or daily working capital finance need to finance. By developing finance and design a variety of financing instruments, financial managers to corporate finance faced with a host of instruments and methods. Financial managers for deciding to select method of financing of business are always faced with the serious question which method or instrument of financing can do the best and most efficient financing for the company under their management, so to help financial managers to right decision making of optimal financing in the process of financing of business, it is required to qualitative and quantitative criteria be presented to be able decide according to the criteria about financing instrument (Zakernya, Dezfuli and Vahed, 2016).

Regarding the content expressed, the aim of this study is that by providing micro and macro criteria to be given criteria to financial managers to be able to better decide in the field of finance. In this study, first theoretical foundations and its background are expressed. In the following, the research method is investigated and after expressing the factors affecting financing and their priorities from the perspective of experts, research results will be discussed.

2. Theoretical Foundations

The best instrument of finance according to the company's internal conditions and sources of financing is different and selecting it is possible considering conditions and criteria. Selection criteria of the most appropriate method of financing are divided into 3 categories of criteria and conditions within the company, criteria of funding source and macro-economic and political factors. Then, these 3 categories and its sub-criteria are investigated.

The main factors determining the right financing source included risk, return, financing and investment time horizon. Each source of funding has its own risk. Expected return (profit or interest received) also varies accordingly. The volume of financing is also an important factor, because some sources of financing in the amount of financing that are able to do it are limited. Time horizon of investment is also considered an important factor, because no source of funding want to invest its resources involved in a project forever, but financing resources are different with each other in the time horizon for investment (Botshekan and Seifuddini al, 2010).

Criteria and conditions within the financed company or project also include profit-sharing mechanism of financial instrument, limit the use of funds of financial instrument, optimal capital structure, the cost of the financing, credit status and risks associated with financial instrument.

On the macro-economic –political factors also cases such as fiscal policy of the government, central bank monetary policy, regulatory policy of the exchange organization and legal religious restrictions are factors influencing the financing that managers to select and decision-making should pay attention to them (Fadaiy Vahed and Mayeli, 2014)

3. Research background

Zakerniya, Dezfuli and Fadaiy Vahed (2016) prioritized the factors affecting the choice of mode of financing in Iran using TOPSIS method in the fuzzy environment based on linguistic variables. The results show superiority of financed criteria than other criteria and attract the attention of managers to internal factors of company such as capital structure and credit status at the time of decision making.

Karimi and Buzar Jahromi (2014) in a study entitled "Analysis of mechanisms of financing small and medium-sized businesses" analyzed and ranked financing mechanisms in production cooperatives in the agricultural sector and found that granting financing facilities with low interest rate is placed in the highest rank. The results also showed that the mechanisms affected of six facilities factors, support, counseling - educational, participatory communication, technical and etiquette.

Karimzadeh, Noruzi, Nadam, (2013) in an article entitled "investigate the effect of financing resources and the focus of stakeholders on the reaction of Tehran stock market to reported earnings of companies" investigated the impact of the source of financing of the company and its shareholders focus on the market's reaction to the earnings reported by companies in the Tehran Stock Exchange and found that the source of financing has a significant effect on the market's reaction to reported earnings so that by increasing reliance of company on financing through the debt, market reaction to reported earnings reduces. The results also indicated that the focus of stakeholders has a significant effect on market reaction to reported earnings so that by increasing shareholders focus, market reaction to the company's reported earnings rises.

Mojtahedzade et al (2009) in the article titled "the relationship of financing and operational performance in companies listed on the Tehran Stock Exchange" investigate the effect of financing, its types and volume on the Companies operating performance. Hypotheses were analyzed using bivariate regression and the comparative method and t and f test.

The results of testing hypotheses show that not only financing not affects operating performance and before and after it, but also type and volume of financing not have much effect on most of measures of operational performance.

Parvanka et al (2014) in a study titled "determine capital structure in circulation after the economic crisis of 2008 in the Portuguese Stock Exchange" concluded that the liquidity, asset structure and profitability are the important factors affecting capital structure of firms.

Shah and colleagues (2010) in a study that was conducted in Pakistan said that the conservative approach of small and medium-sized companies in the country is used as the most important method to finance.

4. Determine criteria of financing

The best instrument of finance according to the company's internal conditions and sources of financing is different and selecting it is possible considering conditions and criteria. Selection criteria of the most appropriate method of financing are divided into 3 categories of criteria and conditions within the

company, criteria of funding source and macro-economic and political factors. Then, these 3 categories and its sub-criteria are investigated.

4-1 Criteria for selecting financed source

Four main factor that determine the appropriate financing sources of any corporate included risk, return, the financing and investment time horizon. On the other hand, financial resources can be classified into 4 categories: personal investment (corporate capital), money market, structured capital market (stock) and capital market out of stock (Botshekan and Seifuddini, 2010)

4-2 The criteria and conditions within financing company

Six major factor of this category include: the mechanism of profit sharing financial instrument, restriction of the use of funds of financial instrument, optimal capital structure (optimize the cost of capital), the cost of financing process, credit status, risks associated with financial instrument. (Ross, 2009 and Berli et al., 2001).

4-3 macro-economic political factors

Four main factors related to macroeconomic political factors in the field of corporate finance include: fiscal policy, monetary policy of central bank, regulatory policy of exchange organization, legal religious restrictions (Zakernia et al., 2016)

5. Methodology

As mentioned, this research is "applied" objectively, which is called developing research because when we search by the aim of having the research findings for solving problems in organization, it is considered as applied research. On the other hand, the method is "descriptive -cross-sectional", because library and documents studies are used in it and library studies caused to describe well what it is; thus, this study in terms of method is descriptive and in terms of the type is placed in the group of applied research.

In this study, group of experts are related to specialists and financial and accounting experts as well as university professors who have been employed for survey about factors affecting financing commercial companies in the country's capital market that their number is 15 people. Given the nature of research subject and research objectives, first using the library method and search in valid scientific sites, about the factors affecting financing commercial companies in country's capital market as well as by studying research literature about the methods and techniques of ranking and decision making including AHP methods, comprehensive information has been collected. Tool of data collection is standard questionnaire related to survey to identify factors affecting by Delphi technique. And it is also paired comparisons questionnaire.

The tool of data collecting in this survey is documents and records present in information banks that is one of the most common methods of data collection. In this study, paired comparison questionnaire and Analytical Hierarchy Process are used for weighting the criteria and sub-criteria affecting the financing of commercial companies in the country's capital market.

6. Analytical Hierarchy Process (AHP)

AHP process was first proposed in 1971 by Thomas L. Saati. Its aim is to create a structure in decision-making that are influenced by several independent factors. The basis of this method of decision-making is based on paired comparisons. Decision making begins by creating a hierarchy tree. Tree of hierarchy of decision shows factors compared and evaluated competing alternatives in decision. Then, a series of paired comparisons are performed. The comparisons specify weight of each factor in line with competing alternatives. Finally, AHP logic integrates a kind of matrices of paired comparisons with each other to be obtained optimal decision.

AHP by the help of organizing options in a hierarchical framework is able to solve complex decisions. The hierarchy is organized through paired comparisons of separate judgments and to not have to prioritize the entire list of decisions and parameters at the same time. AHP procedure generally consists of six stages or steps:

1. Define the problem unorganized, clear stating objectives of problem and results. 2. Analyze (break up) the complex problem to decision elements (criteria and detailed options).

3. The use of paired comparisons between elements of the decision to form the matrix of comparison.
4. The application of the equity method (or other methods) to estimate the relative weights of the decision elements.
5. Calculate the properties of compatibility of matrices in order to ensure consistency of decision-makers judges
6. Adding (integration of elements of harmonious decision to be obtained overall assessment of options (Puladi, 2016).

7. Results of Analytic Hierarchy Process

Now, with regard to determining criteria and sub-criteria of finance of commercial companies by Analytical Hierarchy Process, the data has been analyzed, at this stage after identifying the main criteria and its sub-criteria, first Analytical Hierarchy Process by using software Expert Choice AHP is drawn and then their weight is calculated that in the following, schematic figure of Analytical Hierarchy Process of factors affecting financing of commercial companies can be seen.

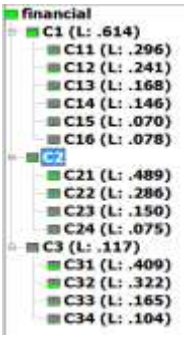


Figure 1: Schematic figure of hierarchical analysis of factors affecting financing of commercial companies

In the following, the calculation related to determine weight of criteria and sub criteria affecting financing commercial companies in Iran capital market is done.

7-1. Determine the weight of criteria affecting the finance of commercial companies

As it was mentioned, according to the research literature, 3 criteria affecting the finance of commercial companies in Iran capital market are identified that include: selection criteria for source of funding, criteria and conditions within the co-financing and political macroeconomic factors using the hierarchical analysis techniques, their weight has been identified.

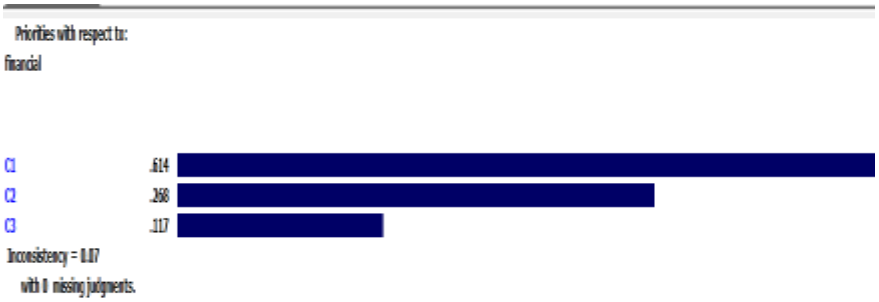


Figure 2: Weights of main criteria

Table 1: weight of main criteria

Criteria	Weight
criteria of selecting the funding source	0.614
criteria and conditions of within financing company	0.268
criteria of macroeconomic -political factors	0.117

As can be seen, inconsistency rate of pairwise comparisons related to criteria is equal to 0.07 that is less or equal to 0.1 so judges are done correctly and the result is reliable.

7.2 determine the weight of sub-criteria affecting the finance of commercial companies

In this stage, by separating weight, the sub-criteria identified is calculated.

7.2.1. Determine the weight of sub- criteria of selecting financed source

For this criterion, based on research literature, 6 important sub-criteria are identified that include profit-sharing mechanism, the financing cost, limit the place of using funds, optimal capital structure, company credit status and financial instrument risks that the weight of the sub- criteria is calculated by AHP and the results can be observed in the following.

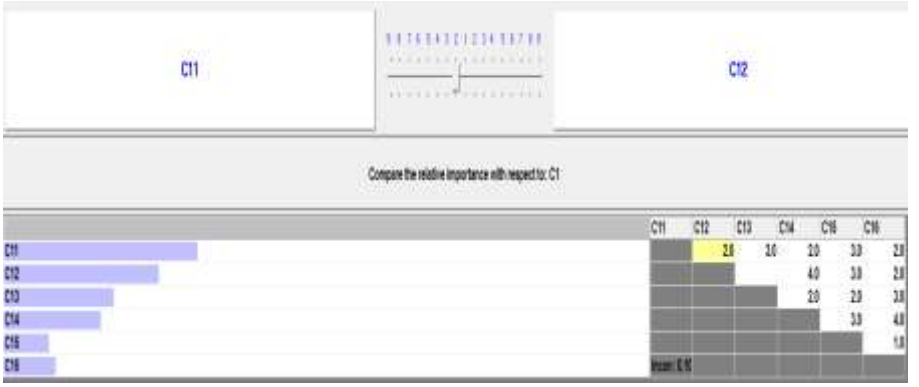


Figure 3: pairwise comparisons of sub- criteria of selecting financed source

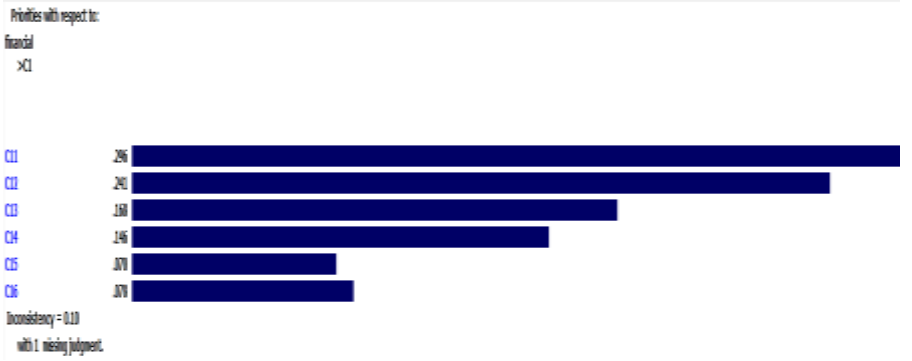


Figure 4: Weight of sub-criteria of selecting financed source

Table 2: Weight of sub-criteria of selecting financed source

Sub-criteria	Wight
Mechanisms of dividend	0.296
The cost of financing process	0.241
Limit on the place of using funds	0.168
Optimal capital structure	0.146
Company credit status	0.070
Risks of financial instrument	0.078

As can be seen, inconsistency rate of pairwise comparisons related to criteria is equal to 0.1 that is less or equal to 0.1 so judges are done correctly and the result is reliable.

7.2.2 Determine weight of sub- criteria and conditions within financing company

For the criteria according to experts view, 4 important sub-criteria are identified that include expected return, the volume of financing, financing time horizon and risk level that the weight of the sub- criteria is calculated by AHP and the results can be observed in the following.

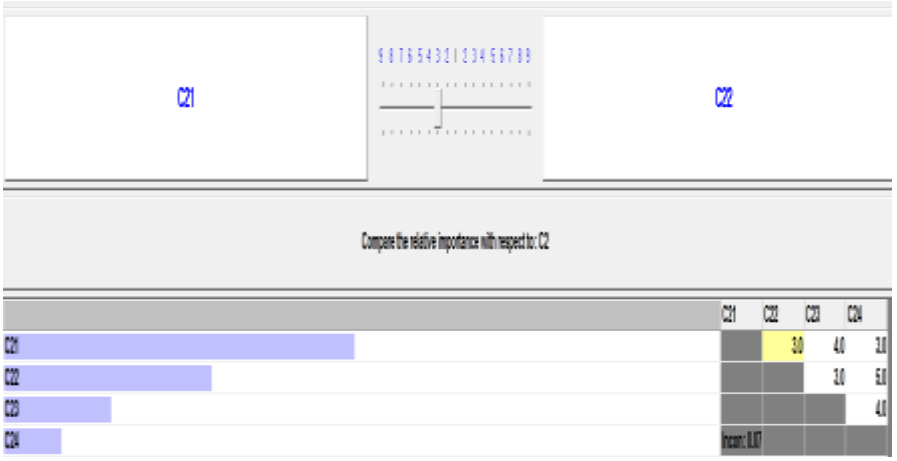
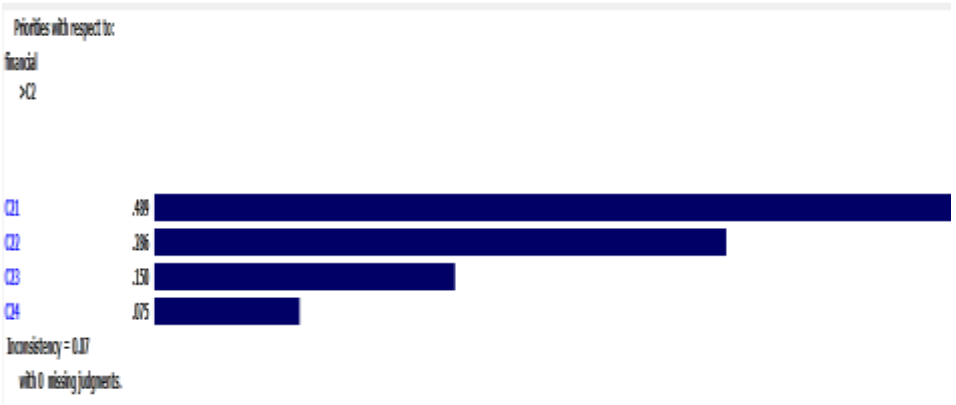


Figure 5: pairwise comparisons of sub- criteria and conditions within financing company



Fifure6: Weight of sub- criteria and conditions within financing company

Table 3: Weight of sub- criteria and conditions within financing company

Sub-criteria	weight
Expected return	0.489
The volume of financing	0.286
Time horizon of financing	0.150
The level of risk	0.070

As can be seen, inconsistency rate of pairwise comparisons related to criteria is equal to 0.07 that is less or equal to 0.1 so judges are done correctly and the result is reliable.

7.2.3 Determine weight of sub- criteria of macroeconomic -political factors

For this criterion based on research literature, 4 important sub criteria have been identified that included, government fiscal policy, monetary policy of central banks, regulatory legal restrictions and regulatory policies of Stock that the weight of the sub-criteria is calculated by AHP and the results can be observed in the following.



Figure 7: pairwise comparisons of sub- criteria of macroeconomic -political factors

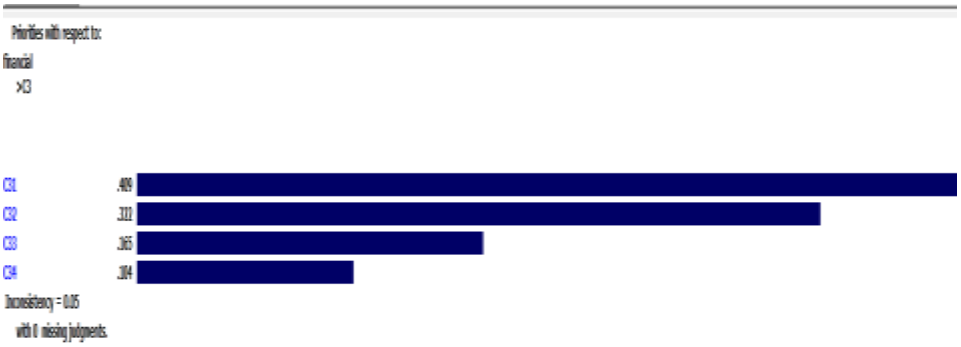


Figure 8: Weight of sub-criteria of macroeconomic -political factors

Table 4: Weight of sub-criteria of macroeconomic -political factors

Sub-criteria	Weight
Government fiscal policy	0.409
Central bank monetary policy	0.322
legal religious restrictions	0.165
Regulatory policy of Stock	0.104

As can be seen, inconsistency rate of pairwise comparisons related to criteria is equal to 0.05 that is less or equal to 0.1 so judges are done correctly and the result is reliable.

Discussion and conclusion

As mentioned, financing is one of the permanent concerns of executives of commercial companies that allocate a significant proportion of time and energy to this work and are always looking for proper strategies in this field. Access to adequate and sustainable financing mechanisms guarantees durability and viability of each economic unit and vice versa, not reaching this issue can lead the company toward inactivity and eventually dissolution.

In this study it is tried to be done the prioritizing factors affecting finance of commercial companies in Iran capital market using Analytical Hierarchy Process, the first finding was this that financing in Iran affects three general factors related to the financing, factors associated with funding and related factors with political and macro-economic factors that affect sub-criteria.

In general factors, factors related to financed source with a weight of 0.614 is placed in first rank and factors related to the financing with the weight of 0.268 placed in second rank and the factors related to macro-economic-political factors with weight 0.117 placed in third rank. So as results of Analytic Hierarchy Process has shown, factors related to funding is the most effective factor on the finance of companies or projects in Iran, ie the company should pay attention to its own internal features in choosing the method of financing. The more it has more appropriate features, it can finance with ease and less cost.

In sub criteria of factors associated with financed that was the most important overall factor, the factor of profit-sharing mechanism specifies that what tool is better for financing; This means that if the company has a high profit, it is better to use the methods with fixed profit that are usually cheap too and not need to participate financed in their high profit and if the company has low profit or very variable and unpredictable profit, it should be used participatory methods.

In the sub-criteria and conditions within financed company that was in the second priority, the factor of expected returns with weight was 0.489 had the most weight and other variables also in order of priority are: the volume of financing, time horizon of financing and risk. Impact of the expected rate of return is in the case that each of the sources of return financing or in other words, demands earnings or special interest of the company or project and the company or project must consider the interest that can pay for financing, then according to the expected return of each of the financing resources goes toward them.

In the sub-criteria of macroeconomic-political factor that was in third priority, factor of fiscal policy with weight 0.409 had the most weight and other variables in order of priority are: Central bank monetary

policy, legal and religious restrictions and regulatory policies of Exchange organization. The effect of rate of return is so that each of the sources of financing of return or in other words demands earnings or a special interest of the company or project and company or project must consider the amount of interest that could be paid for financing, then according to the expected return of each financing resources goes toward them.

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