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Presenting the Proposed Model of Capital Raising Considering Iran's Economic Environment[1]

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Research Paper

INTRODUCTION

In today's world, companies need appropriate solutions to better use their resources to solve their economic problems. One of the important solutions is the expansion and development of investment. Companies' investment is affected by other factors and there may be a threshold effect. Selecting and checking the number of financial resources in the company's financing portfolio is one of the main duties of corporate management to increase the wealth of shareholders. The growth and continued activity of companies requires financial resources. In financing decisions, companies face two sources of financing, internal and external. The main duty of managers is to maximize the wealth of shareholders and this requires the optimal use of financial resources and the acquisition of appropriate returns and risks, methods of financing, and how to use the proceeds from these methods on the future return of shares, profit per share, risk Financial and ownership percentage of shareholders affects. In domestic financial sources, instead of distributing profit among shareholders, it is used in the company's main operational activities to obtain more returns, and in external financial sources,

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it is funded by debt and share issuance. Capital Raising is one of them. There are three theories related to the causes and effects of capital increase in international companies. First, the “fragmentation” perspective argues that firms internationalize to circumvent regulations, weak accounting systems, taxes, and illiquid domestic markets that discourage foreign investors from buying their shares. Therefore, companies internationalize to gain access to cheaper capital. Second, the “linkage” perspective argues that firms internationalize to link themselves to a better corporate governance framework that limits the exploitation of private interests by corporate insiders. This makes the companies more attractive to potential investors and their capital cost is reduced causing a sustainable improvement in the company's performance. Third, the "market timing" perspective suggests that companies are Capital Raising abroad to temporarily take advantage of high prices for their securities during periods of "hot" markets. The importance of Capital Raising is such that both legislators and regulatory bodies, including the Securities and Exchange Organization, have the necessary sensitivity in this regard and have thought of the necessary measures and requirements in this regard, It is possible to refer to the provisions of Articles 5 and 141 of the Commercial Law, the regulations of the Stock Exchange and Securities Organization. One of the decisions that always affects the shareholders' wealth is the decisions related to financing and, as a result, Capital Raising. The announcement of holding an extraordinary meeting to approve the capital increase, as financial news, affects the stock price and, as a result, its yield.

Companies always try to develop their activities and spend all their cash to increase sales and earn more profit. Therefore, to finance new investments and obtain liquidity, one of the methods before them is to turn to the capital markets. Usually, most of the companies issue new shares to expand their activities and implement development plans, due to the limited credit of the banking system and the complexity of the procedures for obtaining the permission to issue bonds. On the other hand, investors, as providers of financial resources needed by economic units, invest in these units with various motives such as profit and cash benefits and ownership. Therefore, what seems to be most important for economic units is the increase of shareholders' wealth. However, today, one of the many problems that the Tehran Stock Exchange is facing is the continuous Capital Raising of companies. If the financial provision is from the place of capital increase to compensate for losses or prevent low-quality distribution profits that the management has reported; But in reality, it is due to the illusory nature of these paper profits that the company cannot pay, not only does it not increase the yield, but also causes the capital cost to increase and the economic added value to decrease. As a result, the reason for the capital increase cannot be considered the interests of the shareholders, but the reason is the poor quality of the accounting profit, which is the basis for declaring dividends and does not create adequate cash. Dividend payment is a tool for companies to finance from Capital Raising. The dividend of the companies that provide financing from Capital Raising has less information about the quality of their financial reporting. It is worth mentioning that the concept of Capital Raising plays a significant role in the process of achieving profitability and improving the performance of companies, and in this regard, investors also turn to this important support in the completion and implementation of capital projects. Financing refers to the activities and transactions related to Capital Raising to create, develop, and acquire a business and is directly related to corporate decisions that have a financial or monetary impact, and it can be considered the link between the capital market and the organization. The ultimate goal of corporate financing is to maximize the value of a business through the planning and implementation of resources while balancing risk and profitability. Many times companies need to provide new liquidity to improve their profitability. Capital Raising is one of the ways to provide financial resources for companies. Capital raising in each company can be different according to the structure and complexities of that company, which also has different methods. Capital raising in joint stock companies means a nominal increase in the registered capital of the company. In other words, Capital Raising means increasing the number of shares issued by joint stock companies. Capital raising means using methods to develop the financial resources of companies active in the capital market. The difference between the aforementioned methods is in the funding sources that are used for Capital Raising.

MATERIALS AND METHODS

The current research is based on the practical purpose and the qualitative data type of the exploratory type based on the context-based approach, which includes interviews with 12 professional experts, including managers and university professors, based on practical experiences, with a general analysis of three stages of coding based on data (open, central and selective), the components of capital raising were identified according to Iran's economic environment.

RESULTS AND DISCUSSION

Factors causing capital raising include legal requirements, corporate diversification, structural factors, shareholding structure and tax system, background factors including financing system, government economy, laws and regulations, economic-political conditions and accounting system, intervention conditions including bureaucratic operations, legal restrictions and managerial decisions, strategies including budget resources, information quality, supportive policies, free economy, reforming structures and the culturing issue and its consequences including creating knowledge-based job opportunities, increasing social welfare, improving profitability, financial pressure for shareholders, loss of creditor advantage due to the inflation in society.

CONCLUSION

The results of the research show the optimal management of sufficient financial resources and the creation of effective mechanisms for the possibility of investment, which is a factor for production, employment, and moving the economic wheels of the country, on the other hand, paying attention to the categories presented in the research model can greatly help the development of the economic activities of the companies and as a result, the dynamics and revival of the companies.

Knowledge Enhancement: It is expected that the results of the research can expand and enrich the theoretical foundations of the literature related to capital raising and help managers in creating and re-creating the components of capital raising.

Keywords: Financing, Investment Category, Capital Raising, Foundational Context Approach.

JEL Classification: M42, G41.