

## Identification and Ranking of the Criteria for Measuring the Risk of Companies for Listing in the Capital Market<sup>1</sup>

Fatemeh Morshedi<sup>2</sup>, Seyed Ali Hosseini<sup>3</sup>

Received: 2022/06/15

Accepted: 2022/11/18

Research Paper

### INTRODUCTION

The capital market is one of the pillars of the country's economy with functions such as optimal allocation of resources and capital formation, increasing the liquidity of assets, improving corporate governance, regulating securities, and protecting and supporting investors, has a key role in improving production, productivity, job creation, investment, economic growth and in general improved social welfare and social justice. One of the essential tools for the growth and development of the capital market is the role of the stock exchange in facilitating the formation of capital, which can be achieved by accepting companies on the stock exchange and deepening the capital market. Therefore, companies must be accepted properly to protect investors and public trust. One of the most important consequences of incorrect listing of companies in the capital market is the involvement of companies with issues such as downgrading in the classification of trading boards, suspension, and cancellation of listing for various reasons such as non-fulfillment of obligations by the issuer, the bankruptcy of the issuer and rejection of financial statements by the auditor. Also, giving a deadline to issuers by the current instructions for listing securities to announce the issuers' plans to exit the cases of non-compliance.

Such processes require the long-term wait of the company's shareholders for reopening and the possibility of obtaining initial capital, which leads to a

---

1. DOI: 10.22051/JERA.2022.40811.3020

2. Ph.D. Student, Department of Accounting, Faculty of Social and Economic Sciences, Alzahra University, Tehran, Iran. (f.morshidi@alzahra.ac.ir).

3. Associate Professor, Department of Accounting, Faculty of Social and Economic Sciences, Alzahra University, Tehran, Iran. (Corresponding Author). (a.hosseini@alzahra.ac.ir).

decrease in trading volume and lack of liquidity of shareholders' shares and creases in investment risk. This will lead to instability, reduce public trust in the capital market and reduce people's willingness to invest, and will have heavy costs for the stock market and investors. Accordingly, the purpose of this study is to extract the criteria for measuring the risk of companies at the time of listing to the capital market and their ranking to reduce the effects of various risks to investors due to the acceptance of companies with unfavorable status to provide a suitable platform for investors to invest in new companies, increase liquidity, deepen the market and develop fairer regulations by capital market regulators.

## **MATERIALS AND METHODS**

By literature review and interviewing some capital market experts, the main risk classes of companies and risk assessment criteria in each category were extracted and a questionnaire was designed to survey Delphi team members. Delphi is a method of gaining group knowledge about a specific topic that results from the consensus of experts. The use of the fuzzy Delphi method to solve the problem of ambiguity and uncertainty in people's judgments on various issues has been proposed. In this study, to fuzzy the views of experts in the first and second round Delphi questionnaires, the means of the minimums, the mean, and the maximums of triangular fuzzy numbers have been used. All criteria with a fuzzy value greater than 0.7 and a coefficient of variation less than 0.5 are accepted. After performing the fuzzy Delphi process and extracting the criteria for measuring the risk of companies for listing, to determine the factor loading of each criterion, the confirmatory factor analysis test was used using Smart-PLS software. The minimum acceptable factor load for the criteria is 0.4 and the next criterion for judgment is the t-value statistic, which values greater than 1.96 at the 95% confidence level are acceptable for the approval of the criteria. The method used in this study for ranking criteria is the MABAC ranking method of multi-criteria decision-making methods that the basic premise of this method is to determine the distance of the criteria from the boundary of the similarity area, and the options are ranked by determining the amount of difference from these boundaries.

## **RESULTS AND DISCUSSION**

Due to the importance of companies listing in the capital market, in this study, we tried to identify the risk and better evaluate companies at the time of acceptance in the capital market using the fuzzy Delphi method and MABAC ranking process to identify and rank criteria. In this regard, after analyzing the results from a total of 107 criteria agreed upon by experts, 100 criteria include 33 criteria out of 38 criteria related to "operational

risk", 25 criteria out of 27 criteria related to "strategic risk", all 20 criteria related to "Financial risk" and all 22 criteria related to "information risk" were approved.

Also, the results of the MABAC ranking in this study show that the most important criteria for measuring the risk of companies at the time of admission to the capital market include the experience and expertise of CEOs and executives, management stability, the impact of the company sales on determining Government-mandated pricing, board independence, the impact of international sanctions on the import of raw materials and exports of the company's products indicate the importance of corporate governance criteria in the strategic risk category, the risk of compliance with rules and regulations in the operational risk category and market risk is in the category of financial risk according to capital market experts.

## **CONCLUSION**

The results of the study on the high importance and impact of experience and expertise of CEOs and executives, management stability, and board independence on companies' risk at the time of admission, with the provisions of Chapter 3 of Corporate Governance Guidelines for companies listed on the Tehran Stock Exchange in the case is consistent with the characteristics of the board of directors and the managing director. Also, the results of the study indicate the high impact and importance of international sanctions on the import of raw materials and exports of products at the risk of companies at the time of acceptance, which reduces trade relations, decline in international trade, weakens the competitiveness of domestic producers, restrictions on banking transactions are one of the main reasons.

Another finding of the study is the high impact of Government-mandated pricing on the performance and risk of companies at the time of admission that the reduction of companies' competitiveness and government intervention in the supply and demand mechanism are the main reasons.

One of the most important limitations of the present study, like other survey research, is the possibility of a lack of understanding of the concepts and content of the questionnaire by respondents, reduced response accuracy, fatigue of respondents due to a large number of questions, the times of Delphi method compared to other questionnaire methods. According to the applied results of this research, it is suggested that researchers in future research, according to the criteria for measuring the risk of companies at the time of admission in the capital market, measure the risk of initial public offering companies and compare the risk with industry risk to obtain an accurate evaluation of the criteria extracted in different industries.

**Keywords:** Capital Market Listing, Financial Risk, Information Risk, Operational Risk, Strategic Risk.

**JEL Classification:** G32, L1, M48.

COPYRIGHTS



This is an open access article under the CC BY-NC-ND 4.0 license.