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Research Paper

Optimal Financial Leverage and Financial Crisis Control; Emphasizing the Moderating Role of Managers' Ability The Interaction of Innovation with Globalization and Institutional Quality on the Financial Wealth[1]

Akbar Aminimehr[2], Mehdi Saghafi[3], Masumeh Falahkohan[4]

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INTRODUCTION

This research investigates the relationship between the speed of achieving optimal financial leverage and the control of financial crises in companies, with an emphasis on the moderating effect of managers' ability. Empirical and theoretical evidence suggests that a company's inability to meet its obligations, when prolonged, can lead to a financial crisis. One critical factor in preventing such crises is the capital structure. The importance of capital structure and optimal leverage lies in their influence on a company’s growth, survival, and its expected risk and return. Consequently, adjusting the capital structure is a central concern for financial analysts and researchers.

Improper financing and inadequate external capital acquisition are among the key reasons companies fail to achieve their goals, making the adjustment speed toward optimal financial leverage vital. Company managers play a supervisory role in critical situations and influence the speed at which optimal leverage is achieved. By selecting the best combination of debt and equity, managers can reduce financing costs and maximize shareholder value while considering risk and return. Capable managers reduce risks to enhance company efficiency, thereby creating value and increasing shareholder wealth. However, risk-averse managers tend to prefer lower debt levels to avoid financial crises, whereas risk-taking managers may accept higher debt levels to

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2. Assistant Profesor, Faculty of Management, Economic & Accounting, Payame Noor University, Tehran, Iran. Corresponding Author. Email:aminimehr_a@pnu.ac.ir.
3. Assistant Profesor. Faculty of Management, Economic & Accounting, Payame Noor University, Tehran, Iran. Eamil:Saghafi.mahdi@pnu.ac.ir.
4. M.Sc. Department of Accounting, Payame Noor University, Tehran, Iran. Email:masifalah301@gmail.com.

pursue greater returns, increasing the likelihood of a financial crisis. This creates a theoretical and empirical contradiction, as the ability of managers might either strengthen or weaken the relationship between financial leverage and financial crises.

MATERIALS AND METHODS

This quantitative, applied, and post-event research relies on document mining and data from the *New Rahvard* software, as well as audited financial statements of companies listed on the Tehran Stock Exchange. The statistical population includes all companies admitted to the Tehran Stock Exchange, covering the period from 2013 to 2022. Companies included in the sample meet the following criteria: a) their fiscal year ends in March for comparability. b) They have not changed their financial period during the 10-year study period. c) Data on selected variables are available. d) They do not belong to the banking, insurance, or investment sectors. After applying these criteria, 124 companies were selected as the final sample. Multivariate regression models using panel data methodology were employed to test the hypotheses. Data analysis was conducted using *EViews 10* software.

FINDINGS

The results of hypothesis testing reveal that the speed of achieving optimal financial leverage has a negative effect on the financial crises faced by companies. However, the interaction between the speed of financial leverage adjustment and managers' ability does not significantly affect financial crises.

CONCLUSION

The faster a company adjusts its leverage to achieve optimal financial leverage, the better it can control financial crises. Companies with an optimal debt level in their capital structure are less likely to face financial crises and difficulties in meeting their obligations. While the ability of managers has a critical impact on the continuity of company operations, its interaction with the speed of achieving optimal financial leverage does not significantly enhance financial crisis control. This could be attributed to the fact that capable managers focus on achieving optimal financial leverage from the outset, implementing strategies to prevent financial crises.

Given the importance of determining optimal financial leverage levels and understanding the role of managers' abilities, particularly in countries with high inflation rates, addressing these issues is crucial. This study is the first to analyze the combined effects of optimal financial leverage and managerial ability on financial crisis control. It contributes to the literature by exploring the moderating role of managers’ ability in financial crisis prevention and extends the framework of financial leverage and managerial capacity in organizational performance.

Keywords: Financial Crisis, Ability of Managers, Optimal Financial Leverage.
JEL Classification: G32, G12, H63, M12.

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