



The Effect of Managerial Ability on the Relationship between Capital Structure and Firm Value (Iranian Evidence)

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ABSTRACT: Managerial ability is one of the variables affecting financial performance and continuity of activity, which can lead to improvement of investment and financial performance. Considering the significant effect that the managerial ability has in improving the firm value and investment, and taking into account the important role it plays in the financial situation, the firm's management can formulate appropriate policies for financial performance and investment with its abilities. Therefore, the purpose of this study was to examine the effect of managerial ability on the relationship between capital structure and firm value. For this purpose, 100 firms were selected as a sample from the statistical population that consists of all the firms admitted to the Tehran Stock Exchange using the method of systematic elimination during 2014 to 2019 and after collecting the data, research hypotheses were analyzed using Stata 15 statistical software. The results obtained from the hypothesis test showed that there is a negative and significant relationship between capital structure and firm value, but no significant result was found in the effect of managerial ability on the relationship between capital structure and firm value.

KEYWORDS: Managerial Ability, Capital Structure, Firm Value, Investment

I. INTRODUCTION

In today's fast-changing business climate, only focusing on the direct effect of managerial ability on firm performance may not fully reflect a manager's ability to sustain competitive advantage. The current gap in the literature that links managerial ability to capital structure or firm performance, does so inadequately[1]. Managers determine, plan, implement, and maintain a firm's

business strategy. Therefore, the characteristics of a manager are an important factor in the selection and success [2].

Managers with high ability have a better understanding of the firm's internal and external conditions and have a high estimation power in relation to accruals. In addition to the quality estimates they make, capable managers identify profitable projects due to their knowledge and understanding and improve operational cash flows by investing in them [3]. In addition. Furthermore, as poor management is generally acknowledged as one of the most key factors of business failures, it is expected that managerial ability to be a useful variable in predicting financial distress[4].

Finance is the backbone of every business, individual, and entity. Finance is divided into three parts: public finance, individual finance, and, most importantly, corporate finance. Every business is backed by corporate finance. Corporate finance decisions include determining what kind of capital structure mix would suit an organization [5,6]. Therefore, the success of every business is dependent on its financial decisions. An organization's capital structure is the foundation for any sound investment policy[6].

It is expected that the value of the economic firm will increase with the increase of managerial ability. In fact, an economic firm that is managed by an efficient manager will be more valuable to investors. Chemmanur. Paeglis (2005) and Chemmanur, et.al (2009) stated that an economic firm with a capable manager has less information asymmetry and investors understand the value of such a firm well. In other words, more capable managers are able to better convey the intrinsic firm value to investors by reducing information asymmetry. Therefore, such a firm will



reduce its financial leverage and turn to capital increase during financing[7,8].

Various changes in the market, including trade liberalization and speed in technological changes, have increased competition and management difficulty in organizations. In such a market, companies need correct decisions by managers. Effective risk management based on valid conceptual principles forms an important part of this decision-making process[9]. The main purpose of the current research is to investigate how management ability affects the capital structure and firm value of the company.

Significance of the study:

The main objective of preparing financial reports is the information required by the stakeholders to have confidence in increasing their forms that reflect the financial and operational status of the company, so the accuracy of this information and future forecasts that they need when making economic decisions[10].

Managers, as representatives of shareholders, should try to adjust the capital structure of the firm in such a way that the cost of the firm's capital is minimized and as a result, the firm value and the wealth of the shareholders are maximized[11].

Implied cost of capital is one of the most important and key tools in many managerial decisions, and it is the rate of return that the firm must obtain from its investments in order to meet the expectations of investors who have provided the firm long-term funds. Capital is a vital and important element in the formation of economic activities and its exploitation, if capital is not available, no economic activity can be established. In general, firms provide financing in two ways to achieve their desired capital; one way is through the capitals of shareholders who are considered the owners of the firm; in return for providing the firm's capital, the shareholders expect a return, which includes changes in the share price and benefits from ownership such as dividends. Using debt and loans is another way to finance. In return for providing capital, creditors expect repayment of the principal and interest of the loan amount. With the aim of maximizing wealth, the financial manager uses a combination of these two ways and the capital structure of the firm is formed. The environment in which firms operate is a growing and very competitive environment, and in order to survive, firms are forced to compete with many factors at the national and international level and expand their activities through new investment, and

they need have financial resources for survival and investment.

Theoretical foundations and research background

Capital Market is a major part of financial Market, in fact it is considered as one of the main streams of financing in an economy. Effect of capital Market is mainly in liquidation, economic growth and development[12]. The capital market in any country has two basic functions, firstly providing a platform for investment and risk management by investors and secondly creating mechanisms to finance firms. Providing financial resources for the investments needed by the firm is done by various financing tools, each of which has its own results according to the economic conditions and the current situation of the firm.

Although everyone agrees on the importance of a manager's ability in a firm, traditional economics does not care about the special position of management in firms. In the past, researches have been conducted to examine the effects of managerial ability on firm efficiency, management skills and talents by Demerjian et al. (2012) [13]. Despite the assumption that managers mostly pursue similar goals, the effect of managerial ability on firm policies and value has been neglected. Recently, a handful have challenged this concept and begun to recognize the effect of managers' ability with firm performance and policies. In order to adjust the conflict of interest, criteria for evaluating the firm's financial performance and providing a basis for determining the amount of incentive payments to them based on the results of these evaluations have been devised and used. On the other hand, capable managers have a significant role in the capital structure and firm value, therefore, the authors of the study were prompted to explain this research in Iran and according to the data of the firms admitted to the Tehran Stock Exchange.

Alinejad Saroukalai and Tareghi (2017) examined the effect of managerial ability on financing policies. They analyzed the financial statements of 2009 to 2014 for 133 firms. The results of the research indicate that managerial ability has a positive and significant relationship only with financial leverage, which can indicate that managers who have high managerial ability in order to make profitable investments and demonstrate their abilities towards using financial leverage[14].

Delkhosh and Farrokhi (2016) studied the role of managerial ability in predicting the financial



crisis. For this purpose, the effect of managerial ability on predicting the financial crisis has been evaluated using the data of 122 firms during a 5-year period from the beginning of 2009 to the end of 2013, with the help of linear regression. Demerjian et al. (2012) model was used to measure managerial ability, and Altman's financial crisis prediction model was used for financial crisis. The results of the present study showed that there is a significant relationship between the managerial ability of the current year and the financial crisis of the next year[15].

Karimi et al. (2014) examined the effect of economic and accounting variables on the capital structure of firms admitted to the Tehran Stock Exchange. The results of the aforementioned research, which was conducted using the data of 143 firms during the period of 2011 to 2010, showed that the exchange rate, the amount of bank credits, dividends paid, the ratio of short-term and long-term debt have a positive relationship with the capital structure, and there is a negative relationship between the variables of the rate inflation, GDP, interest rate with capital structure [16].

Bahri Thales and Baybordi (2015) examined the effect of managerial ability on the quality of profits of firms listed on the Tehran Stock Exchange. The statistical population of the research includes all the firms admitted to the Tehran Stock Exchange during the period of 2007 to 2013, and in this regard, 120 firms were selected by systematic elimination method. In this research, for profit quality, three models of accruals quality, profit stability and profit predicting ability were used, and the findings of the research indicated that managerial ability has an effect on the quality of profit of firms admitted to the Tehran Stock Exchange[17].

Andrew et al. (2013), studied the management abilities and performance of the firm with evidence from the global financial crisis. Also, in their research, they showed that managerial ability has a positive and significant relationship with the firm's performance. They also showed that managerial ability has a negative and significant relationship with information asymmetry[18].

Chen et al. (2015), examined the facilitating managerial ability in the innovative success of the firm and concluded that the ability of managers is one of the main components of success in innovation decisions and has a positive relationship with the market value of firms[19].

Managerial ability may impact capital structure, affecting a firm's market value[1].

Petkevich and Prevost (2018) found that high-ability managers have a significant presence in corporate financing policies[20].

Research method

The research method is descriptive-analytical in terms of nature and content. This research will be done in the framework of deductive-inductive reasoning. On the other hand, the present research is after-event (semi-experimental), that is, it is based on the analysis of past and historical information. Also, this research is a library and analytical-scientific study and is based on panel data analysis. The research is considered to be practical in terms of purpose and the descriptive-analytical in terms of method. The statistical population is all the firms admitted to the Tehran Stock Exchange during a period of 6 years (2014 to 2019) and the sampling method was a random type with systematic elimination, and in the analysis of the data, it was considered by the researcher. The following conditions are considered for sample selection:

Due to the comparability of financial statements, their financial year should end on 29/12 every year. During the research period, there should be no change in the financial period (year), so that the results of their financial performance can be compared with each other. The required data for the research variables should be available during the time period under study, so that the calculations can be performed without defects as much as possible. Their trading symbol in the stock market has not been closed for more than three months, because in this research, the stock prices of the firms are used. It should not be part of banks and financial institutions (investment firms, financial intermediation, holding firms, banks and leasing firms), because the nature of management, activities and financial reporting are different in them.

As a result of applying the conditions and considerations in the systematic elimination sampling, 100 firms from the statistical population were selected to perform the tests. The research period is 6 consecutive years, so the final sample size is 600 years-firm.

Research hypotheses and variables

1. Managerial ability has an effect on the relationship between capital structure and firm value.

$$FP_{it} = \beta_0 + \beta_1 Lev_{it} + \beta_2 ability_{i,t} + \beta_3 Lev_{it} * ability_{i,t} + \beta_4 FSize_{it} + \beta_5 FAGE_{it} + \beta_6 MB_{it}$$



2. There is a significant relationship between capital structure and firm value.

$$FP_{it} = \beta_0 + \beta_1 Lev_{it} + \beta_2 FSize_{it} + \beta_3 FAGE_{it} + \beta_4 MB_{it}$$

Dependent variable

Managerial ability

Managing director power indicator (MA Score): It is calculated based on the model of Damirjian et al. (2012). In this method, in the first stage, the efficiency of the firms is calculated by the Data Envelopment Analysis (DEA) method.

DEA: It is a mathematical technique based on linear programming that can determine the efficiency of a group of examined units by using a multiple set of input and output variables.

$$\text{Efficiency} = \frac{\text{total weighted output}}{\text{total weighted input}}$$

According to Damirjian et al (2012) instructions to calculate efficiency, the firm's efficiency score as a measure of efficiency, using the firm's sales (model output data) and the cost of goods sold, intangible assets, selling and administrative expenses, net of fixed assets (model input data), are calculated by DEA software for each firm.

The total efficiency of the firm's resources is measured from the following relation:

$$\text{TotalEFFICIENCY} = \frac{\text{Sales}}{v_1 \text{CoGS} + v_1 \text{S\&AE} + v_1 \text{PPE} + v_1 \text{OtherInta}}$$

Where,

Sales: Total sales of firm i in year t

CoGS: Cost of goods sold

OtherInta: Other intangible assets

S&AE: Selling and administrative expenses

Net PP&E (PPE): Net of fixed assets

V1: variable coefficient

Number 1 corresponds to firms with strong efficiency and numbers less than 1 (to zero) correspond to firms with weak efficiency.

In the next stage, based on the method of Demerjian et al. (2012) & the same studies, the following regression relation is fitted with the help of logistic regression in Eviews statistical software. In this regression model, characteristics of firms such as total assets of the firm, market share of the firm, operating cash flows, age of the firm, the ratio of sales of subsidiaries (affiliated) to the total sales of the firm, including the exchange rate in the comprehensive profit and loss statement and a virtual variable to control the year in the firm against the firm's efficiency are examined. Based

on the regression analysis, the remaining result of this regression equation is the efficiency (ability) of management, which is targeted as an independent variable in this research.

$$\text{Firm Efficiency}_{it} = \beta_0 + \beta_1 \text{Ln}(\text{Total Assets})_{it} + \beta_2 \text{Market Share}_{it} + \beta_3 \text{OCF Indicator}_{it} + \beta_4 \text{Ln}(\text{Age})_{it} + \beta_5 \text{Business Segment Concentration}_{it} + \beta_6 \text{Foreign Currency Indicator}_{it} + \beta_7 \text{Year}_{it} + \varepsilon_{it}$$

Ln(Total Assets): The natural logarithm of total assets of firm i in year t

Market share: Market share, as the ratio of firm i's sales in year t to industry sales in year t

OCF indicator: In this research, the operating cash flow indicator for firm i in year t is extracted and used from the cash flow statement. Operating cash flow is the incoming and outgoing cash flow resulting from the main and continuous activities that generate operating income of the business unit, as well as those cash flows that are not directly related to other categories of cash flows in the cash flow statement.

Ln(Age): The natural logarithm of the age of firm i in year t.

Business segment concentration: The ratio of the sales of subsidiary firms to the total sales of firm i in year t. If a firm does not have an affiliated unit, its value is assumed to be one in the equation.

Foreign currency indicator: If firm i has included the exchange rate in the comprehensive profit and loss statement in year t, its value is one, otherwise its value is assumed to be zero.

Year: A virtual variable to control the year in firm i in year t.

ε_{it} : It is the remaining of the above model, which is the same as the power of the managing director of firm i in year t, based on the definition of Demerjian et al. (2012).

Independent variable

A) Capital structure

LEV_{it}: It represents the capital structure (financial leverage) which is calculated through the ratio of total liabilities to total assets.

B) Firm value

Firm-performance: It represents the firm value, which is calculated through the measure of return on assets (the ratio of profit before interest and taxes on the total assets of the firm).

Control variable

FSIZE: Firm size indicator (in this research, to measure firm size, the natural



logarithm of the capital market value of firm i at the end of year t will be used).

FAGE: Firm age; which is calculated through the natural logarithm of the years of acceptance in the Tehran Stock Exchange.

Descriptive statistics

In order to examine the general characteristics of the variables and their precise analysis, it is necessary to be familiar with the descriptive statistics related to the variables. Table 1 shows the descriptive statistics of the data related to the variables used in the research. Descriptive statistics are related to 100 sample firms during a period of 6 years (2014 to 2019).

Table 1. Descriptive statistics of research variables

Variable name	Quantity	Mean	Standard deviation	Variance	Skewness	Kurtosis	Minimum	Maximum
Managerial ability	582	0/059	0/1377	0/0189	0/0702	4/6521	-0/339	0/3729
Capital structure	582	0/6139	0/2761	0/0762	4/0753	5/0899	0/0901	4/0027
Firm value	582	0/0561	0/1810	0/0327	-0/7020	7/6702	-1/0632	0/6216
Firm age	582	3/608	0/5638	0/3179	0/0854	1/8089	1/7917	4/0775
Firm size	582	14/207	1/5370	2/3625	0/8085	3/4108	10/9884	18/863
Firm growth	582	0/437	0/2054	0/422	1/6571	6/831	0	1/2391

The main centrality indicator is the mean, which indicates the balance point and center of gravity of the distribution, and is a good indicator to show the centrality of the data. For example, the mean value for the firm size variable is equal to 14/207, which shows that most of the data are concentrated around this point. Dispersion parameters are a measure to determine the amount of dispersion from each other or the amount of their dispersion compared to the mean. One of the most important dispersion parameters is the standard deviation. The value of this parameter for firm size is equal to 1/5370 and for managerial ability is equal to 0/1377, which shows that these two variables have the highest and lowest standard deviation, respectively. If the variance is zero, all samples have the same value. The larger the variance, the greater the dispersion of the observations. It can be seen that the firm size variable has the highest amount of variance, so it

has the highest dispersion compared to other variables. In statistics, skewness is a measure of symmetry or asymmetry of the distribution function. For a completely symmetric distribution, the skewness is zero, and for an asymmetric distribution with a kurtosis toward higher values, the skewness is positive, and for an asymmetric distribution with a kurtosis toward smaller values, the skewness value is negative. Among the research variables, the firm value variable is equal to -0/7020, which has the lowest skewness value, so it is closer to the normal distribution than other variables. Kurtosis represents the height of a distribution. In other words, kurtosis is a measure of the height of the curve at the maximum point.

Positive kurtosis means that the peak of the desired distribution is higher than the normal distribution,

and negative kurtosis is a sign

that the peak is lower than the normal distribution. Firm age variable with 1/8089 has the lowest kurtosis value, so in terms of kurtosis, among research variables, firm age is closer to normal distribution.

Normality of error values

The error values should be completely random according to the regression concept. If the error values of the model are random, the mean errors at the level of different values of the independent variable should be equal to zero. In other words, the distribution of model errors should be normal (with zero mean and finite variance). If the distribution of error values in the model is not normal, it is concluded that other factors do not randomly affect the stock returns. Therefore, the regression results will not be very reliable (Banimahd et al., 2016).



Variable name	Test statistics	Significance level	Results
Managerial ability	11/012	0.000	Non-normal distribution
Firm value	7/591	0.000	Non-normal distribution
Financial Leverage	10/783	0.000	Non-normal distribution
Firm growth	9/685	0.000	Non-normal distribution
Firm size	7/411	0.000	Non-normal distribution
Firm age	6/905	0.000	Non-normal distribution
Normality of error values			
Model 1	4/377	0/928	Normal
Model 2	-0/8240	0/2050	Normal

Table 2. Shapiro-Wilk test results (for error sentences)

According to the results of the Shapiro-Wilk test, it can be seen that the significance level in both models is more than 5% and it indicates the normality of the distribution of the remaining errors in the above regression models.

F-Limer (Chow) F test and Hausman test

F-Limer test is used to distinguish between patterns of useful effects and panel data (fixed effects).

The hypotheses related to Chow's test are as follows:

H0 (Null hypothesis): All the intercepts in the model are equal.

H1 (Alternative hypothesis): At least one of the intercepts is different from the others.

The null hypothesis in the Chow test indicates the similarity of the intercepts at the level of firms and different years. Therefore, if the null hypothesis is not rejected, the Pool structure or useful effects will be the appropriate model. The alternative hypothesis also indicates the lack of similarity of intercepts at the level of firms or different years. Therefore, if the null hypothesis is rejected, the panel structure (fixed or random effects) will be the appropriate model (Banimahd et al., 2016).

Table 3: F-Limer (Chow) test results research regression models

Model name	Test statistics	Significance level	Results
Model 1	3/23	0.000	Panel data
Model 2	3/27	0.000	Panel data

According to Table 3, because the significance level of F-Limer's test is less than 5% in both models, therefore, the panel data approach is accepted instead of the integrated data approach (money).

If the significance level of Chow's statistic (prob) is less than 0.05 level, the null hypothesis is rejected and the panel data structure is selected. In this case, the Hausman test should also be performed to detect fixed or random effects. The hypotheses related to the Hausman test are as follows:

H0: There is no correlation between the intercepts and the explanatory variables.

H1: There is a correlation between the intercepts and explanatory variables.

The null hypothesis in this test indicates the absence of correlation between the intercepts values in different years and firms with explanatory variables. Therefore, if the null hypothesis is not rejected, the panel structure with random effects is a more suitable model. The alternative hypothesis also indicates the existence of correlation between the intercepts values among the years and different



firms with explanatory variables. Therefore, if the null hypothesis is rejected, the panel structure with fixed effects will be a more appropriate model (Banimahd et al., 2016).

structure has a direct relationship with the firm's financial performance (dependent variable) and the first hypothesis is accepted at the 95% confidence level. Among the control variables, the firm's growth variable has a significance level of less than 5%, so it is related

Model name	Test statistics	Significance level	Results
Model 1	19/44	0/0035	Random effects
Model 2	13/28	0/0100	Random effects

Table 4. Hausman test results

According to Table 4, it can be seen that the significance level in both models is more than 5%, therefore, the random effects approach is the opposite of the fixed effects approach.

H0: There is no significant relationship between capital structure and firm value.

to the dependent variable (firm's financial performance). The control variables of firm size and firm age have a significance level of more than 5%, so they are not related to the dependent variable (firm's financial performance).

Variables	Coefficients	Standard deviation of coefficients	Z statistic	Significance level
Capital structure	-0/4571	0/0317	-14/41	0/000
Firm growth	-0/0573	0/0182	-3/14	0/002
Firm size	0/0046	0/0035	1/31	0/189
Firm age	0/0016	0/0062	0/27	0/788
Intercept	0/2757	0/0611	4/51	0/000
Other information statistics				
Adjusted coefficient of determination	58/45%			
Wald statistic and its significance level	(0/000) 235/72			
Durbin-Watson test	2/318			

H1: There is a significant relationship between capital structure and firm value

Table 5. Final estimate of the first regression model

Hypotheses testing

Hypothesis 1

H0: There is no significant relationship between capital structure and firm value.

H1: There is a significant relationship between capital structure and firm value.

As can be seen, the capital structure variable has a negative coefficient and a significance level of less than 5%, hence it can be said that the capital

The adjusted coefficient of determination is equal to 58/45%, which shows that the independent and control variables in the model have been able to explain 58/45% of the changes in the dependent variable. Wald's statistic is equal to 235/72 and its significance level is less than 5%, so it can be said that the fitted model has sufficient validity.

Another assumption that is necessary for regression analysis is that the value of one observation is not related to the value of another observation beyond a certain limit. Non-independence can be a serious problem when data are collected sequentially. For this purpose, you can use the Durbin-Watson test. The value of this statistic changes between 0 and 4. If there is no correlation between consecutive



remaining, the value of Durbin-Watson statistic should be close to 2, and if the value of this statistic is close to zero, it indicates the existence of positive correlation between consecutive remaining. If the value of this statistic is close to 4, it indicates the presence of negative correlation between consecutive observations. As a general rule, if the observed Durbin-Watson value is between 1/5 and 2/5, it indicates the independence of the observations.

Hypothesis 2

H0: Managerial ability has no significant

confidence level. Among the control variables, the firm's growth variable has a significance level of less than 5%, so it is related to the dependent variable (firm's financial performance). The control variables of firm size and firm age have a significance level of more than 5%, so they are not related to the dependent variable (firm's financial performance). The adjusted coefficient of determination is equal to 59/02%, which shows that the independent and control variables in the model have been able to explain 59/02% of the changes in the dependent variable. Wald's statistic is equal to 264/93 and its significance level is less than 5%, so

Variables	Coefficients	Standard deviation of coefficients	Z statistic	Significance level
Capital structure	-0/4583	0/0309	8 -14/0	0/000
Managerial ability	-0/1191	0/0949	2 -1/5	0/210
Capital structure	0/1954	0/1490	3 1/1	0/190
Firm growth	-0/0565	0/0182	1 -3/0	0/002
Firm size	0/0048	0/0034	4 1/0	0/161
Firm age	0/0019	0/006	3 0/0	0/761
Intercept	0/2726	0/0607	4 4/9	0/000
Other information statistics				
Adjusted coefficient of determination	59/02%			
Wald statistic and its significance level	(0/000) 264/93			
Durbin-Watson test	2/060			

effect on the relationship between capital structure and firm value.

H1: Managerial ability has a significant effect on the relationship between capital structure and firm value.\

Table 6. The final estimate of the second regression model

As can be seen, the managerial ability*capital structure variable has a positive coefficient and a significance level greater than 5%, hence it can be said that the managerial ability does not affect the relationship between the capital structure and the firm's financial performance, and the second hypothesis is not accepted at a 95%

it can be said that the fitted model has sufficient validity. Another assumption that is necessary for regression analysis is that the value of one observation is not related to the value of another observation beyond a certain limit. Non-independence can be a serious problem when data are collected sequentially. For this purpose, you can use the Durbin-Watson test. The value of this statistic changes between 0 and 4. If there is no

correlation between consecutive remaining, the value of Durbin-Watson statistic should be close to 2, and if the value of this statistic is close to zero, it indicates the existence of positive correlation between consecutive remaining. If the value of this statistic is close to 4,



it indicates the presence of negative correlation between consecutive observations. As a general rule, if the observed Durbin-Watson value is between $1/5$ and $2/5$, it indicates the independence of the observations.

Conclusion

According to the results of the hypothesis test, it was determined that the capital structure variable has a negative coefficient and a significance level of less than 5%, therefore it can be said that the capital structure has a direct relationship with the firm's financial performance (dependent variable) and the first hypothesis is accepted at the 95% confidence level. These results are in accordance with Sajjadi et al. (2011) who examined the effect of choice of capital structure on the value of firms admitted to the Tehran Stock Exchange. In this research, the effect of the choice of capital structure on the value of firms admitted to the Tehran Stock Exchange has been examined by analyzing the data of 76 firms for the period of 2004-2008. The results of the research show that there is a negative and significant relationship between the ratio of short-term liabilities to total assets and the ratio of total liabilities to total assets with the rate of return on assets, but there is no significant relationship between the capital structure (the ratio of short-term liabilities to total assets, ratio of short-term liabilities to total assets and ratio of total liabilities to total assets) and firm value (return on equity and gross profit margin). In other words, under normal conditions, the choice of capital structure has little or no effect on the value of firms admitted to the Tehran Stock Exchange[21]. Also, Andrew et al. (2013) examined managerial abilities and firm value, evidence of the global financial crisis, and showed that managerial ability has a positive and significant relationship with firm value. They also showed that managerial ability has a negative and significant relationship with information asymmetry[18]. It should be noted that according to the results of the hypothesis test, it was found that the variable of managerial ability *capital structure has a positive coefficient and a significance level of more than 5%, hence it can be said that managerial ability does not affect the relationship between the capital structure and the firm's financial performance. The second hypothesis is not accepted at the 95% confidence level. These results are in accordance with Ting et.al(2021) utilized mediation analysis and bootstrapping to analyze the mediating effect of capital structure on the association between

managerial ability and firm performance. The dataset consists of 6384 firm-year observations from the Taiwanese electronics industry during 2005–2018.results indicate that (1) low (high) levels of debt are likely observed in firms with CEOs with high (low) ability, (2) managerial ability positively affects firm performance, and (3) capital structure mediates the positive relationship between managerial ability and firm performance. Overall, the findings may have limited generalizability due to the specific sample characteristics and provide convincing support for the importance of capital structure as a mediator in the managerial ability-firm performance The findings of this research can encourage the shareholders and the board of directors of the firm to pay sufficient attention to the ability of the managers in the selection of the management, considering their experiences, and also in order to obtain the maximum efficiency, which is the ultimate goal of the firm, continuous monitoring is suggested because due to the conflict of interests between managers and shareholders, managers always seek to achieve their interests, the existence of managers with better ability can lead them to the aforementioned goal and will cause damage to the interests of shareholders.

Suggestions

According to the results of the hypothesis test, the following suggestions are presented:

1. In order to prevent the wastage of the firm's resources and also to prevent managers from reaching their own interests, the firm's shareholders and board of directors can make decisions related to the investment project in the form of a committee consisting of shareholders who are experts in this field and firm managers. In this matter, it will ultimately cause the market to flourish and gain returns for the shareholders.
2. Investors, analysts, lenders and owners of investment firms are suggested to pay attention to the ability and stability of the management, the past of the firm and its performance in critical situations in order to identify the degree of flexibility when investing, giving credit or analyzing the value of firms
3. The stock exchange is recommended to periodically rank the firms in terms of managerial abilities according to their efficiency and performance indicator and also according to the criteria of financial



flexibility in order to increase the transparency of the market and investors can better decisions by relying on them.

4. Due to the importance of the capital structure of the firms in the continuity of their activities, it is necessary to put the debt measurement criteria in accordance with the conditions governing the economy and society on the agenda of the investors in the capital markets for the optimal allocation of resources. Standard setters can use the research results in their evaluations in order to develop future accounting standards. It is also recommended to researchers to identify other factors that have a curvilinear effect on the financial status of firms admitted to the Tehran Stock Exchange.

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