The Moderating Effect of Political Connections on the Relationship between Managerial Empowerment and Enterprise Risk Management

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ABSTRACT

The enterprise risk management mostly focuses on documenting business unit risks. Capable managers can effectively control the documentation process by company employees. Documentation can increase the reliance on financial reporting provided by management, and therefore capable managers can control the process of documenting information and increase enterprise risk management. On the other hand, the activities of managers with political connections are less transparent and managers hide political information from shareholders. This can increase the corporate risk and reduce risk management. The present study is aimed to investigate the relationship between managerial empowerment and enterprise risk management by examining the moderating role of political connections in companies listed in the Tehran Stock Exchange (TSE). After applying some of the limitations, the statistical population of the present study, consists of 140 companies listed in the Tehran Stock Exchange during 2013 to 2019. Multiple linear regression model is used to test the research hypotheses. We find that there is a positive and significant relationship between managerial empowerment and enterprise risk management. In fact, in companies with more capable managers, enterprise risk management is higher. The results showed that political connection has a negative and significant effect on the relationship between managerial empowerment and enterprise risk management. In other words, in companies with political connections, managers are less capable to improve enterprise risk management practices.

Keywords: Management ability, Enterprise risk management, Political connections.

1. Introduction

Following the accounting and financial scandals in the early 2000s (e.g. Enron, WorldCom, etc.), capital market actors were faced with the question of how corporate executives, auditors, and standardizers couldn't detect fictitious and fraudulent reports. However, in a basic survey of fraud cases from 1996 to 2004, Pagach and Warr (2011) stated that corporate risk management programs disclosed about 17%, auditors 10%, the company's financial sector and the Securities and Exchange Commission (SEC) about 7% of fraud cases in companies. These cases show how useful the existence of enterprise risk management can be for the firm and this is good for the interests of the company's investors (Bailey, 2018).

Compared to traditional risk management, enterprise risk management investigates a company's set of risks by a comprehensive and integrated method. This risk management approach is considered as part of the overall business strategy and one of its main goals is to increase the value of shareholders (Meulbroek, 2012; Hoyt and Liebenberg, 2011). In general, the implementation of enterprise risk management enables the board and other top managers of companies to have more control over the overall risk of the company (O'Donnell, 2012).

Enterprise risk management, by its very nature, is regarding the internal control over financial reporting (ICFR), but it has a much broader concept because changes in internal and environmental factors of companies increase the scope and complexity of corporate risk and this leads into the increased demand for the use of enterprise risk management as a holistic risk management framework. External factors are mostly globalization and deregulation, increased bankruptcy in large companies, industrial integration, liberalization, competition intensification in local and global markets, as well as legal constraints (Institute of Management Accountants, 2011).

As prior studies has examined how internal control over financial reporting influences enterprise risk management (Youn et al., 2017), there is little evidence on how managerial empowerment affects enterprise risk management. We find that management empowerment reflects effective and efficient enterprise risk management. Because of their power and knowledge, capable managers can control the existing methods of corporate risk management and control

them to protect the interests of the company (Mirza et al., 2019).

The study also expects that political connections can enhance the relationship between managerial empowerment and enterprise risk management. In general, businesses tend to have a close relationship with the government; because these relationships bring them many benefits such as market access, tax discounts, easier access to credit, government subsidies, concluding profitable contracts, reduction of customs tariffs, etc. for them. It can be mentioned that in relationship-based economic systems, political connection is an important source of value for companies with relations. Companies with political connections more easily achieve capital sources and other benefits through their communications, which makes it easier for them to identify profitable investment opportunities and thus have high risk-taking, which can affect enterprise risk management procedures.

The present study helps enhances the research literature in Iran for two reasons. First, in previous studies, little attention has been paid to the direct study of the impact of managerial empowerment on enterprise risk management and in this study, an attempt is made to focus more on the relationship between management empowerment and enterprise risk management. The second reason is that general risk of the organization is very important due to the employment of managers in the company and political connections may affect the process of employing capable managers and enterprise risk management, but the effect of managerial empowerment on enterprise risk management in Iran's economic environment is not clear, hence, in the present study, it is attempted to fill this gap.

The main problem of this research is "Is there a significant relationship between managerial empowerment and enterprise risk management? Also, how is the significant effect of political connections on the relationship between managerial empowerment and enterprise risk management?
Therefore, after stating the theoretical basics, research background and research hypotheses, the research method and findings analysis and conclusion are also presented.

2. Theoretical basics and research background

The focus of enterprise risk management is on documenting the business unit risks. Capable managers can effectively control the documentation process by company employees. (Hines et al., 2015). In general, the risk management unit is responsible to document all the significant risks in the organization and present them based on their importance (if one risk is significant, it is set aside separately and the other risks are set aside totally) to the board members and managing director. The more objective the documentation, the less inherent the documentation risk and the easier it will be to manage the evaluation process. However, as the objectivity of these documents is decreased, the process becomes much complex and the risk is increased. Documentation can increase the reliance on financial reports provided by management and therefore capable managers can control the process of documenting information in the risk management unit and increase the quality of enterprise risk management (Desender and Lafuente, 2013).

This study investigates the moderating effect of political connections on the relationship between managerial empowerment and enterprise risk management. The term relational capitalist system is used to describe the close relationship between government and business units. Businesses tend to have a closer relationship with the government. Businesses tend to have a close relationship with the government; because these relationships bring them many benefits such as market access, tax discounts, easier access to credit, government subsidies, concluding profitable contracts, reduction of customs tariffs, etc. for them. Instead, related businesses may share the benefits of these relationships with the government. This type of economic context at the society level is called relationship-based economics, which has its own characteristics and features. Therefore, it can be said that in relationship-based economic systems, political connection is an important source of value for companies with relations. Companies with political connections have easier access to capital resources and other benefits through their communications, which makes it easier to identify profitable investment opportunities and have less risk (Du et al., 2014; Kim et al., 2011).

On the other hand, political connections mean the transfer of political information from the political sector to the social sector, and emphasize the interaction of the media and politicians. Thus, the definition of communication is important for all aspects of political and social behavior. Without connection, neither politics nor society can exist. Communication is a dynamic element of the political system. In their classic study called "Government's nerves ", Jin and Myers (2006) consider connection as a central element of political perception. The concept of political connections is in fact the role of communication and media in the field of politics and power and emphasizes the interaction between politicians and the media. According to Fan et al. (2007), political connection is the deliberate transfer of a political message from a sender to a receiver with the aim of changing the behavior, speech and perception of the audience as the sender requires.

Political connections improve the performance of the company via various channels including government benefits such as access to bank and non-bank loans, access to raw materials, lower regulations and low tax. However, many researchers report that political connections can also have a negative impact and increase corporate risk (Chaney et al., 2011; Ding et al., 2015 and Wang, 2017). For example, Chaney et al. (2011) believe that because the security achieved via political connections lead to opacity of companies and a negative signal is sent to the market, the quality of information of companies with political relations compared to their counterparts is lower, so enterprise risk management is weaker in companies with political connections. On the other hand, companies seek to employ capable managers with political connections so that they can use their relations to maximize the interests of company owners (Mirza et al., 2019).

In the existing literature, it has been documented that political connection provides valuable resources for the company via easy access to external resources and relationship-based contracts and influences enterprise risk management (Claessens et al., 2008; Houston et al., 2014; Piotroski and Zhang, 2014; Mirza et al., 2019). On the other hand, political connections can help reduce the problems caused by financial constraints and provide the necessary capital for the company's investment activities and reduce the risk of absorbing low financial resources. On the other hand, political connections may be accompanied by

severe government intervention and deviation from the company's final goals. Therefore, in order to achieve the social or political goals that the government is interested in, top managers of companies are forced to invest in non-profit projects. Meanwhile, if managers are less empowered, it can lead to the loss of company resources (Pan and Tian, 2017). Thus, listed companies attempt to hire capable managers with political connections in order to reach higher financial resources via the political connections of the CEO and take some measurements to create an effective enterprise risk management unit (Mirza et al., 2019).

On the other hand, it is argued that the activities of politically capable managers are less transparent and managers hide political information from shareholders. Therefore, investment managers may sacrifice the long-term returns of profitable projects for short-term returns (Deng et al., 2017). Therefore, in most studies, the role of political connections is observed in the formation of undesirable investments and high risk. Chaney et al. (2011) states that because of the government's support for political connections, the operating environment is not transparent in companies where managers have political connections. Hence, the quality of information in companies with political information is lower than other companies. These companies have high agency and risk-taking problems due to high access to free cash flows.

Albring et al. (2020) investigated the effect of earnings management forecasting, management incentives, and firm risk-taking. The results of testing the hypotheses showed that there is a negative and significant relationship between profit management forecasting and corporate risk management. There is also a significant negative relationship between management ownership and corporate risk management. Seksak et al. (2020) showed that in companies with more ownership focus, enterprise risk management is considerably low.

Hsu et al. (2020) concluded that there is a positive and significant relationship between stock liquidity and corporate risk management. Also, Mirza et al. (2019) show that there is a positive relationship between managerial empowerment and enterprise risk management. Also, political connections can decrease the relationship between managerial empowerment and enterprise risk management.

Sheikh (2019) found that, firstly, there is a direct relationship between the management ability and risk-taking companies and secondly, the relationship between the management ability and risk-taking in companies with strong corporate governance and also with more product market competition is enhanced. The results of Bin-Feng and Sultan (2019) research showed that there is a positive and significant relationship between management empowerment and risk-taking of companies and also political connections can enhance the relationship between management empowerment and corporate risk-taking.

Aghaei et al. (2019) stated that there is a positive and significant relationship between managers with high ability and risk-taking activities of the company, but there is a negative and significant relationship between managers with low ability and risk-taking activities of the company. In addition, there is a positive and significant relationship between managers with high ability and value of the company, but there is a negative and significant relationship between managers with low empowerment and value of the company. Also, the results of Ebrahimi and Eskandari (2019) study indicate that management overconfidence has no significant impact on corporate risk-taking and performance.

Ghaderi et al. (2015) in a study investigated the effect of behavioral factor of managers' overconfidence on the effectiveness of enterprise risk management and showed that enterprise risk management methods are influenced by behavioral bias and overconfidence of managers and they lose their effectiveness. Therefore, the effect of managers' overconfidence on risk management is accepted. Jafari Nejad et al. (2015) in a study identified and extracted the main components of enterprise risk management using the meta-synthesis method. The results showed that 58 components (code) identified in the 6 main dimensions can be classified in creating the context and setting goals, risk identification and definition, risk assessment and evaluation, risk management, treatment and risk response, information, monitoring and review.

Salehi and Abdoli (2018) found that there is a direct relationship between the auditor's industry expertise and corporate risk-taking. On the other hand, these results show that the percentage of institutional shareholder ownership has an increasingly direct impact on the relationship between the auditor's industry expertise and corporate risk-taking. Kazemi and Mehri (2015) examined the impact of managerial

ability on real earnings management and integrated risk management of companies. Findings of the study showed that there is a negative and significant relationship between management ability and real earnings management and there is a positive and significant relationship between the management ability and integrated risk management of companies. Mohammadi and Salehi (2017) in their research showed that there is a positive and significant relationship between management ability and stock price risk. The results of the study of Nahandi and Taghizadeh Khaneghah (2013) indicate that political connection has a more positive impact on investment and a negative impact on corporate performance.

Research hypotheses

According to the mentioned theoretical basics, the following hypothesis is developed and tested:

H1: There is a significant relationship between managerial empowerment and enterprise risk management.

H2: Political connections moderate the relationship between managerial empowerment and enterprise risk management.

Research method

The present study is a quasi-experimental study in the field of positive accounting research. Also, the research method is inductive and ex post facto (using past information) and its statistical method is multiple linear regression using composite data (panel method). Real and audited information of companies is extracted from Rahavard Novin software and Codal website[1] and is compared with information of companies' financial Excel to prepare the information. Also, Eviews 10 software has been used for data analysis.

The statistical population in this study includes all companies listed on the Tehran Stock Exchange during 2013 to 2019. The following criteria are considered for selecting the statistical population:

1) The date of their listing to the stock exchange is before 2013 and until the end of 2019 in the companies.

2) Their required information is available and their stocks are traded continuously and there is no signal stopping.

3) In order to increase comparability, the end of their fiscal year should be the end of March and they should not have changed the fiscal year during the review period.

4) Due to the different financial structure of some stock exchange institutions, the selected company should not be one of the banks, investment companies, investment fund, leasing companies, etc.

Based on the mentioned conditions, 140 companies during 2013 to 2019 were selected as the statistical population. A total of 980 observations (year-company) have been tested.

Research model and variables

The research models are as follows (Mirza et al., 2019):

First model: The first hypothesis testing

$$ERM_{it} = \beta_0 + \beta_1 ME_{it} + \beta_2 ROA_{it} + \beta_3 MTB_{it} + \beta_4 AGE_{it} + \beta_5 LEV_{it} + \beta_6 SIZE_{it} + \varepsilon_{it}$$

Second model: Second hypothesis testing

$$ERM_{it} = \beta_0 + \beta_1 ME_{it} + \beta_2 PC_{it} + \beta_3 (ME_{it} \times PC_{it}) + \beta_4 ROA_{it} + \beta_5 MTB_{it} + \beta_6 AGE_{it} + \beta_7 LEV_{it} + \beta_8 SIZE_{it} + \varepsilon_{it}$$

Where,

Dependent variable and its operational definition

In this study, enterprise risk management (ERM_{it}) is a dependent variable. To measure enterprise risk management, a combination of the following 4 risks has been used (Jafarnejad et al., 2018):

$$RM_{it} = RR_{it} + SR_{it} + OR_{it} + CR_{it} \qquad (1)$$

Where,

RR_{it}: A reporting risk strategy that uses a dummy variable to measure it. If the auditor's report is adjusted (adverse opinion, qualified and disclaimer of opinion) it is one, or else zero.

SR_{it}: The risk of the strategies used to measure the following equation:

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[1] Www.codal.ir

$$SR_{it} = \frac{Sales_{it} - \mu SalesIND_{it}}{\sigma Sales_{it}} \qquad (2)$$

Where,

$Sales_{it}$: Net sales of company i in year t.

$\mu SalesIND_{it}$: Average sales of 3 years ago i in year t.

$\sigma Sales_{it}$: Standard deviation of sales of 3 years ago of company i in year t.

OR_{it}: is the operational risk of the company, which is measured by the following equation (asset turnover ratio):

$$OR_{it} = \frac{Sales_{it}}{Assets_{it}} \qquad (3)$$

Where,

$Sales_{it}$: Net sales of company i in year t.

$Assets_{it}$: The book value of company i assets in year t.

CR_{it}: Risk of the observance of the company's tax rules and regulations and it is measured by effective tax rate. The effective tax rate is equal to the ratio of tax cost to net profit after tax deduction of company i in year t.

Independent variable and its operational definition

ME_{it}: Management empowerment variable as in this study, the model of Demerjian et al. (2012, 2013 is used. In the following equation, the regression error component indicates managerial empowerment. The lower the error component, the weaker the managerial empowerment and vice versa. In this study, model (3) is used to measure managerial capability:

Model (3)

$$\begin{aligned}
FirmEfficiency_{it} = \beta_0 &+ \beta_1 SIZE_{it} \\
&+ \beta_2 MarketShare_{it} \\
&+ \beta_3 FreeCash_{it} + \beta_4 AGE_{it} \\
&+ \beta_5 BSC_{it} \\
&+ \beta_6 ForeignCurrency_{it} + \varepsilon_{it}
\end{aligned}$$

Where:

$FirmEfficiency_{it}$: is the performance of the whole company, which is calculated using the Data Envelopment Analysis (DEA) model. DEA Model is a statistical model that is used to measure system performance using input and output data.

$$max_v \theta =$$
$$\frac{Sales}{v_1 COGS + v_2 SG\&A + v_3 PPE + v_4 OL + v_5 R\&D + v_6 GDWL + v_7 OtherIntan}$$
$$(4)$$

Sales: is equal to the net sales of company i in year t.

COGS: is equal to the cost of goods sold by Company i in year t.

SG&A: is general, administrative and sales expenses i in year t.

PPE: is equal to the property, plant and equipment of Company i in year t.

OL: is the cost of operating lease of company i in year t.

R&D: is research and development costs of company i in year t

GDWL: is the goodwill of company i in year t.

OtherIntan: is the net intangible assets of Company i in year t.

In this model, special input (V) is considered for each of the variables, because the effect of each of the input and output variables (sales) is not the similar. The calculated value for the company's performance is in the range of 0 to 1. Companies with an efficiency score of 1 are companies that are highly efficient, and companies with an efficiency score of less than 1 are below the efficiency frontier and must reach the efficiency frontier by reducing costs or increasing revenues. The purpose of calculating company performance is to measure the corporate empowerment management.

$Size_{it}$: The natural logarithm of all assets

Market Share$_{it}$: The Company's market share of the ratio of company i sales in year t to industry sales in year t.

$FreeCash_{it}$: is the free cash flow variable of Company i in year t and is equal to the ratio of free cash flow to total assets. Free cash flow is the net operating cash flow minus dividends paid minus investment cash flow.

Age$_{it}$: The natural logarithm of the company's life (the number of years a company has been established).

BSC$_{it}$: The ratio of sales of subsidiaries (affiliates) to the holding company to total sales of company i in year t

$ForeignCurrency_{it}$: If company i has a currency exchange in year t, its value is one, else is zero.

Moderating variable and its operational definition

PC_{it}: A company with political connections in which at least one of the major shareholders (a shareholder

holding more than 10% of the company's stock) is a former or current figures in the government or is attributed by the government to in the company. If the company has political connections, this variable is equal to one, else is zero (Salehinia and Tamradi, 2019).

Control variables and its operational definition

1) Return on assets (ROA_{it}): Indicates the ratio of net profit to assets of company i in year t and is an indicator for calculating the rate of return on assets.
2) The ratio of market value to book value of equity (MTB_{it}): is the ratio of market value to book value of equity of company i in year t.
3) Company life (AGE_{it}): is the natural logarithm of company life i in year t since the date of establishment.
4) Financial leverage (LEV_{it}): is the ratio of the book value of debts to the total assets of company i in year t.
5) Company size ($SIZE_{it}$): is equal to the natural logarithm of the book value of company assets i in year t.

Research Results
Descriptive statistics

The results of descriptive statistics of research variables are shown in Figure (1) and (2), which indicate the descriptive parameters for each variable separately. These parameters mainly include information about central measures, such as minimum, maximum, mean, median, and also information about dispersion indicators, such as standard deviation. The most important central indicator is the mean, which indicates the equilibrium point and center of gravity of the distribution, and is a good index to show the data centrality.

As shown in Table 1, the mean of the organizational risk variable is approximately 3.951 and its median is 3.381, which has a minimum value of - 3.429, a maximum value of 28.740 and a standard deviation of 4.123. The proximity of the mean to the standard deviation indicates the normality of the enterprise risk management variable. Also, the results showed that the mean of the CEO variable is approximately 0.029, the mean 0.020, with a minimum value of -0.594 and a maximum value of 0.918, with a standard deviation of about 0.257. This shows that the average ability of the CEO in the studied companies is about 3%.

On the other hand, the average of the return on assets is approximately 0.060 and the median is about 0.059. Its standard deviation is 0.161, its minimum and maximum values are -0.579 and 0.469, respectively. These results show that, on average, the net profit in the studied companies is about 6% of the book value of assets. Also, the mean of the ratio of market value to book value of equity (company growth) is approximately 4.698 and the median is about 2.728. Its standard deviation is 4.741, its minimum and maximum values are 1.173 and 18.478, respectively. These results show that on average, the market value of equity in the studied companies is about 4.6 times more than the book value of assets.

Figure 1- Descriptive statistics of research variables

Variable	Sign	Mean	Median	SD	Min	Max
Enterprise risk management	ERM_{it}	٣/٩٥١	٣/٣٨١	۴/١٢٣	-٣/۴٢٩	٢٨/٧۴٠
Managerial empowerment	ME_{it}	٠/٠٢٩	٠/٠٢٠	٠/٢۵٧	-٠/۵٩۴	٠/٩١٨
Return on asset	ROA_{it}	٠/٠۶٠	٠/٠۵٩	٠/١۶١	-٠/۵٧٩	٠/۴۶٩
Firm growth	MTB_{it}	۴/۶٩٨	٢/٧٢٨	۴/٧۴١	١/١٧٣	١٨/۴٧٨
Age of company	AGE_{it}	٣/٧٠٧	٣/٨٠۶	٠/٣٣٠	٢/٧٠٨	۴/٢۴٨
Financial leverage	LEV_{it}	٠/۶۴٢	٠/۶۵٢	٠/١٩٣	٠/١٧۵	٠/٩٠٧
Firm size	$SIZE_{it}$	١۴/۴۶۴	١۴/۴٢٢	١/٣٨٨	١٠/۵٣٢	٢٠/٠۶٠

Source: Research findings

The results of descriptive statistics showed that the average of financial leverage variable is about 64% on average, which indicates that in the companies studied, the average debt is 64% of the book value of assets. Also, as shown in Figure (2), in the investigation of the dummy variable (zero and one), political connections

are observed that about 51% (501 observations year-company) of the observed observations have political connections.

Table 2 - Results of classification of dummy variables

Variable	Sign	Condition	N	%
Dummy variable of political connections	PC$_{it}$	1= yes	۵۰۱	۵۱٪
		0=No	۴۷۹	۴۹٪
		Total	۹۸۰	۱۰۰٪

Source: Research Findings

Inferential statistics

Multiple linear regression using composite data are used to test the research hypotheses. First, before the model fitting, the linearity between the independent variables of the study was examined by the test of variance inflation factor. Practical experience has shown that if the variance inflation factor is greater than 5, it indicates a possible error, and if it is greater than 10, it indicates a serious error and indicates that the relevant regression coefficients are poorly estimated due to the multiple co-linearity. The results of this test indicate that there is no strong co-linearity between the independent variables. To examine the non-autocorrelation of independent variables, Durbin-Watson statistic is used. The value of this statistic ranges between 0 and 4. If there is no correlation between consecutive residues, the statistic value should be close to 2. If the value of the statistic is close to zero, it indicates a positive correlation between the residuals and if it is close to 4, it indicates a negative correlation between consecutive residues. In general, if the Durbin-Watson statistic is between 1.5 and 2.5, the non-autocorrelation between model errors is verified. The results of this test also indicate the non-autocorrelation problem.

To select the data analysis model, the data can be time series, cross-sectional or composite. Given that the data in this study are of the composite type, should it be determined that they are of the pooled or panel type? For this purpose, Chow test and Hausman test are used. In the Chow (F-Limer) test, for those observations whose test probability is more than 5% or in other words their test statistic is less than the table statistic, composite method is used, which usually results from the two tests are consistent. On the other hand, for observations with a probability of testing less

than 5%, the panel method is used to estimate the model. The panel method itself uses two models of "random effects" and "fixed effects". Observations with a test probability of less than 5%, the fixed effects model and observations with a test probability of more than 5%, the random effects model is used to estimate the model. The results of these tests are shown in Table 3.As can be shown, according to the obtained significance level, the results indicate that the fixed effects panel method is used for the research models.

The first hypothesis of this study was "there is a significant relationship between managerial empowerment and enterprise risk management." As shown in Table 4, the coefficient of management empowerment variable (ME$_{it}$) is equal to 0.102 and the t-statistic is equal to 3.144 which is significant at the level (0.001) and as it is less than the prediction error (5%), the significance of the independent variable at a confidence interval of more than 95% is verified. This result shows that there is a positive and significant relationship between managerial empowerment and enterprise risk management. In fact, in companies with capable managers, risk management is much desirable. The second hypothesis of this study was "political connections moderate the relationship between managerial empowerment and enterprise risk management." In Figure 5, the coefficient of moderating variable of political connection in managerial empowerment (ME$_{it}$ × PC$_{it}$) is -0.230 and t-statistic is -12.585 which is significant at the level 0.000 and because it is less than the prediction error (5%), the significance of the independent variable at a confidence interval of more than 95% is verified. This result shows that political connection has a negative effect on the relationship between managerial empowerment and enterprise risk management. In fact, in companies with political connections, managers have less ability to improve enterprise risk management methods.

Table 3- Chow and Hausman test results

Model	Chow test		Hausman test		Test result
	Statistics	Significance level	Statistics	Significance level	
Model (1)	۱۲/٥۲۸	۰/۰۰۰	۳۹/۰٤۰	۰/۰۰۰	Panel method-fixed effects
Model (2)	۱٥/۰٦۸	۰/۰۰۰	٤٥/٥۲۰	۰/۰۰۰	(Panel method-fixed effects

Source: Research Findings

Table 4- The statistical test results of the first research hypothesis

Variable	Sign	Coefficients	Standard error	T statistics	Significance level	VIF
Intercept	C	٥/۰۹٥	۱/۷۷۷	۲/۸٦٦	۰/۰۰٤	-
Managerial empowerment	ME_{it}	۰/۱۰۲	۰/۰۳۲	۳/۱٤٤	۰/۰۰۱	۲/۳۲٦
Return on assets	ROA_{it}	٥/٥۷۷	۰/٦٤۸	۸/٦۰٦	۰/۰۰۰	۱/٦٦۲
Company growth	MTB_{it}	۰/۱۳۸	۰/۰۱۷	۸/۰٦۷	۰/۰۰۰	۱/۰۷۸
Company age	AGE_{it}	-۰/٥۸٥	۰/۲۳۱	-۲/٥۱٥	۰/۰۱۲	۱/۰٥۹
Financial leverage	LEV_{it}	۱/٤۱۳	۰/٦٥۳	۲/۱٦۳	۰/۰۳۰	۲/٥۳۹
Firm size	$SIZE_{it}$	-۰/۰۲۱	۰/۰٥۸	-۰/۳٦۷	۰/۷۱۳	۱/۰٦۱
Adjusted coefficient of determination		۰/۱۷۹		Durbin-Watson statistics		۱/٥۹٦
F statistics		۱۸/۸۷۱		Significance level of F statistics		۰/۰۰۰

Source: Research Findings

Table 5- The results of statistical test of second hypothesis of study

Variable	Sign	Coefficients	Standard error	T statistics	Significance level	VIF
Intercept	C	۰/۱٦۹	۰/۰۲۹	٥/۷۹۸	۰/۰۰۰	-
Managerial empowerment	ME_{it}	۰/۱۸٤	۰/۰۲۰	۸/۸۲۱	۰/۰۰۰	۲/۰۹۱
Political connections	PC_{it}	-۰/٤۷۳	۰/۰٥۰	-۹/٤۲۲	۰/۰۰۰	۱/۰۷۱
Managerial empowerment ×Political connections	$ME_{it} \times PC_{it}$	-۰/۲۳۰	۰/۰۱۸	-۱۲/٥۸٥	۰/۰۰۰	۱/۲۸۰
Return on assets	ROA_{it}	۱/۲۲۲	۰/۰٥۱	۲۳/۸۲٤	۰/۰۰۰	۱/۳۷٥
Company growth	MTB_{it}	۰/۱٤۰	۰/۰٥۰	۲/۸۰۸	۰/۰۰٥	۱/۱۷۸
Company age	AGE_{it}	-۰/۳۹۱	۰/۰۳۸	-۱۰/۱٦٦	۰/۰۰۰	۱/۱٤۷
Financial leverage	LEV_{it}	۰/۱۹۱	۰/۰٦۱	۳/۰۹۱	۰/۰۰۲	۱/۲۳۲
Firm size	$SIZE_{it}$	-۰/۰۱۱	۰/۰۲٤	-۰/٤۸۰	۰/٦۳۰	۱/۲۰۰
Adjusted coefficient of determination		۰/۱۳۳		Durbin-Watson statistics		۱/٦۳۱
F statistics		۱۹/۹۲۹		Significance level of F statistics		۰/۰۰۰

Source: Research Findings

Discussion

In today's ever-changing world, where organizations and societies encounter dramatic environmental and technological changes, and consequently global trade and globalization, the ability to achieve the desired and expected level of performance is entirely ambiguous. In this way, what can ensure the growing nature of companies is the existence of a powerful and efficient management system. The ability of each manager to make accurate judgments and estimates is different.

Managers with high ability are more aware of the company and the industry in which they operate, and can also report better profits by combining the right information to make reliable estimates. For example, consider bad debt reserve. A weak manager may use a historical rate for bad debts, while a more capable manager makes adjustments to the historical rate based on changes in the company's customers and industry and macroeconomic trends. Thus, empowered managers can report depreciation rates, fair value and estimated accruals more accurately and logically.

Therefore, more capable managers are expected to report better profits and there is no need to hide bad news using discretionary accruals. In this way, they can improve the quality of financial reporting and reduce the company's risk (Demerjian et al., 2012).

On the other hand, the main assumption of organizational risk management is that the reason for the existence of any economic unit is to create value for its stakeholders. All companies encounter uncertainty, and one of the management challenges is how much to accept uncertainty so that the value of stakeholder wealth is maximized. Uncertainty arises about both risk and opportunity, along with the possibility of losing or increasing value. Organizational risk management enables the manager to effectively manage the economic unit, despite the uncertainty and the risks and opportunities associated, and thus increase the company's value creation capacity. Value is maximized when management adjusts strategy and goals to create an optimal balance between growth and return goals with relevant risks, and applies resources efficiently and effectively to achieve the enterprise's goals. The capabilities that exist in the nature of management help the CEO to achieve the quantitatively functional and profitability goals of the entity and prevent asset losses. Organizational risk management helps to ensure that reporting and observing rules are effectively enforced, and helps to avoid damaging the reputation of the economic unit and its consequences (Kal et al., 2015). Therefore, it can be said that capable managers have much power to create an effective and efficient organizational risk management.

The present study was aimed to investigate the moderating effect of political connections on the relationship between managerial empowerment and enterprise risk management in companies listed in the Tehran Stock Exchange (TSE). The results showed that managerial empowerment can increase enterprise risk management. The capabilities inherent in management help the CEO to achieve the quantitative functional and profitable goals of the enterprise and prevent asset losses. Enterprise risk management helps to ensure that reporting and rules and law are effectively enforced, and helps to avoid damaging the reputation of the enterprise and its consequences. Therefore, it can be said that capable managers can create an effective and efficient enterprise risk management, so the first hypothesis is positively

verified and the results are consistent with the research of Mirza et al. (2019).

The results of this study showed that in companies with politically connected managers, the empowerment of managers to improve the quality of enterprise risk management methods is lower. It is argued that the activities of politically capable managers are less transparent and managers hide political information from shareholders. Due to the government's support for political connections, the operating environment is not transparent in companies with politically connected managers. As a result, the quality of information in companies with political information is lower than other companies. In these companies, due to easy access to free cash flows, agency and risk-taking problems are high, and therefore there is poor risk management. Therefore, the second hypothesis in the negative direction is verified and its results are consistent with the research of Mirza et al. (2019).

According to the research results, it is recommended to investors and members of the board of directors of listed companies TSE to pay attention to this issue that in companies with more capable managers, the enterprise risk management is highly effective. Hence, board members should employ as many capable managers as possible. Also, investors should pay special attention to the ability of managers to reduce their investment risk (by investing in companies with good risk management). Board members and capital market analysts are suggested to consider the fact that in case of political connection, the effectiveness of managers' capability on the enterprise risk management is lower. Due to the negative effects of the presence of political managers in the company, board members should take steps to reduce the political connections of executives. Financial analysts are also encouraged to consider the negative role of political managers in increasing corporate risk to manage their investments.

Researchers are recommended to investigate the effect of management overconfidence on enterprise risk management in future researches. It is also suggested to investigate the impact of board members' financial knowledge on enterprise risk management. Finally, the effect of *managerial* entrenchment on enterprise risk management can be examined in further studies.

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