

Investigating the Relationship between the Company's Business Strategy and Managers' Characteristics With the Stickiness of Costs in the Tehran Stock Exchange

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Abstract: The basis of many management decisions is the knowledge of how costs change as a function of activity level. In this connection, Garrison and Norin believe that trying to make decisions without complete knowledge of the related costs and how they change with respect to the level of activity may lead to unfavorable consequences. In accounting literature, there are several views on cost behavior. Carrison, Noreen, Horn Kern and colleagues have stated that regardless of the direction of change (decrease or increase), costs react to changes in the level of activity. While Norin, Soderström and Anderson et al. believe that the increase in costs in periods of increased activity level is greater than the decrease in costs in periods of decreased activity level, for this reason, the reduction of costs causes stickiness in costs. can be On the other hand, the behavior and decisions of managers are influenced by the general strategies of the company. Miles Snow believes that management faces three types of problems. The predictions of organizational theory and empirical research confirm that companies following a pioneering strategy invest more heavily in research and development because their strategic goals are focused on discovery and profit. Taking new and continuous changes in capital market opportunities. Companies that follow the defender strategy tend to minimize research and development costs so that they can produce cost-effective products in a continuous and predictable manner. Also, companies with more growth options will have a wider information asymmetry between their managers and investors. Due to their focus on discovering and exploiting new product market opportunities, the companies following the pioneer strategy have more growth options compared to the companies following the defender strategy, so it can be said that the pioneer strategy leads to more information asymmetry than the defender strategy. The time period of the research includes 6 consecutive years from 1397 to 1402 and the statistical sample of the research includes 93 companies from the companies accepted in the Tehran Stock Exchange. This research in terms of practical purpose and since it seeks to find the relationship between two variables, in terms of the nature and method of the research, it is of the correlation type. Too many managers have no significant effect on cost stickiness.

Keywords: Business, Business policy, Business strategy, Management ability, Cost stickiness.

Introduction

In addition to academic researchers, the study of cost behavior is very important for people whose profession is related to the activities of companies. In the common cost behavior model that is accepted in the accounting literature, costs are divided into two categories of fixed costs and variable costs based on the change in the ratio of the activity level. In this model, the variable costs change according to the change in the cost driver. This means that the amount of change in costs depends on the amount of change in the level of activities, not the direction of change (Anderson & Lanen., 2007). The basis of many management decisions is the knowledge of how costs change as a function of activity level. In this regard, Calleja et al (2006) believe that trying to make decisions without complete knowledge of the related costs and how they change with respect to the level of activity may lead to unfavorable consequences. In accounting literature, there are several views on cost behavior. Anderson et al. (2003) believe that the increase in costs in periods of increased activity level is greater than the decrease in costs in periods of decreased activity level, for this reason, reducing costs It causes stickiness in costs.

In other words, one of the basic assumptions of management accounting is that the changes in costs have a proportional relationship with the increase and decrease in the level of activity. But recently this assumption has been discussed by Anderson and his colleagues with the issue of stickiness of costs (Namazi & Devanipour 2019). Recent researches about cost behavior indicate that the amount of cost reduction when sales decrease is less than the amount of cost increase when the same amount of sales increase. This asymmetric behavior of costs is known as cost stickiness (Kordestani & Mortazavi 2011, 19). In other words, the stickiness of costs is one of the characteristics of the behavior of costs in relation to changes in the level of activity, and it indicates that the magnitude of the increase in costs when the level of activity increases is greater than the magnitude of the decrease in costs when the level of activity decreases (Namazi & Devanipour, 2019).

The researches in this financial field have started with the research of Anderson et al. (2003). They studied the stickiness of sales, general and administrative costs. Their research findings show that sales, general and administrative costs There is stickiness, and the stickiness of these costs disappears in the next period. Also, the stickiness of sales, general and administrative costs increases with the increase in the length of the study period and the length of the sales reduction period, and decreases with the increase in economic growth, the amount of assets and the number of employees, increases.

Also, Balakrishnan et al (2008) by examining the costs of hospitals reached the conclusion that, firstly, the costs of hospitals are generally sticky, and secondly, the costs related to the maintenance of patients are stickier than the costs of performing other tasks. Is. The above-mentioned researches, as well as other researches that have been carried out in this field in the early stages of the discussion of cost stickiness, have tried to prove the existence of asymmetric behavior in cost, and in most cases, there is They proved the stickiness of costs.

Banker et al. (2011) in a study consider management to be involved in the intensity of cost stickiness and examine the effect of management's optimistic (and pessimistic) view on the intensity of stickiness and come to the conclusion that in If the management has an optimistic view of the future of sales, then the intensity of cost stickiness will be higher. In Iran, Kordestani and Mortazavi (2013) investigated the same case and reached similar results, which according to the results of other articles The research conducted in this field of management can influence the asymmetric behavior of costs and the intensity of its stickiness.

On the other hand, the behavior and decisions of managers are influenced by the general strategies of the company. Miles and Snow (1978) believe that management faces three types of problems: innovation (strategic product and market management), technical principles (production and distribution of products) and affairs. Executive (to support innovative and technical decisions) When these problems are solved in a successful way, a sustainable strategic model is identified. At both ends of the spectrum, pioneer and defender companies are located. Pioneer companies mainly compete through product innovation and innovation, offer a wide range of products and are considered as market and product pioneers. Marketing and research and development are the main guidelines of such companies. On the other hand, the defending companies operate in a relatively stable environment and offer a limited range of products. They are focused on productivity and therefore, they prefer engineering and production instructions (Tavakolnia, 2012)

The predictions of organizational theory and empirical research confirm that companies following the pioneering strategy invest more heavily in research and development, because their strategic goals are focused on discovering and exploiting new and continuous changes in market opportunities. It is capital. Companies that follow the defender strategy tend to minimize research and development costs so that they can produce cost-effective products in a continuous and predictable manner. Also, companies with more growth options will have a wider information asymmetry between their managers and investors. Due to their focus on discovering and exploiting new product market opportunities, the companies following the pioneer strategy have more growth options compared to the companies following the defender strategy, so it can be said that the pioneer strategy leads to more information asymmetry than the defender strategy (Tavakolnia, 2012). According to what has been mentioned above, this research examines the relationship between business policies and cost stickiness, as well as the impact of company strategy on the relationship between managers' characteristics and cost stickiness.

Research hypotheses

First hypothesis: There is a relationship between the business strategy of companies and cost stickiness.
Second hypothesis: There is a relationship between the ability of company managers and cost stickiness.

Methods

Since this article deals with the description of what is or the description of the existing conditions without interference (and not with specific requirements and recommendations) and considering that value judgments in this research are weak, the present research is among the few researches in the environment. Capital market is considered as part of descriptive accounting research. In addition, due to the fact that historical information was used in the test of its hypotheses, in terms of the retrospective time dimension and in terms of the quasi-experimental and post-event research design, based on the method of data collection, archival (observation data) and descriptive-correlation is considered. In other words, in terms of epistemology, the following text is an empiricist type, its reasoning system is inductive, and in terms of the type of field-library study.

In this research, to collect theoretical data, library resources, including books and authentic scientific articles published in domestic and foreign magazines, as well as articles available in various authentic scientific websites, have been used. The information related to the variables of the research, which includes the information contained in the financial statements of the companies, as well as the stock exchange information of the Tehran Stock Exchange and other information, has been extracted through various software and the information system of the Tehran Stock Exchange, and in such a way that the resulting information From the financial statements and through Tadbir Pardaz software, Rehvad Navin, Ridis website and also the information related to transactions has been collected through irbourse.ir and tsetmc.com. In addition, Excel software was used to correlate and calculate some formulas and variables, and SPSS software was used for statistical analysis.

The statistical population of the current research is the companies accepted in the Tehran Stock Exchange. The time domain of the research is a period of 6 years from 2018 to 2023.

In this research, the systematic elimination method will be used to determine the statistical sample. For this purpose, those companies of the statistical society that have the following conditions are selected as a statistical sample and the rest are excluded.

- The financial year of the company ends on the end of March every year.
- The company has not changed the financial year during the period under review.
- The companies under investigation are not part of the investment, holding and financial mediation companies due to their special nature.
- Their information and data are available.

Data, as raw and unprocessed knowledge, are the primary knowledge of the researcher about the possible answers that have been raised in relation to the research problem, so the researcher, after obtaining these data, according to their nature and the structure and format of the hypotheses, with The question arises as to how to classify, process and finally analyze these data in order to determine the hypotheses that are possible and temporary answers for the research problem. The statistical analysis of the data and the test of the hypotheses of the current research were calculated according to the following criteria, which are fully explained in the third chapter.

First step: Descriptive tests: including mean, minimum standard deviation and maximum limit

Second step: Inferential tests

Operational definition of research variables

Business strategy: Strategy can be defined from at least two points of view: from the point of view of what the organization intends to do and also from the point of view of what the organization will do in the end. From the first point of view, strategy is a comprehensive plan to define and achieve the goals of an organization and to implement the mission, and from the second point of view, strategy is the pattern of the organization's responses to its environment over time.

Stickiness of costs: It means that the amount of cost reduction when sales decrease is less than the amount of cost increase when the same amount of sales increase. This asymmetric behavior of costs is known as cost stickiness (Kurdستاني and Mortazavi, 2013).

Operational definition of research variables

To test the first hypothesis, the following regression model is used:

$$\log\left(\frac{SG\&A_{i,t}^j}{SG\&A_{i,t-1}^j}\right) = b_0 + b_1 \log\left(\frac{Rev_{i,t}^j}{Rev_{i,t-1}^j}\right) + b_2 d_{i,t}^j \log\left(\frac{Rev_{i,t}^j}{Rev_{i,t-1}^j}\right) + \varepsilon_{i,t}$$

Independent variable

SG&A: Administrative and general expenses

SG&A: Sales and general administrative expenses

Control variable

Rev: Income from sales

(d) is the sales increase variable, which is one if sales increase and zero otherwise

To test the regression line hypothesis, two groups of companies (companies with leading and defending strategies) are compared.

To test the second hypothesis

$$\begin{aligned} \Delta \ln SGA = & \beta_0 + \beta_1 \times \Delta \ln Sales_{i,t} + \beta_2 \times Decr Dum_{i,t} \times \Delta \ln Sales_{i,t} + \beta_3 \\ & \times Overconf Mal_{i,t} + \beta_4 \times Overconf Mal_{i,t} \\ & \times \Delta \ln Sales_{i,t} \times Decr Dum_{i,t} \\ & + \sum_t^i \beta_C \times Controls_{i,t} + \sum_t^i \beta_C \times Controls_{i,t} \\ & \times \Delta \ln Sales_{i,t} \times Decr Dum_{i,t} + \varepsilon_{i,t} \end{aligned}$$

To test the hypothesis, the regression line is performed and compared in two groups of companies (companies with leading and defending strategies). Also, to test the third hypothesis, the management ability variable is replaced by self-confidence.

SG&Ai: administrative and general expenses **and Salesi:** sales growth rate

Control variable

(DD) is the sales increase variable, which is one if the sales increase and zero otherwise

Company strategy

Bentley et al. (2013) used five accounting variables to determine the strategy of companies. Companies that have a high level of these variables are bold and other companies are defenders. The variables are as follows.

Ratio of each worker to sales

- The ratio of employees to sales and the growth ratio of the company.
- The ratio of the general cost of forcing sales,
- The ratio of machinery and equipment to total assets
- The ratio of staff changes from year zero to year one

To measure this, the variables mentioned above are extracted from the announcements and financial statements. In the next step, a quarter is taken from the obtained data. The companies that are in the first quarter are given a score of one, in the second quarter a score of two, and so on; It is done in the same way for other variables. Then these points are added up - the number obtained for each company is between four and twenty, the companies with higher points are considered bold and other companies are considered to be defender companies.

Ability of managers

Sales to employee's ratio

It is assumed that the higher this ratio is, the higher the productivity of human resources (and ultimately the entire company) and this is the result of managers' ability to manage the company better.

Stickness of costs

Cost stickiness is calculated from the following formula:

$$\begin{aligned} \text{Log} [SG\&Ai_t / SG\&Ai_{t-1}] = & \beta_0 \\ & + \beta_1 * \text{Log} [Sales_{i,t} / Sales_{i,t-1}] \\ & + \beta_2 * DD_t * \text{Log} [Sales_{i,t} / Sales_{i,t-1}] + \varepsilon_{i,t} \end{aligned}$$

Dependent variable

SG&Ai and Salesi are sales and general administrative expenses.

Control variable

(DD) is the sales increase variable, which is one if sales increase and zero otherwise.

The sum of the coefficients (B1 + B2) shows the percentage of reduction of public and administrative costs with a decrease of one percent of sales, the sum of these coefficients shows the stickiness of costs.

Independent variable

To measure the independent variable (high self-confidence of the management) by modifying the indicators used in the research of [Malmendier et al \(2011\)](#) and [Campbell et al \(2011\)](#), two indicators are used as follows:

The first index based on the number of days of stock price increase and decrease: If, during the financial year, the number of days of increasing the stock price is more than the number of days of decreasing the company's stock price, it is assumed that there is too much self-confidence of the management, and the number one is considered for that; Otherwise, the number zero is put in place of the variable.

The second indicator based on the percentage of stock price increase: During the financial year, if the percentage of stock price increase is more than the percentage of stock price decrease, it is assumed that the confidence of the management is higher and it is given a number of 1, otherwise it is given to a number of zero.

Background Research

[Kurdestani and Mortazavi \(2013\)](#) investigated the effect of managers' prudent decisions on cost stickiness in the Iranian stock market. Their research showed that the increase in future sales by management causes a decrease in cost stickiness, and the greater this optimism, the price stickiness. Once it is over, sales will decrease further. However, management optimism increases the stickiness of sales, general and administrative costs, and the stickiness of these costs in the case of high management optimism is more than in the case of low optimism, which is a strong evidence of confirming the hypothesis of measured decisions about costs. Sales are considered general and administrative. [Tavakolnia \(2012\)](#) in an article entitled investigating the relationship between business strategy and human capital reporting using the method of generalized moments to identify the cause, how and extent of the effect of the type of company's business strategy (pioneer or defender) on the amount of human capital information reporting results. The research shows the positive and significant effect of the desire for a pioneer strategy on the human capital reporting of companies listed on the Tehran Stock Exchange. [Tenai and Mohebkhah \(2013\)](#) investigated the relationship between business strategy, profit quality and stock returns in companies listed on the stock exchange. The results of this research show that the amount of profit management in defensive companies is higher than in aggressive (pioneer) companies. Also, the results show that the economic environment is effective on the relationship between the company's business strategies and its profit quality. In addition, the results do not show a significant relationship between the level of conservatism and stock returns with the type of strategy of the companies. The results indicate that the economic environment has no effect on the relationship between the company's business strategies and its stock returns. [Anderson et al \(2003\)](#) studied the stickiness of sales, general and administrative costs. Their research findings show that sales, general and administrative costs have stickiness and the stickiness of these costs disappears in the next period. Also, the stickiness of sales, general and administrative expenses decreases with the increase in the length of the study period and the length of the sales reduction period, and increases with the increase in economic growth, the amount of assets and the number of employees. [Bankery et al \(2021\)](#) showed by examining the relationship between management optimism and cost behavior, in case of increase (decrease) in sales, the greater the optimism (pessimism) of management, the greater the increase (decrease) in costs and to When sales are increasing, the higher the analysts' forecast of future sales, the higher the incremental cost adjustments.

Data Analysis

Test of the first hypothesis

There is a relationship between the business strategy of companies and cost stickiness.

Model:

$$\log\left(\frac{SG\&A_{i,t}^j}{SG\&A_{i,t-1}^j}\right) = b_0 + b_1 \log\left(\frac{Rev_{i,t}^j}{Rev_{i,t-1}^j}\right) + b_2 d_{i,t}^j \log\left(\frac{Rev_{i,t}^j}{Rev_{i,t-1}^j}\right) + \varepsilon_{i,t}$$

Table 1. Test of the first hypothesis

Variable	Defender strategy		Attacker strategy	
	Coefficient	Prob	Coefficient	Prob
Fixed coefficient	0.050896	0.0011	0.064512	0.0003
B1	-0.022952	0.8460	-0.095943	0.5440
B2	0.650723	0.0000	0.628428	0.0002
	F-statistic	35.13798	F-statistic	25.49110
	Prob(F-statistic)	0.000000	Prob(F-statistic)	0.000000
	R-squared	0.178694	R-squared	0.136323

F statistic: If we want to test the nullity of all coefficients, we use F statistic. If the hypothesis H_0 that all the coefficients are zero is rejected if the calculated F is greater than the F in the table. According to the hypothesis test, this value is equal to (25.49110 and 35.13798) for the strategy of the attacker and the defender respectively. The comparison of the calculated F with the table F is done by the software and the probability of the F statistic appears.

The probability of the F statistic: the minimum probability of confirming the hypothesis H_0 that the hypothesis H_0 can be rejected or confirmed without referring to the table and by looking at the probability. If the error level is considered to be 5%. If this probability is greater than 5%, the hypothesis H_0 is not rejected. The probability value in the table is equal to (0.00), which is less than 5% at the 95% confidence level. Therefore, the regression model is significant and the hypothesis H_0 is rejected.

Probability: This column states the minimum probability of confirming the hypothesis H_0 of based on the desired coefficient being zero, if this probability was greater than 5%, the hypothesis H_0 cannot be rejected, and otherwise, the coefficient of the case The opinion is meaningful. The probability of independent variables in both strategies is equal to zero for the second variable and greater than 0.05 for the first variable, which means that the dependent variable is affected by the second independent variable in the above model.

Test of the second hypothesis

The business strategy of companies affects the relationship between managers' ability and cost stickiness.

Model:

$$\begin{aligned} \Delta \ln SGA = & \beta_0 + \beta_1 \times \Delta \ln Sales_{i,t} + \beta_2 \times Decr Dum_{i,t} \times \Delta \ln Sales_{i,t} + \beta_3 \\ & \times Overconf Mal_{i,t} + \beta_4 \times Overconf Mal_{i,t} \\ & \times \Delta \ln Sales_{i,t} \times Decr Dum_{i,t} \\ & + \sum_t^i \beta_c \times Controls_{i,t} + \sum_t^i \beta_c \times Controls_{i,t} \\ & \times \Delta \ln Sales_{i,t} \times Decr Dum_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Table 2. Test of the second sub-hypothesis

Variable	Defender strategy		Attacker strategy	
	Coefficient	Prob	Coefficient	Prob
Fixed coefficient	0.450715	0.0621	0.497278	0.3145
B1	-0.057188	0.0975	-0.049712	0.5307
B2	0.003080	0.6130	-0.030294	0.0166
B3	-0.028322	0.0224	-0.010687	0.5341
B4	0.005277	0.0244	0.002145	0.5059
B5	-0.007211	0.3426	0.008688	0.3350
B6	-0.000686	0.0377	-0.000212	0.8360
B7	0.007203	0.2787	-0.000281	0.7555
	F-statistic	4.939010	F-statistic	6.947677
	Prob(F-statistic)	0.000000	Prob(F-statistic)	0.000000
	R-squared	0.491335	R-squared	0.575151

Test of the third hypothesis

The business strategy of companies affects the relationship between managers' overconfidence and cost stickiness.

Model:

$$\begin{aligned} \Delta \ln SGA = & \beta_0 + \beta_1 \times \Delta \ln Sales_{i,t} + \beta_2 \times Decr Dum_{i,t} \times \Delta \ln Sales_{i,t} + \beta_3 \\ & \times Overconf Mal_{i,t} + \beta_4 \times Overconf Mal_{i,t} \\ & \times \Delta \ln Sales_{i,t} \times Decr Dum_{i,t} \\ & + \sum_t^i \beta_c \times Controls_{i,t} + \sum_t^i \beta_c \times Controls_{i,t} \\ & \times \Delta \ln Sales_{i,t} \times Decr Dum_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Diagnostic tests

Test	Suggested suitable model	Prob	Test statistics
Chow		00.00	7.009893
Hausmann		0.0006	25.73

In Chave's test, the statistic corresponding to Prob is less than 0.05, so the null hypothesis is rejected, in other words, the fixed effects model is preferable to the mixed data model. Therefore, in the next step, one item should be selected from the fixed model and the random effects, and the Hausman test is used to compare these two models. The results obtained from the Hausman test show that the significance level in the model is less than 0.05, which means rejecting the null hypothesis and choosing the fixed effects method for the model.

Research Findings and Conclusions

The first hypothesis: there is a relationship between the business strategy of companies and cost stickiness. According to the hypothesis test, this value is equal to (25.49110 and 35.13798) for the strategy of the attacker and defender. The comparison of the calculated F with the [table F](#) is done by the software and the probability of the F statistic appears.

The probability of the F statistic: the probability value in the [table](#) is equal to (0.00), which is less than 5% at the 95% confidence level.

Therefore, the regression model is significant and the hypothesis H_0 is rejected. Probability: The probability of independent variables in both strategies for the second variable is equal to zero and for the first variable is greater than 0.05, which means that the dependent variable is affected by the second independent variable in the above model. The results of this research are in direct agreement with the results of [Mortazavi's \(2013\)](#) research on the relationship between the business strategy of companies and the stickiness of costs. and cost stickiness are consistent.

The second hypothesis: the business strategy of companies affects the relationship between **managers' ability and cost stickiness.**

F statistic: According to the hypothesis test, this value is equal to (6.947677 and 4.939010) for the strategy of the attacker and the defender respectively. The comparison of the calculated F with the [table F](#) is done by the software and the probability of the F statistic appears. The probability of the F statistic in the [table](#) is equal to (0.00), which is less than 5% at the 95% confidence level. Therefore, the regression model is significant for both strategies and the hypothesis H_0 is rejected.

Probability: This column states the minimum probability of confirming the hypothesis H_0 that the desired coefficient is zero, if this probability is greater than 5%, the hypothesis H_0 cannot be rejected, and otherwise, the desired coefficient is significant. The probability of the independent variables for the strategy of attacker (0.5341) and defender (0.0224).

The results of this research are in direct agreement with the results of [Khan Hosseini's research \(2013\)](#) on the relationship between the business strategy of companies on the relationship between managers' ability and cost stickiness. 2013) about the relationship between the business strategy of companies is consistent with the relationship between managers' ability and cost stickiness.

The third hypothesis: the business strategy of the companies affects the relationship between managers' overconfidence and cost stickiness.

F statistic: According to the hypothesis test, this value is equal to (6.947677 and 4.992076) for the strategy of the attacker and defender. The comparison of the calculated F with the [table F](#) is done by the software and the probability of the F statistic appears.

The probability of the F statistic: the probability value in the [table](#) is equal to (0.00), which is less than 5% at the 95% confidence level. Therefore, the regression model is significant and the hypothesis H_0 is rejected.

Probability: This column states the minimum probability of confirming the hypothesis H_0 that the desired coefficient is zero. If this probability is greater than 5%, the hypothesis H_0 cannot be rejected, and otherwise, the desired coefficient is significant. The probability of the independent variables for the attacker (0.5645) and defender (0.6250) strategies.

The results of this research are in direct agreement with the results of [Mortazavi's research \(2013\)](#) about the business strategy of companies on the relationship between managers' overconfidence and cost stickiness. (2011) regarding the business strategy of companies is consistent with the relationship between managers' overconfidence and cost stickiness.

Proposals based on hypotheses

It is also suggested that in future studies, researchers should investigate the effect of management overconfidence on the cost of manufactured or sold goods due to the existence of cost stickiness. In the current research, the legal reasons for the increase in wages and insurance costs, etc., have not been considered, so it is

suggested to deal with these issues in future researches. According to the results of the hypotheses, it is suggested that investors, analysts and financial advisors use the results obtained on investment and analyzing the financial status of companies.

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