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The Impact of Financial Statement Comparability on Cost Stickiness: The Moderating Role of Environmental Uncertainty and Corporate Governance Mechanisms

Mojtaba Golmohammadi shuraki [1*], Ehsan Salimi[2]

1. Assistant Professor, Department of Finance and Accounting, Humanities Faculty, Meybod University, Meybod, Iran. golmohammadi@meybod.ac.ir
2. Assistant professor, Department of Economics, Humanities Faculty, Meybod University, Meybod, Iran. salimi@meybod.ac.ir

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***Correspondence:**
Mohsen Gharihe
mohsengharihe@stu.yazd.ac.ir

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Abstract

This study examines the impact of financial statement comparability on cost stickiness in companies listed on the Tehran Stock Exchange. Utilizing a sample of 83 manufacturing firms over the period 2020-2024 and applying panel data regression with random effects, the findings indicate a significant positive relationship between financial statement comparability and the degree of cost stickiness. This relationship is amplified under conditions of higher environmental uncertainty, measured by stock return volatility. Furthermore, supplementary tests reveal that strong corporate governance mechanisms, specifically board independence and institutional ownership, attenuate the positive effect of comparability on cost stickiness. The results suggest that within the studied context, the informational and facilitative learning benefits derived from comparable financial statements—which enhance managers' strategic decision-making and expectations regarding future demand—prevail over their monitoring role. This leads managers to adopt a more cautious approach towards resource reduction during sales declines, thereby increasing cost stickiness. The research contributes to the existing literature by elucidating a less-explored consequence of accounting comparability and demonstrating the contingent nature of its effect on a firm's operational environment and governance structure. However, given the study's focus on manufacturing firms listed on the Tehran Stock Exchange, the generalizability of the findings to other sectors, such as service and financial industries, should be interpreted with caution.

Keywords: Financial Statement Comparability, Cost Stickiness, Environmental Uncertainty, Corporate Governance, Board Independence, Institutional Ownership.

JEL Classification: (M41, G30, G34)

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INTRODUCTION

Cost behavior and resource allocation decisions are among the most important managerial accounting issues because costs directly affect profitability, operational flexibility, and firm value. Traditional cost behavior theory assumes that costs change proportionately with changes in sales volume. However, prior accounting research has shown that costs often behave asymmetrically, meaning that costs increase more rapidly when sales rise than they decrease when sales decline. This phenomenon is referred to as cost stickiness. Previous studies explain cost stickiness mainly through adjustment costs, managerial expectations regarding future demand, and agency-related incentives. Managers may avoid reducing committed resources during temporary declines in sales because restoring those resources in the future can be costly and disruptive. Consequently, firms may intentionally preserve excess resources even during downturns. Recent accounting literature has increasingly focused on identifying determinants of cost stickiness, including managerial ability, corporate governance, adjustment costs, and financial reporting quality. Nevertheless, despite the growing literature on financial statement comparability and its economic consequences, little attention has been devoted to examining whether financial statement comparability affects firms' cost adjustment decisions. Financial statement comparability refers to the extent to which similar economic events are reflected similarly in accounting reports across firms. Higher comparability reduces information acquisition costs and improves the ability of investors, creditors, and managers to evaluate firm performance relative to industry peers. Most prior studies emphasize the monitoring role of comparability, arguing that greater transparency enhances external oversight and constrains managerial opportunism. However, comparable financial information may also provide informational and learning benefits for managers themselves. Managers face limitations in processing large volumes of information and therefore rely on external benchmarks to evaluate strategic decisions. Access to comparable peer information may improve managers' understanding of industry conditions, future demand trends, and resource utilization strategies. As a result, managers may become more confident in maintaining organizational resources during temporary sales declines, thereby increasing cost stickiness. On the other hand, greater comparability may reduce cost stickiness because enhanced transparency strengthens external monitoring and limits managers' ability to retain excess resources for personal motives such as empire building. Therefore, the overall effect of financial statement comparability on cost stickiness remains theoretically ambiguous and requires empirical investigation. The present study contributes to the literature by examining the relationship between financial statement comparability and cost stickiness in firms listed on the Tehran Stock Exchange. In addition, the study investigates whether environmental uncertainty strengthens this relationship and whether corporate governance mechanisms weaken it. The research extends prior accounting comparability studies by focusing on operational behavior and internal resource allocation decisions rather than solely on capital market outcomes.

METHODOLOGY

This study is applied in terms of objective and descriptive-correlational in terms of methodology. The statistical population consists of firms listed on the Tehran Stock Exchange during the period 2020–2024. After applying several screening criteria, including the availability of audited non-consolidated financial statements, accessibility of research variables, and industry classification requirements, 83 manufacturing firms were selected as the final sample using a systematic elimination approach. To test the hypotheses, panel data regression models with random effects were employed. The selection of panel data methodology and random-effects specification was confirmed using the Limer and Hausman tests. Cost stickiness was measured based on the residual approach derived from the model proposed by Anderson et al. (2003), using selling, general, and administrative expenses relative to changes in sales revenue. Financial statement comparability was measured using the widely accepted methodology developed by De Franco et al. (2011), which evaluates the similarity of accounting systems across firms based on the relationship between stock returns and accounting earnings. Environmental uncertainty was measured using the annual standard deviation of monthly stock returns.

In addition, several control variables were included in the regression models, including fixed asset intensity, labor intensity, leverage, return on assets, sales growth, dividend payout ratio, and market-to-book ratio. The study employed descriptive statistics, correlation analysis, and regression analysis to test the research hypotheses.

RESULTS

The findings indicate that financial statement comparability has a positive and statistically significant effect on cost stickiness. The coefficient of comparability is positive and significant at the one percent level, suggesting that firms with more comparable financial statements exhibit higher levels of cost stickiness. This finding supports the argument that the informational and learning benefits of comparability dominate its monitoring role within the studied context. Managers appear to use comparable industry information to better evaluate future market conditions and therefore become more willing to retain resources during temporary declines in sales. The results also demonstrate that environmental uncertainty strengthens the positive relationship between comparability and cost stickiness. Firms operating under higher uncertainty rely more heavily on comparable peer information when making resource allocation decisions. Under uncertain conditions, managers become more cautious about reducing resources because comparable information improves their expectations regarding future demand recovery and competitive positioning. Additional analyses further reveal that strong corporate governance mechanisms weaken the positive effect of comparability on cost stickiness. Specifically, board independence and institutional ownership reduce managers' tendency to preserve excess resources unnecessarily. This finding suggests that effective governance mechanisms enhance monitoring efficiency and limit opportunistic managerial behavior. Among the control variables, labor intensity and dividend payout ratio show significant negative relationships with cost stickiness, while several other control variables do not exhibit statistically significant effects. Overall, the regression models demonstrate acceptable explanatory power and no evidence of serious autocorrelation problems.

CONCLUSION

This study examined the impact of financial statement comparability on cost stickiness in firms listed on the Tehran Stock Exchange and investigated the moderating roles of environmental uncertainty and corporate governance mechanisms. The findings show that greater financial statement comparability increases cost stickiness because comparable information improves managerial learning, enhances strategic expectations regarding future demand, and encourages managers to preserve organizational resources during temporary downturns. The study further demonstrates that environmental uncertainty intensifies this relationship, indicating that managers rely more heavily on comparable industry information when future market conditions become less predictable. In contrast, strong corporate governance mechanisms mitigate the positive effect of comparability on cost stickiness by constraining managerial discretion and improving external monitoring. The results contribute to the accounting literature by highlighting a relatively unexplored operational consequence of financial statement comparability. While previous studies mainly focused on investment efficiency, financing costs, and capital market outcomes, this research emphasizes the role of comparability in shaping internal managerial behavior and resource allocation decisions. The findings also suggest that the economic consequences of comparability depend on contextual factors such as uncertainty and governance quality. From a practical perspective, the study indicates that comparable financial information can improve managerial strategic decision-making and operational planning. However, firms should simultaneously strengthen governance mechanisms to prevent inefficient resource retention and agency-related problems. Despite its contributions, the study is limited to manufacturing firms listed on the Tehran Stock Exchange, and therefore caution should be exercised when generalizing the findings to other industries or institutional settings. Future research may investigate the relationship between comparability and cost behavior in different economic environments and explore additional moderating variables affecting managerial resource adjustment decisions.

Contribution of Authors
All authors contributed to the research design, data collection and analysis, and the writing and final revision of the manuscript.

Ethical Approval
In conducting this research, ethical principles—including accuracy and integrity in the collection and analysis of publicly available data—have been observed.

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This research was conducted without any specific financial support.

Conflict of Interest
The author declares no conflict of interest.

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