

The Relationship between Business Strategy and Cost of Equity: Considering the Role of Stock Price Volatility

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Abstract--- Business strategy is an innovative way to showcase unique assets, enhance excellence, and contribute to the performance of the company's components. In this research, the relationship between business strategy and the cost of equity has been investigated by considering the impact of stock price fluctuations. The final sample of the research was selected using a systematic (screening) and non-random sampling method over six years, from 2015 to 2020. Research hypotheses were examined using a multiple regression model by Eviews9 software. The results showed a significant relationship between cost leadership strategy and differentiation strategy with the cost of equity among the studied sample. Also, other research results showed that stock price fluctuations significantly affect the relationship between cost leadership strategy and cost of equity (Gordon). However, price fluctuations do not significantly affect the relationship between differentiation strategy and the cost of equity.

Keywords--- Business Strategy, Cost Leadership strategy, Differentiation Strategy, Cost of Equity, Price Volatility.

I. Introduction

In the simultaneous activities of different departments of the organization, two essential and fundamental activities of finance and strategy are carried out in most of the organization's departments. Experts create these two areas in different working groups, which usually results in pursuing different and conflicting goals and standards (Jeremias, 2008). In the new discussion of companies, managers and strategists are looking for better and more effective decisions to connect the organization's essential strategies and financial activities. This approach has expected results: achieving a strategy that guides future productions. Appropriate business decisions that allocate scarce resources for strategic implementation provide a suitable measure to evaluate the organization's performance (Tera et al., 2016).

One of the most critical criteria in financial decision-making is the cost of equity, which affects various factors. To compete in the market, every company must provide resources and bear costs. It is necessary to achieve the goals of developing a strategy. Most organizations use related strategies rather than strategies, each designed at different levels of the company. According to Ittner and Larcker (1997), one of the essential tasks of management is to formulate a strategy that forms the basis of the managers' vital decisions for the organization's survival. They introduce three levels of strategy for organizations: organizational strategies, business or commercial strategies, and functional strategies.

Meanwhile, business strategy is more critical than other strategies. The organization should try harder than other competitors in the market to maintain its survival and improve the competitiveness of its products. In past research, researchers emphasized that the company's competitive power can affect the profitability and cost of equity. According to researchers, by increasing the cost leadership strategy and competitive power, the company's profitability will be high, and the cost of equity will be reduced (Khedmatiet al., 2019). Marketing researchers realized that by increasing customer satisfaction, the company's systematic risk decreases, and as a result, the cost of equity decreases. Without knowing the cost of equity, the company cannot decide which means to use to collect the necessary funds for its long-term investment. Due to limited resources, economic units should try to choose a combination of financial resources with the lowest capital cost. Having a Commercial strategy, including cost leadership strategy and product differentiation at the cost of equity, has not been the focus of researchers in previous

research. The equity cost represents the efficiency assigned to investors and affects the company's risk (Daniel Bryan et al., 2013). It can also be understood that the cost of equity is affected by the company's business strategy. Also, according to the theories raised in financial discussions, the amount of price fluctuations is one of the company's unique characteristics. Volatility risk can be attributed to the inability of the company to be stable in the competition scene, maintain the growth rate, and stabilize the price in the short or long term (Francis et al., 2003).

Regarding the effect of stock price fluctuations on capital structure strategies and decisions, different theories have been put forward in different theories, and a lack of consensus is observed in this field. Previous researchers have also reached different results in some cases. One of the factors resulting from this instability is the heterogeneity of the investigated sample. The sample heterogeneity is due to not paying attention to the conditions and limitations of the company. The more uncertainty financial providers have about obtaining resources and their expected returns, the less they tend to debt (Cevheroglu, 2018). In such cases, the purpose of making financial decisions is to get out of these conditions faster than the managers tolerate. Therefore, the central question of this research is to what extent the components of the company's commercial strategy, especially the leadership and differentiation strategy, affect the cost of equity. Also, what is the role of stock price fluctuations on the relationship between business strategies (leadership strategy and differentiation strategy) and cost of equity?

II. Research Literature

The Relationship between Leadership Strategy and Cost of Equity

Management accounting plays a vital role in creating and implementing business strategies. Connecting a company's management accounting control system with its strategies can increase the company's efficiency; according to Hajjiha's past studies (2017), it can be said that competitive strategies have a direct and significant effect on the company's performance. He also found that social responsibility directly and significantly affects the company's performance. Cost leadership strategy refers to the lower price of the product. Action research by Banimahd (2018) also shows an inverse and significant relationship between the cost leadership strategy and the cost of equity. Shams et al. (2016) studied the relationship between competition intensity in the product market and price momentum on the cost of capital of companies listed on the Tehran Stock Exchange. This research shows that competition in the product market has a negative effect on the cost of capital of companies listed on the Tehran Stock Exchange; however, no significant relationship between momentum strategy and cost of capital was observed in the companies admitted to the Tehran Stock Exchange.

There is a relationship between customer satisfaction and product brand value and cost of equity that has been shown in marketing research. Increasing customer satisfaction reduces equity and systematic risk to the company (Himme and Fischer, 2014). The company's ability to compete in the market affects capital structure decisions, including the cost of capital (Sarkar, 2014). Boubaker et al. (2018) believe that the company's strategies in the competitive market act like a management system. In this mechanism, managers' choice of business strategies makes us compensate for the lack of resources, and we can monitor the consumption of those resources. A balance should be made between the interests of shareholders and managers, and the company's capital cost and agency costs should be reduced. Choosing an inappropriate business strategy will increase the company's bankruptcy risk and the cost of capital. Heditaka (2014) stated that a competition strategy reduces the cost of capital and financial risk. Daniel Bryan et al. (2013) discussed bankruptcy risk, productivity, and company strategy. Its results are that it reduces the risk of bankruptcy and, as a result, reduces the cost of capital and productivity. According to the said contents, the first hypothesis of the research is expressed as follows:

First hypothesis: There is a significant relationship between leadership strategy and cost of equity.

The Relationship between Differentiation Strategy and Cost of Equity

Product differentiation strategy significantly affects company performance more than cost leadership. Also, the company's competitiveness in the market increases by applying customer-focused management accounting techniques. Quality costing, competitive position monitoring, strategic costing, etc., help company managers determine and apply appropriate strategies. These techniques are developed by evaluating competitors' performance based on financial statements (Heditaka, 2014). There is a significant relationship between business strategy and cost of equity that can be found in the strategic competitive triangle. In management accounting, the product's quality, time, and cost are competitive advantages, and customers have different expectations of the product. A quality product is considered to have a lower price and better quality than other products and is delivered in the shortest time. Business units simultaneously focus on quality, cost, and time, to satisfy customers and compete with other manufacturers. For commercial units to meet customers' expectations, it increases their competitive power. Competitiveness increases when we have a cost reduction. It is a differentiation strategy in order to increase competitive power. Ashish Pandey (2017) showed that companies innovate products to remain competitive in the market; this will attract new capital and thus increase the cost of capital. Tera et al. (2016) investigated the innovation strategies of newly established companies. They found that in companies where investors are exposed to

many risks, there is a tendency to avoid focusing on innovation, which reduces profitability, the cost of capital, and the expected returns of investors. They emphasize more on cost leadership strategy and increasing competitiveness. An increase in companies' competitiveness increases sales and cash inflow and reduces the cost of financing, including the cost of equity. A decrease in financing costs will increase profitability and reduce the cost of capital (Daniel Bryan et al., 2013). According to the said contents, the second hypothesis of the research is expressed as follows:

The Second Hypothesis: There is a significant relationship between differentiation strategy and cost of equity.

The Role of Price Volatility on Cost Leadership Strategy and Cost of Equity

In hierarchy theory, price fluctuations are constant; people outside the organization predict the fluctuations, while in a company with random fluctuations, people inside the organization have better information about the changes. Due to the lack of information asymmetry, the cost of financing through debt will be higher, and the cost of the company will preferably be financed from other sources. Moreover, with high price volatility, companies maintain their borrowing capacity to avoid paying high capital costs due to high volatility. Heydari et al. (2017) conducted research entitled price volatility and capital structure decision with the moderating role of financial distress. They found that price volatility has a significant and opposite effect on capital structure decisions. However, Cevheroglu(2018) showed in his research that price fluctuations and growth opportunities do not affect the capital structure. The capital structure has a positive and significant relationship with the company's profitability, and the capital structure has a negative and significant relationship with the asset structure. According to the presented materials, it is expected that price fluctuations significantly impact the cost leadership strategy and the cost of equity. Therefore, the third hypothesis of the research is expressed as follows:

The Third Hypothesis:Price volatility has a significant effect on the relationship between cost leadership strategy and cost of equity.

The Influential Role of Price Fluctuations on Differentiation Strategy and Cost of Equity

In the field of stock price fluctuations, the factors determining the capital structure and cost of capital are divided by researchers into two internal and external factors. Internal factors originate from within the company. Such as the fluctuation of profit, company size, and profitability. External factors arise from the company's external environment, such as interest rates and taxes (Korajczyk and Levy, 2003). Price fluctuations are one of the internal factors affecting the cost of capital, which has been mentioned. They showed a negative relationship between price volatility and the company's cost of capital. Danso and Adomako (2014) the reason for adopting a conservative policy is the volatility of the price in the capital structure of the theory of equilibrium and hierarchy, which is based on the theory of static equilibrium, the fluctuations of the company are random, and the adjustment costs are high. The same flows are considered in this theory, one is a specific level of standard deviation, and the other is the standard deviation of random flows and has a distribution with equal mean and variance ϵ . According to the presented materials, it is expected that price fluctuations have a significant impact on the differentiation strategy and the cost of equity. Therefore, the fourth hypothesis of the research is stated as follows:

Fourth Hypothesis:Price fluctuations have a significant effect on the relationship between differentiation strategy and cost of equity.

Statistical Population, Sampling Method, and Statistical Sample

The research community included companies that are members of the Tehran Stock Exchange for the period 1395 to 1400, and the following filters were applied to them:

The research community included companies that were members of the Tehran Stock Exchange for the period 1395 to 1400, and the following filters were applied to them:

1. The company does not change its financial year and activity during the research period.
2. Do not belong to investment companies, banks, insurance, and leasing institutions.

Based on this, 159 companies were selected as the final sample of the research.

III. Methodology

In order to collect the information needed for the research, the library method was used. Library resources include books, magazines, theses, articles, the internet, and other scientific resources. The data required for the research was also collected from Rahavard Novin software, which is a comprehensive database of listed companies. Descriptive statistics and inferential statistics were used to analyze the data. The descriptive statistics section discusses central indicators (such as mean and median) and standard deviation dispersion indexes. In the inferential statistics section, panel data is used to check hypotheses. Also, in this research, the f-tests of Limer, Chow (to choose the combined or combined method), Hausman (to choose between the fixed effects and random effects model), adjusted Wald (to discover the heterogeneity of variance), Waldridge (to discover the Correlation) and Jarek Bara (to determine the normality of the distribution of disturbance components of the model) were used. Data analysis and extraction of research results were also done with the help of Excel and Eviews software.

Research Model and Variables

The research models are as follows.

The following model has been used to examine hypotheses 1 and 2.

$$CoE_{it} = \alpha_0 + \alpha_1 ATO_{it} + \alpha_2 PM_{it} + \alpha_3 LIQ_{it} + \alpha_4 Lev_{it} + \alpha_5 SIZE_{it} + \alpha_6 Cash_{it} + \alpha_7 MTB_{it} + \varepsilon_{it} \tag{1}$$

The second model is used to examine hypotheses 3 and 4.

$$CoE_{it} = \alpha_0 + \alpha_1 ATO_{it} + \alpha_2 PM_{it} + \alpha_3 VOLP_{it} + \alpha_4 (VOLP_{it} * ATO_{it}) + \alpha_5 (VOLP_{it} * PM_{it}) + \alpha_6 LIQ_{it} + \alpha_7 Lev_{it} + \alpha_8 SIZE_{it} + \alpha_9 Cash_{it} + \alpha_{10} MTB_{it} + \varepsilon_{it} \tag{2}$$

In this model, i represents the company, t represents time, and ε_{it} represents the residual of the model.

The Dependent Variable

Cost of Equity (Gordon Model)

The Gordon growth model is a method for calculating the cost of equity, sometimes called the discounted cash flow model (DDM).

$$COE = \frac{D_1}{P_0} + g$$

COE is the cost of equity capital, D1 is the cash dividend paid at the end of the first year, and g is the dividend growth rate. The following relationship was also used to calculate the dividend growth rate:

$$g = \left(\frac{EPS_t}{EPS_0} \right)^{\frac{1}{t}} - 1$$

Also, the following relationship was used to calculate the price of each share at the beginning of the year:

$$P_0 = \left(\frac{DPS_1}{r-g} \right)$$

r: Investors' expected return

Independent Variable

Business strategy: To calculate the business strategy, the approach of Agustina and others (2020) is used and based on this, two strategies are considered: differentiation strategy and cost leadership. The calculation of these two strategies is as follows:

[[ATO]]_it: variable is the cost leadership strategy used to calculate this strategy from the operating asset turnover proxy. Operating sales are divided by average operating assets (year t and t-1) to calculate operating asset turnover. Operating assets are total assets with less cash and short-term investments (Agostina et al., 2020).

[[PM]]_it: is the differentiation strategy variable used to calculate the differentiation strategy from the profit margin proxy. To calculate the profit margin, operating profit is added to the cost of research and development and divided by the company's net sales (Agostina et al., 2020).

Modifier Variable

[[VOLP]]_it: is price volatility, which in this research is the logarithm of the stock market value in year t minus the stock market value in year t-1.

Control Variables

LIQ: Company's current ratio, a liquidity measure. Lev: The ratio of total liabilities to total assets. SIZE: The Company's size is obtained through the natural logarithm of the market value of equity at the end of the year. Cash: Holding cash obtained by dividing the sum of cash and short-term investments by total assets. MTB: The book market value of assets is obtained by dividing the company's market value (number of shares * share price) by the book value of assets.

Descriptive statistics

Table 1: Descriptive Statistics of Research Variables

Variables	Average	Median	standard deviation	Min	Max
ATO	1.154	0.940	0.838	0.000	8.854
PM	0.147	0.145	0.674	-21.582	4.105
COE	0.604	0.408	1.300	-3.843	18.494
VOLP	0.132	0.050	0.841	0.000	18.136
LIQ	1.588	1.303	1.317	0.209	22.320
LEV	0.572	0.570	0.206	0.037	1.566
SIZE	14.638	14.376	1.634	10.988	20.689
Cash	0.069	0.038	0.087	0.000	0.822

MTB	1.821	1.080	2.408	0.120	35.664
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Checking the Reliability of Research Variables

The reliability of the research variables, through the unit root test, is presented as follows in Table No. 2.

Table 2: Unit Roots Test

Panel data unit root test			
Null hypothesis: There is a unit root			
Prob.	Test statistics		
0.000	716.789		ATO
0.000	778.426		PM
0.000	734.162		COE
0.000	908.321		VOLP
0.000	856.227		LIQ
0.000	664.637		LEV
0.000	875.110		SIZE
0.000	699.259		Cash
0.000	715.664		MTB

Based on the obtained results, all the variables are static and the null hypothesis is rejected at the confidence level of 95%.

Chow and Hausman Tests

The panel data method was used to check the correlation.

Assumption zero: the widths of the origins are equal.

Assumption: The widths of the origins are not equal.

Table 3: Chow and Hausman Test

The dependent variable	Significance level of Chow test	Significance level of Hausman test	Model fit model
The cost of equity	0.000	0.000	Panel model with cross-sectional fixed effects

The value of Chow and Hausman test statistic is less than 0.05, so the panel model with cross-sectional fixed effects was chosen.

Examining the Research Hypothesis

First hypothesis: There is a significant relationship between leadership strategy and cost of equity.

The results of fitting the model:

Table 4: Fit of the Model Related to the Research Hypothesis

Dependent variable: cost of equity				
Variable	Prob.	t statistic	Dev.	Coefficient
ATO	0.000	-31.666	0.0024	-0.076
LIQ	0.000	-23.959	0.049	-1.174
LEV	0.000	19.857	0.0007	0.0139
SIZE	0.768	-0.282	0.078	-0.022
Cash	0.343	-0.948	0.0004	-0.0004
MTB	0.000	-4.571	0.007	-0.032
R-squared: 0.659				
Durbin-Watson statistic: 1.905				
Prob(F-statistic): 0.000				

Based on the obtained results and because the absolute value of the t statistic for the independent variable is more significant than 1.96, it can be concluded that the research hypothesis is confirmed. These variables have a significant effect on the dependent variable. Considering that the independent variable's coefficient is negative, this relationship's quality is inverse. Based on this, it can be said that the null hypothesis is not confirmed, and there is a significant relationship between the leadership strategy and the cost of equity. The obtained coefficient of

determination also shows that the model related to the fifth hypothesis justifies 65.9% of the changes in the dependent variable.

Second Hypothesis: There is a significant relationship between differentiation strategy and cost of equity.

The results of fitting the model:

Table 5: Fit of the Model Related to the Research Hypothesis

Dependent variable: cost of equity				
Variable	Prob.	t statistic	Dev.	Coefficient
PM	0.000	12.727	0.0033	0.042
LIQ	0.000	-8.614	0.127	-1.094
LEV	0.000	13.894	0.0019	0.0264
SIZE	0.895	-0.333	0.084	-0.028
Cash	0.096	-1.564	0.0006	-0.0009
MTB	0.000	-5.541	0.008	-0.044
R-squared: 0.599				
Durbin-Watson statistic: 1.966				
Prob(F-statistic): 0.000				

Based on the obtained results and because the absolute value of the t statistic for the independent variable is more than 1.96, it can be concluded that the research hypothesis is confirmed. This variable has a significant effect on the dependent variable. Considering that the independent variable's coefficient is positive, this relationship's quality is direct. Based on this, it can be said that the null hypothesis is not confirmed, and there is a significant relationship between the differentiation strategy and the cost of equity. The obtained coefficient of determination also shows that the model related to the fifth hypothesis justifies 59.9% of the changes in the dependent variable.

Third Hypothesis: Price volatility has a significant effect on the relationship between cost leadership strategy and cost of equity.

The results of fitting the model:

Table 6: Fit of the Model Related to the Research Hypothesis

Dependent variable: cost of equity				
Variable	Prob.	t statistic	Dev.	Coefficient
ATM	0.000	-8.645	0.0096	-0.083
ATM*VOLP	0.000	-4.384	0.013	-0.057
LIQ	0.000	-8.565	0.099	-0.848
LEV	0.000	18.090	0.0022	0.0398
SIZE	0.756	-0.444	0.075	-0.033
Cash	0.093	-1.571	0.0007	-0.0011
MTB	0.000	-8.428	0.007	-0.059
R-squared: 0.688				
Durbin-Watson statistic: 2.022				
Prob(F-statistic): 0.000				

Based on the obtained results and considering the fact that the absolute value of the t statistic for the independent variable is greater than 1.96, it can be concluded that this variable has a significant effect on the dependent variable. Also, the significant level of the product of leadership strategy in price fluctuations is less than 5%, which shows that the null hypothesis of the research is rejected and price fluctuations have a significant effect on the relationship between cost leadership strategy and cost of equity. The obtained coefficient of determination also shows that the model related to the fifth hypothesis justifies 66.8% of the changes in the dependent variable.

Fourth Hypothesis: Price fluctuations have a significant effect on the relationship between differentiation strategy and cost of equity.

The results of fitting the model:

Table 7: Fit of the Model Related to the Research Hypothesis

Dependent variable: cost of equity				
Variable	Prob.	t statistic	Dev.	Coefficient
PM	0.000	-8.645	0.0109	0.056
PM*VOLP	0.000	-4.384	0.096	0.244
LIQ	0.000	-8.565	0.059	-0.422
LEV	0.000	18.090	0.0033	0.0269
SIZE	0.756	-0.444	0.059	-0.019

Cash	0.093	-1.571	0.0008	-0.0019
MTB	0.000	-8.428	0.006	-0.044
R-squared: 0.619				
Durbin-Watson statistic: 2.036				
Prob(F-statistic): 0.000				

Based on the obtained results and because the absolute value of the t statistic for the independent variable is more than 1.96, it can be concluded that this variable has a significant effect on the dependent variable. Also, the significance level of the product of the differentiation strategy in price fluctuations is less than 5%, which shows that the null hypothesis of the research is rejected and price fluctuations have a significant effect on the relationship between the differentiation strategy and the cost of equity. The obtained coefficient of determination also shows that the model related to the fourth hypothesis justifies 61.9% of the changes in the dependent variable.

Examining the Results of the First Hypothesis

The first hypothesis investigated the relationship between cost leadership strategy and cost of equity. The hypothesis test results showed that the cost leadership strategy has a negative and significant effect on the cost of equity. This result is consistent with Kahami and Bani Mahd's (2018) research. They showed an inverse and significant relationship between the cost leadership strategy and the cost of equity. Also, Khemti et al. (2019) also concluded in their research that companies with a pure business strategy have a significantly lower cost of stock compared to a hybrid one, which is also consistent with the results of the present study. Cost leadership means creating a competitive advantage by reducing the cost of operations. Reducing operating costs to the extent that the company's products can be sold at lower prices than competitors while keeping profits regular or high. By choosing this strategy, the company controls and manages its costs, and when it needs financing, it can do so at the lowest possible cost. Therefore, choosing this strategy will help to reduce the cost of equity.

Examining the Results of the Second Hypothesis

In the second hypothesis, the relationship between differentiation strategy and cost of equity was investigated. According to the results obtained in the fourth chapter, it can be said that the differentiation strategy has a positive and significant effect on the cost of equity. This result also agrees with the results of Khemti et al. A differentiation strategy involves the development of unique goods or services. A company can offer higher quality, better performance, or unique features, which can justify a higher price. In the product differentiation strategy, companies tend to invest in research and development; for this purpose, companies' initiative and innovation ability increase. In addition, in product differentiation strategy, companies face higher uncertainty. Excessive emphasis on innovation and innovation in the product exposes the company to risk-taking activities and risk on a product that has not yet been produced. An increase in risk and an increase in the demand for financing in the company to produce quality and distinctive products can lead to an increase in the cost of equity.

Examining the Results of the Third Hypothesis

In the third hypothesis, the effect of price fluctuations on the relationship between leadership strategy and cost of equity was investigated. The research results showed that the variable of price volatility moderates the relationship between cost leadership strategy and cost of equity. Lower price fluctuations and creating a stable trend in the company's profit can improve the company's position. The goal of management is to make the company appear stable and dynamic in the eyes of investors and creditors. Acquiring a suitable position among competitors and the capital market gives investors and lenders a more favorable opinion of the company. The company does not need to spend more money in competition with other similar companies and get credit and loans at a lower cost. Slow Heydari et al. (2017), in a research titled price volatility and capital structure decision with the moderating role of financial helplessness, found that price volatility has a significant and opposite effect on capital structure decisions. Cevheroglu(2018) also showed in his research that price fluctuations and growth opportunities do not affect the capital structure.

Examining the Results of the Fourth Hypothesis

Examining the fourth hypothesis of the research showed that price fluctuations significantly affect the relationship between differentiation strategy and cost of equity. Danso and Adomako (2014) also showed a negative relationship between price volatility and the cost of equity. The reason for adopting a conservative policy is the price volatility in the capital structure of the theory of balance and hierarchy; based on the theory of static balance, the company's fluctuations are random, and adjustment costs are high. The increase in price fluctuations indicates an unstable situation in the company and a lack of proper management. Also, this can reduce the confidence of shareholders and investors in the company.

Price volatility measures the number of price deviations over time. According to the general rule, highly volatile prices are associated with higher risk. Many investors prefer to invest in companies that have a stable price trend.

Investors believe that companies with volatile reporting prices are riskier than companies with smooth reporting prices.

Suggestions Derived from Research Results

The results from the first hypothesis showed a negative and significant relationship between the cost leadership strategy and the cost of equity. Based on this, it is suggested that shareholders and investors pay attention to the company's business strategy in choosing companies to buy, hold or sell shares. It is also suggested to the financial managers of the companies to reduce the company's financing costs and increase the company's value by choosing the appropriate business strategy in the field of financing and investment. Considering that the research results showed that increasing the cost leadership strategy will reduce the cost of equity, it is suggested that to reduce the cost of equity and increase the value of the company, managers in Iran's economic environment generally use the cost leadership strategy. Examining the second hypothesis of the research showed that the differentiation strategy has a positive and significant effect on the cost of equity. Based on this, it is suggested that companies active in various service, manufacturing, and industrial fields in Iran should avoid choosing the differentiation strategy as a superior strategy because it will reduce the company's value in the long run, increasing the cost of equity. It is also suggested to shareholders and investors to avoid investing in companies with a differentiation strategy on their agenda. The results of the third hypothesis showed that price fluctuations significantly affect the relationship between leadership strategy and cost of equity. Based on this, it is suggested that investors, shareholders, and financial analysts pay attention to the factor of price stability (fluctuations) as a factor affecting the company's value. The fourth hypothesis showed that price fluctuations significantly affect the relationship between differentiation strategy and cost of equity. Therefore, when a company has chosen the differentiation strategy as its superior strategy in the field of business, price fluctuations can increase the cost of equity, affecting the relationship between these two variables. Based on this, shareholders and investors should be more cautious about companies with a differentiation strategy and, even if possible, not invest in such companies. It is also suggested that the managers look for other business strategies suitable for Iran's economic environment, especially during sanctions. Non-indigenous business strategies with free economy assumptions cannot necessarily be effective in Iran's semi-closed and state economy. Based on this, researchers need to do severe and innovative work in the field of business strategy and develop new business strategies based on economic models based on Iran's economy.

IV. Suggestions for Future Research

1. Presentation of the model in the field of superior business strategy for Iran's economy
- 2- Examining the relationship between business strategy and financial and non-financial performance of the company
- 3- Examining the relationship between business strategy and the risk of falling stock prices and bankruptcy risk
- 4- Examining the relationship between business strategy and stock liquidity
- 5- Examining the effect of industry type on the relationship between business strategy and cost of equity
- 6- Examining the effect of CEO's characteristics (behavioral or scientific) on the relationship between business strategy and cost of equity

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