



Organizational Inertia and Cost of Equity Capital

Esmail Abdi¹ | Mehdi Safari Gerayli^{2*} | Yasser Rezaei Pitenoei³

1. Department of Accounting, Nour Branch, Islamic Azad University, Nour, Iran. E-mail: e78s1980@gmail.com
2. Corresponding Author, Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran. E-mail: Mehdi.safari83@yahoo.com
3. Department of Accounting, University of Guilan, Rasht, Iran. E-mail: rezaei.yasser@gmail.com

ARTICLE INFO	ABSTRACT
<p>Article type: Research Article</p> <p>Article History: Received 10 April 2023 Revised 23 October 2023 Accepted 29 October 2023 Published Online 12 June 2024</p> <p>Keywords: <i>Organizational inertia,</i> <i>Cost of Equity,</i> <i>Meta-synthesis.</i></p>	<p>Organizational inertia as a defensive mechanism has pervasive effects on the functional aspects of organizations, including financial functions. One of these financial aspects affected by inertia is the cost of equity capital. Hence, This article aims to contribute to the accounting knowledge literature by presenting the framework of organizational inertia (OI) and investigating the effect of the cost of equity capital (COE) on it. This article uses meta-synthesis, the Delphi process, and, finally, questionnaire design to measure organizational inertia. The mentioned questionnaire was sent to the managers of the sample companies, and finally, 138 questionnaires were completed and returned and included in the statistical analysis. To measure the cost of equity capital, we use three proxies, including the O'Hanlon and Steele (2000) Model (OSM), CAPM, and Industry-Adjusted Earnings-to-Stock Price Ratio (IndEP). The results show that organizational inertia has a positive and significant effect on the cost of equity capital. The research results have confirmed that organizational inertia has a positive and significant effect on the cost of equity capital. This means that the increase in structural resistance causes the company's financing costs to increase, and the company faces more challenges in obtaining resources.</p>

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Introduction

Recent global crises have caused the problems of over-borrowing and over-investment among the corporations have caused problems of over-borrowing and over-investment among corporations, and countries like Iran are facing a serious challenge in providing financial resources because they are facing financial sanctions. The existence of these limitations causes the adoption of changing financial strategies to require structural transformation. Therefore, the company's inertia is the result of external changes that companies usually resist because they do not have the ability to respond to them. Based on this, even in the case of organizational conflicts, it is possible to avoid inertia. It is important to have the ability to face it within the organizational structures (Moradi et al. et al., 2021).

First of all, a review of the existing literature shows that the present study is the first research that has attempted to provide a comprehensive model for organizational inertia based on the features presented in the Iranian capital market, as well as investigating its effect on the cost of equity capital (COE). On the other hand, this study is one of the few studies in Iran that examines organizational inertia on the cost of equity capital. Hence, our study, in addition to filling the research gap regarding organizational inertia, can contribute to the development and enrichment of the literature on the cost of equity capital in developing countries such as Iran's capital market.

Secondly, conducting this research can help accounting policymakers and standard-setters monitor more effectively the governance gaps that lead to organizational inertia. In addition, our study has many implications for the compilers of university course topics and those in charge of corporate governance and suggests that when compiling the educational topics of accounting and auditing, in relation to the structural changes of companies regarding the disclosure of financial performance, necessary measures should be taken to promote institutional recognition among students in this field.

2. Literature Review and Hypothesis Development

2.1. Organizational inertia

The current era is the era of rapid and dramatic changes in organizational behavior, and organizations need efficient changes and transformations to advance their goals because the life of the organization depends on the organization's compliance with the changes of the new era. Therefore, risk lack of change and resistance to important and life-giving developments are considered serious risk. Because behavioral stagnation or inertia affects the ability and capabilities to express creativity and innovation, et al. learn, and solve issues and problems (Kim et al., 2022). In the state of organizational inertia in the turbulence of the ever-increasing environmental changes, the organization is in a state of stagnation and immobility and uses its past methods and techniques to confront new issues and problems; It goes without saying that creativity and innovation are necessary to solve new issues and problems (Shaik et al, 2022). Behavioral inertia is a strong barrier to the advancement of creative methods. Inertia is the strength and resistance that the organization shows against environmental changes. There are many definitions of inertia in studies, but the basic and common principle in many definitions is the lack of change in behavior. Although the goal of changing behavior is an adaptation to the environment and better performance (Larsen and Loomi, 2002), people often show disinterest in change and transformation, and a kind of lethargy is seen in performance. Perhaps the reason is that change brings instability; resistance to it is a natural thing and part of the process of behavioral and functional changes. But it should be noted that the set of behaviors cannot function as before; people must be flexible and have the ability to adapt and adapt. Because most of the necessary and vital changes and the adaptability of the organization is caught in the bog of inertia and fail. Sometimes, in order to overcome inertia, the cause of resistance to change must be known, and change must be accepted when there is a balance between the new and the old. People avoid accepting changes that are not compatible with their past familiar experiences and habits. Readiness for change has been examined many times in the form of resistance to change based on minimizing resistance. Despite this resistance and preparation, two poles are never opposite to each other (Dostar et al., 2018), but these two are tied to each other by countless human factors, and these two cannot be separated, only by removing the resistance and inertia of the organization, it can be achieved. It facilitated the goals (Mominibadleh et al., 2018).

2.2. Organizational inertia and Cost of equity capital

Cost of capital is the minimum rate of return that is required to maintain the company's market value.

The cost of capital is considered a fundamental factor in decisions related to investment, capital budgeting, working capital management, establishing the optimal financial structure, measuring performance, and determining the value of the company by helping to discount cash flows. Therefore, since the lenders are looking for the principal and benefits of their grants and the investors are looking for the expected return from the operational activities of the companies, paying attention to the cost of capital can improve the credit evaluation capacities. To pay for the financial resources needed by companies, they pay attention to one of the most important items included in the financial statements of companies, i.e., accounting profit. If the accounting profit reported in the financial statements does not have quality and transparency, it will cause uncertainty for creditors and investors.

This uncertainty, on the one hand, and information asymmetry, on the other hand, leads to the creation of information risk for creditors and investors. As a result, creditors will demand higher interest rates, and investors will demand higher returns from company managers. Considering that the lenders' interest rate for the company is the financing cost rate from the debt and the return rate expected by the investors for the company is the equity financing cost rate, the weighted average of these two cost rates is the weighted average of the company's capital cost. Finally, the increase in information risk will increase the weighted average cost of capital. The weighted average cost of capital is the minimum rate of return that the company must earn to provide the expected return to investors and creditors. The issue of cost of capital has always been based on the assumption that companies can develop real returns in relation to the increase in the returns expected by shareholders.

Therefore, so that the value of the company does not decrease due to the gap between the actual return and the expected return, companies try to manage the cost of capital in such a way that the expectations of the shareholders are met. Usually, the weighted average cost of capital is used as a tool to realize the sustainability of profits. But achieving a positive cost of capital involves broader aspects of purely financial functions, part of which can be structural functions.

Organizational inertia usually happens due to weakness in recognizing internal organizational capacities and adapting them to external changes. This process, which is usually referred to as a disorder, expresses a level of resistance within the organization that causes problems for the company's coordination and integration with its surrounding environment. In such a situation, the flexibility of the company is reduced, and this issue, in terms of the competitive capacity of providing financial resources, causes the companies to not be able to convince the information needs of the shareholders, and this issue causes that due to the lack of trust in the operational process of the company, the cost of capital will increase. Therefore, it is expected that with the increase in organizational inertia, the company will face higher restrictions in terms of providing financial resources due to weak information functions and gaining the trust of shareholders, and this issue will lead to an increase in the cost of equity. Therefore, according to these explanations, the research hypothesis for the test is:

H₁: Organizational inertia has a significant and positive effect on the cost of equity capital.

Methodology

In terms of methodology, this article is semi-experimental and tests the hypothesis through the collection of secondary data and the financial statements of the investigated companies. The time period of the article is one year, 2021-2022, and sample companies are selected using systematic screening. Therefore, the screening criteria for selecting sample companies are as follows:

1. —All the investigated companies were not withdrawn from the stock exchange between 2021 and 2022. To increase comparability, their fiscal years should end in March.
2. Have not changed their activity or change of financial year during the mentioned year.
3. Not to be part of investment and financial intermediation companies (investment companies were not included in the statistical community due to the difference in the nature of their activities with other companies).

By applying these criteria, 138 sample companies were selected to test the research hypothesis. For this purpose, the organizational inertia questionnaire was distributed to the managers of these companies, and by combining the data of their financial statements through cross-sectional regression, an analysis was done.

Variables Measurement

Dependent Variable: Cost of Equity Capital

Following prior studies (e.g., Saghafi et al., 2012; Hajiha & Sarfaraz, 2015), we use three different proxies for the Cost of Equity Capital, as follows.

❖ The O'Hanlon and Steele (2000) Model (OSM)

The O'Hanlon and Steele (2000) approach to estimate the implied cost of capital is based on Ohlson (1995), in which price depends on current accounting information (i.e., book value and abnormal earnings) and "other information". However, they re-write that expression so that the unrecorded goodwill is a function of current abnormal earnings and the "other information" variable (later subsumed in the error term). After some re-arranging, the model is expressed in a regression form as follows¹:

$$DURG_t = \gamma_2 + \gamma_1 ROE_t + e_t \quad (1)$$

Where $DURG_t$ is the unrecorded goodwill at time t (deflated by beginning-of-period book value), and ROE_t is the return on equity for period t . In model (1), the implied cost of capital can be obtained as $(-\gamma_2/\gamma_1)$. As O'Hanlon and Steele (2000) sustain, "the ratio γ_2/γ_1 is the point at which a plot of scaled unrecorded goodwill (vertical axis) against ROE (horizontal axis) crosses the horizontal axis. It is, therefore, the value of ROE which, on average for the sample period as a whole, is consistent with unrecorded goodwill of zero". In economic terms, this implies that market price equals book value of equity or, equivalently, expected future return on equity is equal to the cost of equity capital. In order to circumvent this problem, as O'Hanlon and Steele (2000) do, we reverse regression (1). This procedure still involves the estimation of a ROE that is consistent with unrecorded goodwill of zero, but the estimation is now based on a single parameter estimate. This gives rise to the following regression:

$$ROE_{it} = \alpha_{0,i} + \alpha_{1,i} DURG_{it} + \varepsilon_{it} \quad (2)$$

Where: ROE_{it} = Return on equity for firm i in period t (total earnings for period t /book value of equity at time $t - 1$). $DURG_{it}$ = Unrecorded goodwill for firm i at time t (average market value of a firm's equity around the release of year t financial statements minus its accounting book value at time t , deflated by book value at time $t - 1$). The cost of capital estimate (k) for firm i was estimated as ($k_i = \alpha_{0,i}$). In order for $\alpha_{0,i}$ to be interpretable as cost of equity capital, the $\alpha_{0,i}$ and $\alpha_{1,i}$ coefficients from the Cross-sectional regression (2) must be positive of 138 firms that remained in the final sample, $\alpha_{0,i}$ was negative in four cases (two of them also had negative $\alpha_{1,i}$); the $\alpha_{1,i}$ coefficient was negative in ten additional cases.

❖ Capital Asset Pricing Model (CAPM)

According to the CAPM, the return of a portfolio depends on the risk-free interest rate, the market risk premium which is the reward of bearing systematic risk and the amount of systematic risk (Ross et al., 2012). Therefore, The equation 3 is used in the time series regression analysis of the CAPM.

$$CAPM_{it} = R_{ft} + \beta_{it}(RM_t - R_{ft}) \quad (3)$$

Where: $CAPM_{it}$ = The cost of equity capital of the firm i in time t , RM_t The return of the market portfolio at time t , R_{ft} Risk-free interest rate at time t

❖ Industry-Adjusted Earnings-to-Stock Price Ratio (IndEP)

This ratio is calculated by dividing the company's earning to stock price by the industry's median earning to stock price ratio. This ratio has been used as a capital cost index; because, this ratio preserves the importance of earnings that are small against the price and is a favorable indicator of the cost of capital that is observed in the market. So, as the price rises, shareholders expect earnings to rise in the near future (Rahmani & Fallahnezhad, 2010).

Independent Variable: Organizational inertia (OI)

A systematic content screening process was used to measure organizational inertia. For this purpose, first, similar researches with the nature of organizational inertia were identified in the last 2 years, and then, based on the critical evaluation checklist, from the content of the selected researches, an effort was made to extract dimensions related to this phenomenon.

Table 1. Critical Appraisal of Components

	Social Inertia	Insight Inertia	Cultural Inertia	Structural Inertia	Perceptual Inertia
Researchers	Mikalef et al. (2020)	-	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>
	Loyallo et al. (2020)	-	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>
	Crepin & Neaydal (2019)	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Hu & Wang (2018)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-
	Dayanandan et al. (2017)	-	-	-	<input checked="" type="checkbox"/>
	Kumar et al. (2016)	-	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Pourheidari et al. (2019)	-	-	-	<input checked="" type="checkbox"/>
	Taheri Abed et al. (2018)	<input checked="" type="checkbox"/>	-	-	<input checked="" type="checkbox"/>
	Sevednejad Fahim et al. (2018)	-	-	-	<input checked="" type="checkbox"/>
Total	2	5	2	5	5

According to the approval of 9 researches in the critical appraisal process, the main components that have obtained more than half of the approved researches are approved as the main components in determining the research themes. Then, in order to ensure the identified components and propositions, Delphi analysis was used to reach the theoretical saturation point. For this purpose, these statements were provided to experts for a survey in the form of a checklist of 7 options, which table (3) shows the results of Delphi analysis.

Table 3. The Process of the First and Second Steps of Delphi

Main Components	Propositions	1 st Round			2 nd Round		Result
		Mean	Coefficient of agreement	Merge	Mean	Coefficient of agreement	
Insight Inertia	Lack of knowledge about the information content required by shareholders	3	0.20	-	Delete		
	Feeling of lack of support for corporate governance	5	0.50		5.10	0.55	Confirm
	Lack of job identity of managers	4.98	0.51	Merge	5.50	0.75	Confirm
	Lack of job identity of managers	5	0.52				
	Lack of insight and belief in the need for change and dynamism in the face of social and environmental expectations	6	0.80	-	6.20	0.85	Confirm
	Lack of managers 'insight in protecting shareholders' rights	5.30	0.65	-	5.50	0.75	Confirm
	Negative perception of fear of losing managerial position	6	0.80	-	6.20	0.85	Confirm
	Negative perception of fear of losing managerial position	5.30	0.65	-	5.50	0.75	Confirm
	Perceived negative benefits	5.50	0.75	-	6.10	0.82	Confirm
Structural Inertia	Ineffectiveness of independent auditing	4	0.35	-	Delete		
	Lack of mandatory policies on managers' decisions	4.90	0.49	Merge	5.20	0.65	Confirm
	Lack of regulatory requirements	5	0.52				
	Existence of poor accounting standards	5.30	0.65	-	5.50	0.75	Confirm
	Lack of proper internal control structures	5	0.50	-	5.10	0.55	Confirm
	The structural complexity of companies	3.50	0.30	-	Delete		
	Lack of dynamics of CEO features	4	0.35	-	Delete		
	The role of managers duality	5	0.50	-	5.10	0.55	Confirm
	Inadequacy of stakeholder information needs with the culture of desirability	5.20	0.65	-	5.50	0.75	Confirm
Perceptual Inertia	Perceptual errors of managers	5.50	0.75	-	6.10	0.82	Confirm
	Lack of job motivation of managers	5.30	0.65	-	5.50	0.75	Confirm
	Source of external control of managers	5	0.50	-	5.10	0.55	Confirm
	Existence of conflicts of managers' job perception	4	0.35	-	Delete		
	Perception of psychological contract violation	5.20	0.65	-	5.50	0.75	Confirm
	Existence of power-seeking nature of managers	5.50	0.75	-	6.10	0.82	Confirm
	Low degree of tolerance for managers' ambiguity	5.30	0.65	-	5.50	0.75	Confirm
	Stress tolerance and control threshold	5	0.50	-	5.10	0.55	Confirm
	Lack of self-confidence of managers	5.40	0.70	-	6.30	0.88	Confirm

Based on Delphi analysis, it was found that in two rounds, 5 items were removed from the organizational inertia evaluation themes and 4 themes were merged. Therefore, the organizational inertia model can be presented in the following order:

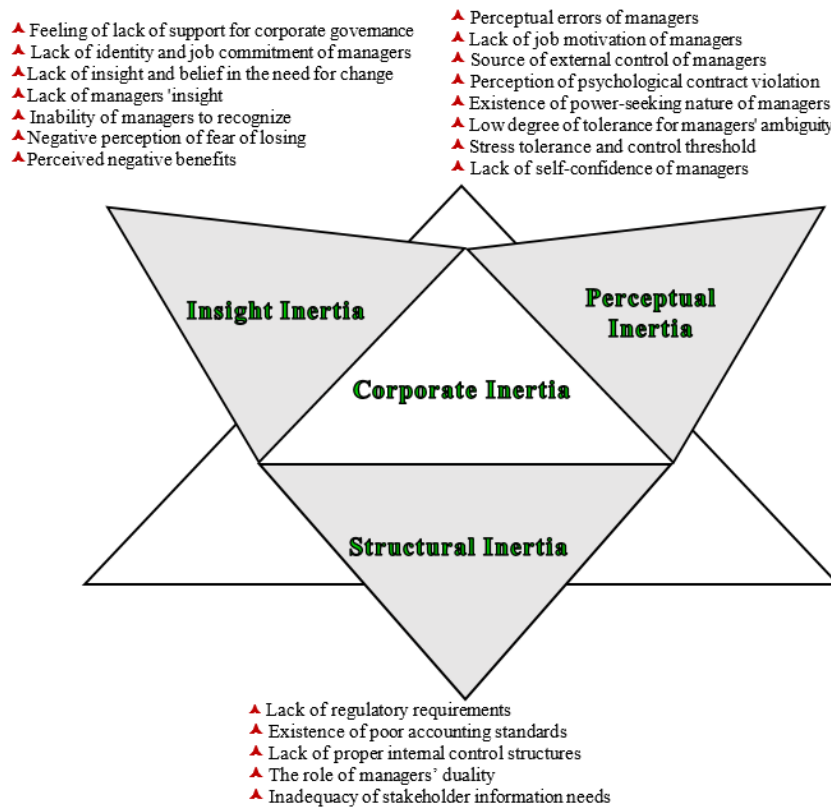


Fig. 3. Theoretical Framework of Organizational inertia

Then, based on the organizational inertia model, the questionnaire questions should be determined. Based on this, a total of 20 theoretical screening topics were approved by the relevant researches. Based on the specified propositions, a questionnaire was developed to measure this variable. This questionnaire have been developed in the form of 20 questions and 3 sub-components of Insight Inertia; Perceptual Inertia and Structural Inertia. The questionnaire is graded based on a five-point Likert scale (I strongly agree = 5, I agree = 4, I have no opinion = 3, I disagree = 2 and I strongly disagree = 1). Therefore, according to the dimensions of research variables, the theoretical framework for testing the research hypothesis is presented in the following order:

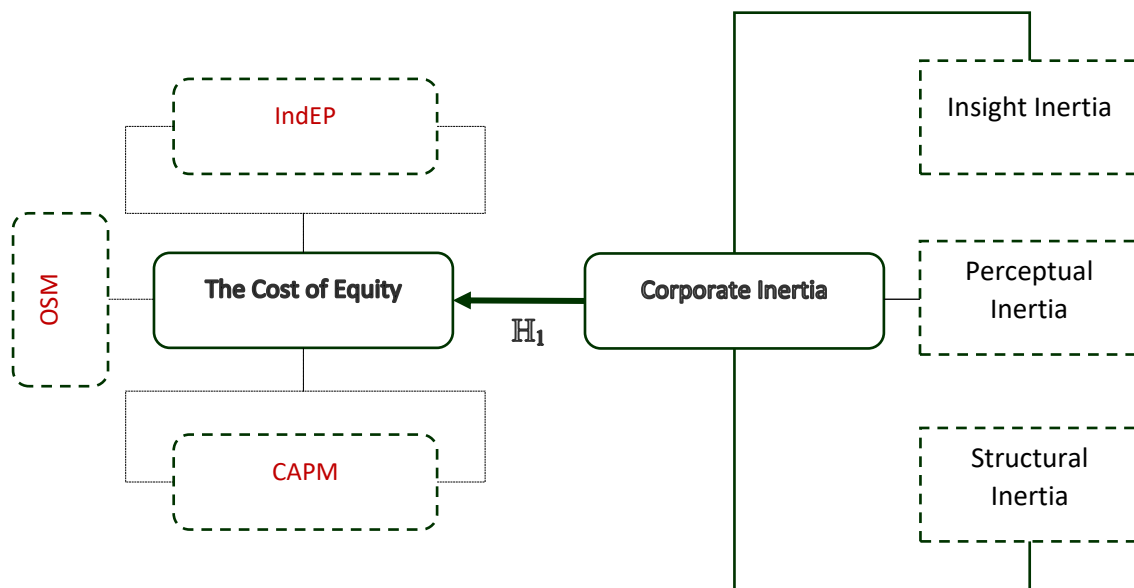


Fig. 4. Hypothesis Test Framework

Findings

This study tested the research hypothesis through partial least squares process. Therefore, first, descriptive statistics of the research variables are presented.

Table 4. Descriptive Statistics

Variable	Mean	Median	Min	Max	SD
Insight Inertia	3.76	3.43	1.00	5.00	0.71
Perceptual Inertia	3.84	3.60	1.00	5.00	0.69
Structural Inertia	3.51	3.00	1.00	5.00	0.84
OSM	0.458	0.545	0.110	0.939	0.157
CAPM	0.418	0.432	0.007	0.882	0.227
IndEP	0.393	0.381	0.009	0.663	0.493

By determining the results of the study in this section, it is necessary to test the hypothesis of the research. Because the purpose of the research is to achieve this result.

Table 5. Confirmatory Factor Analysis (Reference: Research Findings)

Factor	Questions	Item loadings	Factor	Questions	Item loadings
Insight Inertia	Ins ine 1	0.747	Perceptual Inertia	Per ine 13	0.779
	Ins ine 2	0.803		Per ine 14	0.924
	Ins ine 3	0.661		Per ine 15	0.928
	Ins ine 4	0.836		Per ine 16	0.914
	Ins ine 5	0.719		Per ine 17	0.880
	Ins ine 6	0.884		Per ine 18	0.863
	Ins ine 7	0.629		Per ine 19	0.915
	Str ine8	0.720		Per ine 20	0.949
	Str ine9	0.893		ROE	1.000
Structural Inertia	Str ine10	0.785	Cost of equity capital	CAPM	1.000
	Str ine11	0.868		IndEP	1.000
	Str ine12	0.807			

The criterion value for the suitability of factor load coefficients is 0.4. According to Table (6), all numbers of factor load coefficients in the questions are greater than 0.4, which indicates the appropriateness of this criterion. According to the data analysis algorithm in PLS, after measuring the factor loads of the questions, it is time to calculate and report Cronbach's alpha coefficients and combined reliability, the results of which are shown in Table (6).

Table 6. Cronbach's alpha standard results and combined reliability of latent Variables (Reference: Research Findings)

Concealed variables	Cronbach's alpha coefficients(Alpha>0.7)	Combined reliability coefficient (CR>0.7)
CAPM	1.000	1.000
Organizational inertia	0.827	0.896
IndEP	1.000	1.000
Insight Inertia	0.874	0.904
Perceptual Inertia	0.964	0.970
OSM	1.000	1.000
Structural Inertia	0.873	0.909
Cost of Equity Capital	1.000	1.000

Considering that the appropriate value for Cronbach's alpha and combined reliability is 0.7 and in accordance with the findings of the table above, these criteria have adopted a suitable value for latent variables, so the reliability of research measurement models can be confirmed. Appeared. The second criterion for examining the fit of measurement models is convergent validity, which examines the degree of correlation of each structure with its questions (indicators).

Table 7. Convergent Validity Results of Latent Variables (Reference: Research Findings)

Concealed variables	AVE
CAPM	1.000
Organizational inertia	0.743
IndEP	1.000
Insight Inertia	0.576
Perceptual Inertia	0.802
OSM	1.000
Structural Inertia	0.667
Cost of Equity	1.000

Given that the appropriate value for AVE is 0.5 and in accordance with the findings of Table (7), this criterion adopts an appropriate value for latent variables, thus confirming the appropriateness of the convergent validity of the research. Divergent validity is the third criterion for examining the fit of measurement models. Acceptable divergence validity of a model indicates that one structure in the model has more interaction with its characteristics than other structures. According to Table (8), the root value of the mean of the common values of the hidden variables in the present study, which are located in the cells located in the main diameter of the matrix, is greater than the correlation value between those located in the lower and right cells of the main diameter.

Table 8. Fornell and Larker matrices for divergent validity (Reference: Research Findings)

Variables	CAPM	Cor- Inertia	IndEP	Ins- Inertia	Per-Inertia	ROE	Str- Inertia	The Cost of Equity
CAPM	1.000							
Organizational inertia	0.259	0.862						
IndEP	1.000	0.259	1.000					
Insight Inertia	0.265	0.893	0.265	0.759				
Perceptual Inertia	0.262	0.893	0.261	0.775	0.896			
OSM	0.713	0.164	0.712	0.202	0.178	1.000		
Structural Inertia	0.191	0.851	0.191	0.669	0.639	0.083	0.817	
Cost of Equity	0.394	0.075	0.393	0.121	0.092	0.925	0.006	1.000

According to the results of reliability, convergent validity and divergent validity, it is observed that the measurement models of the structural equation model of the research have the ability to measure the hidden variables of the research in an optimal way. After measuring the validity and reliability of the measurement model, the structural model was evaluated through the relationships between latent variables. In the present study, two criteria of coefficient of determination (R^2) and coefficient of predictive power (Q^2) have been used.

Table 9. Values of the coefficient of determination (R^2) and the coefficient of predictive power (Q^2) (Reference: Research Findings)

Variables	Q^2	R^2	Variables	Q^2	R^2
CAPM	0.152	0.551	Perceptual Inertia	0.634	0.798
IndEP	0.151	0.655	OSM	0.851	0.856
Insight Inertia	0.451	0.797	Structural Inertia	0.476	0.725
Cost of Equity	0.001	0.506			

After fitting the measurement and structural part of the present study, in order to control the overall fit of the model, a criterion called GOF was used, which introduced three values of 0.01, 0.25 and 0.36 as weak, medium and strong values. Has been. This criterion is calculated through Equation (1):

$$GOF = \sqrt{\overline{\text{Communalities}} \times \overline{R^2}} \quad \text{Equation (1)}$$

$\overline{\text{Communalities}}$ Is the average of the common values of the latent variables of the research and $\overline{R^2}$ is the mean of the coefficient of determination of the endogenous variables of the model.

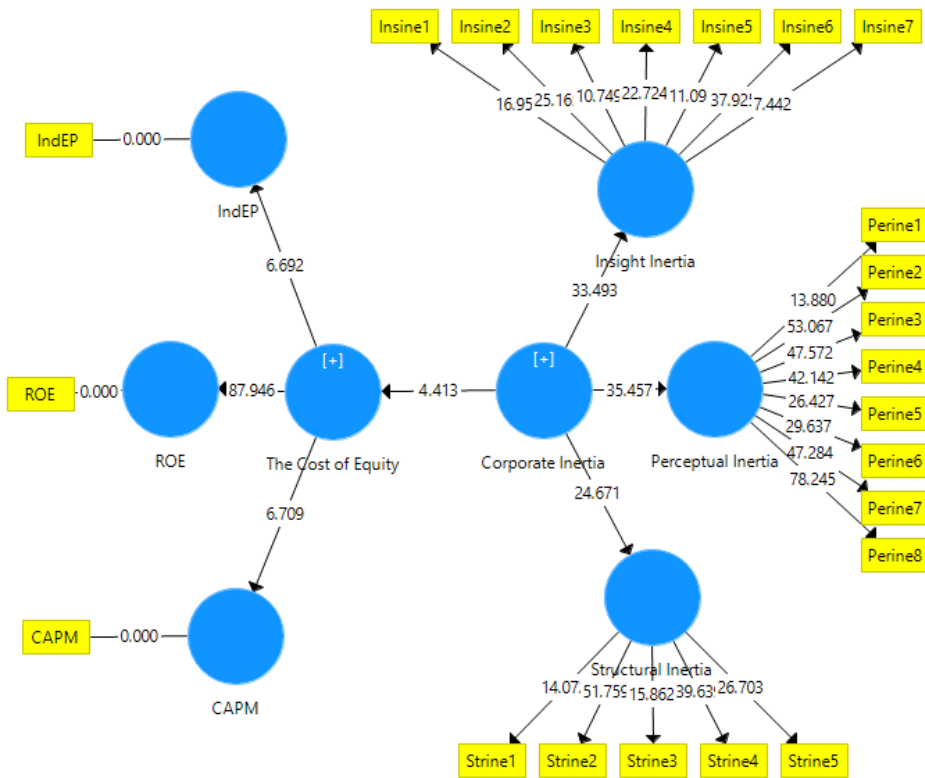
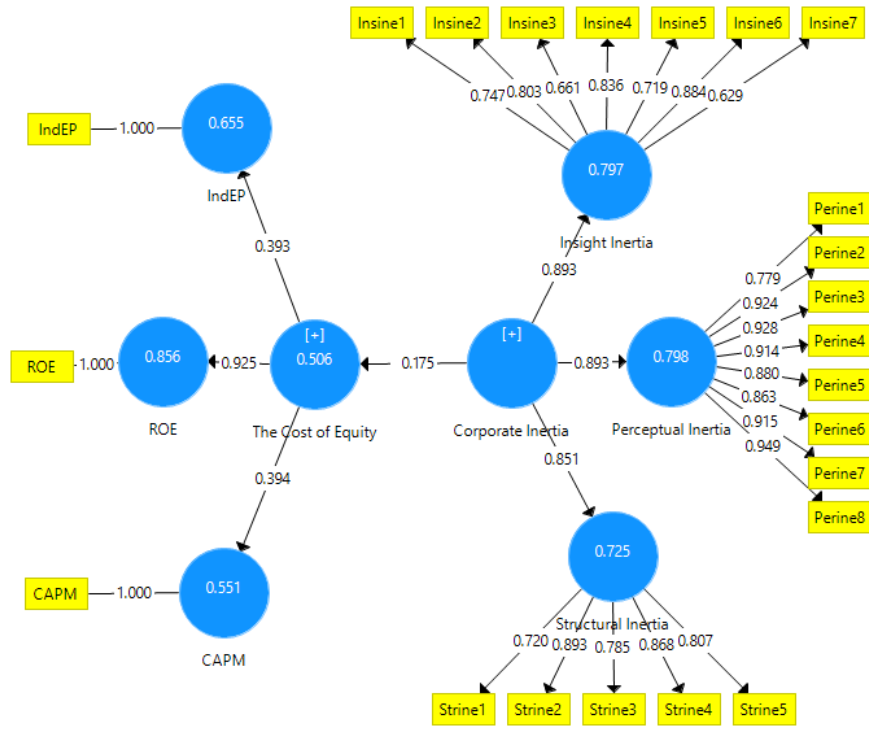
Table 10. Communalities and R^2 (Reference: Research Findings)

Variables	Communality	R^2
CAPM	1.000	0.551
Organizational inertia	0.468	-
IndEP	1.000	0.655
Insight Inertia	0.437	0.797
Perceptual Inertia	0.742	0.798
OSM	1.000	0.856
Structural Inertia	0.498	0.725
Cost of Equity	1.000	0.506

Table 11. Results of the general model fit (Reference: Research Findings)

GOF	$\overline{R^2}$	Communality
0.72	0.69	0.76

Given the value obtained for GOF of 0.72, a very good fit of the overall model is confirmed. After examining the fit of the measurement models and the structural model and having a suitable fit of the general model and according to Figures (5) and (6), the test results of the research hypotheses are examined and the results are presented in Table (12).



According to the structural model and load factor, in the form of table (12) can be seen the result of testing the research hypothesis:

Table 12. Results of the research hypothesis test (Reference: Research Findings)

Effect	Path coefficient (β)	(T- Value)	Test result
Organizational inertia → The Cost of equity capital	0.17	4.41	Confirmation of hypothesis

With respect to Figures (6) and (7), the standardized coefficient (path coefficient), the Organizational inertia has a significant and positive effect on the cost of equity capital. Since the path coefficient is positive and equals to 0.17 and the t statistic is also equal to 4.41. Considering that t statistic is greater than 1.96, while confirming the result of the hypothesis, it illustrates the organizational inertia has a significant and positive effect on the cost of equity capital.

Conclusion and Implications

This article aims to contribute to the accounting knowledge literature by presenting the framework of organizational inertia (OI) and investigating the effect of cost of equity capital (COE) on it. The present study surveyed and analyzed the data of 138 people from financial managers and accounting heads in 162 companies (TSE). On the other hand, from the perspective of opportunity cost, organizational inertia has led to an increase of company information risk, which, while creating an undesirable image for the company in society, will be accompanied by a decrease in income and an increase in its costs; Therefore, it will bring increasing the organizational inertia in the face of shareholders as reducing credibility and sales; lack of operational effectiveness and increased risk; then it is expected that the aforementioned activities will have a positive effect on the cost of equity capital. The result of the hypothesis test is consistent with the studies of Huang and Gao (2021), Moraes Carvalho et al. (2018), Oyadomari et al. (2018), and Nedzinskas et al. (2013).

From a regulatory perspective, our findings provide useful implications for accounting policymakers and standard-setters regarding the importance of organizational inertia in increasing the firm's cost of equity capital. Specifically, since it is necessary for the users of the financial statements to pay attention to the information related to the inertia strategies of the company, therefore, accounting standard setters should take steps to improve information transparency and reduce the cost of equity capital by requiring listed firms to disclose information related to organizational inertia adequately. This study also provides important insights for investors better to understand the potential adverse effect of organizational inertia and to take this matter seriously when making investment decisions.

Limitations and Future Research

The main limitation of the current study is the inherent limitation of the questionnaire that was used to collect data related to organizational inertia. One of the most important limitations of the questionnaire is the extent of respondents' perception, interpretation, and analysis of the subject. In the continuation of this research, we suggest that future researchers investigate the impact of organizational inertia on financial reporting transparency. Also, we suggest that they study the response of capital market participants to organizational inertia.

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