Extended Abstract

1.Introduction

The cost of capital is a critical factor in financial and managerial decision-making. Recent studies suggest that the readability of annual reports significantly influences the cost of equity capital. Complex or poorly structured financial reports increase information asymmetry, reduce investors' ability to assess future performance, and hinder interpretation, thereby raising perceived risk and capital costs. Experienced institutional investors, however, are better equipped to process such information and can mitigate the impact of low readability. Furthermore, competition in the product market enhances transparency, improving report readability and reducing the cost of capital. This study examines the relationship between financial report readability and the cost of capital, focusing on the moderating effects of institutional investor ownership and product market competition.

2. Research Hypotheses

- **H1:** Unreadable financial reports are positively associated with the cost of capital.
- **H2:** Institutional investor ownership mitigates the effect of unreadable reports on the cost of capital.
- **H3:** Product market competition mitigates the effect of unreadable reports on the cost of capital.

3.Methods

This applied, analytical, quasi-experimental study analyzed 105 Tehran Stock Exchange-listed companies over 2015–2021. Data were sourced from the Rahavard Novin database and Codal website. Regression analysis with panel data was conducted using EViews to test the research hypotheses.

4.Results

Findings indicate that lower readability of financial reports increases the cost of capital. This effect diminishes with higher institutional investor ownership and in more competitive product markets.

5.Discussion and Conclusion

Poor readability amplifies information asymmetry, increasing investors' perceived risk and raising capital costs. Institutional investors, through superior information processing and monitoring abilities, reduce this effect. Similarly, heightened product market competition improves transparency, mitigates information asymmetry, and lowers capital costs. These results highlight the importance of report clarity, active institutional investment, and competitive market environments in managing the cost of equity capital.

Keywords

Financial Report Readability, Cost of Capital, Institutional Investors, Product Market Competition, Information Asymmetry