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## Textual Complexity, Readability, and Corporate Performance: An Integrative Analysis of Narrative Financial Disclosure and Market Consequences

Dr. Matteo Ricci

Department of Economics and Management, University of Bologna, Italy

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### ARTICLE INFO

#### Article history:

**Submission:** November 01, 2025

**Accepted:** November 16, 2025

**Published:** November 26, 2025

**VOLUME:** Vol.10 Issue 11 2025

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#### Keywords:

Narrative disclosure, Readability, Textual analysis, Corporate performance, Financial reporting quality, Voluntary disclosure

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### ABSTRACT

Narrative disclosure has progressively moved from the periphery of financial reporting to its conceptual and empirical core. While traditional accounting research focused predominantly on numerical financial statements, contemporary corporate reporting increasingly relies on textual narratives such as annual reports, management discussion and analysis sections, sustainability reports, and earnings call transcripts. These narratives are no longer viewed as neutral explanations accompanying financial numbers; rather, they are now understood as strategic communication instruments that shape investor perception, influence capital market outcomes, and reflect managerial intent. Drawing strictly on the established body of literature referenced in this study, this article develops a comprehensive and theoretically grounded investigation into the relationships among textual complexity, readability, voluntary disclosure practices, and corporate performance. The study integrates classical disclosure theory with modern textual analysis perspectives to explain how narrative characteristics influence information asymmetry, investment efficiency, cost of capital, stock liquidity, and performance evaluation. Foundational theories such as the information content of earnings, voluntary disclosure theory, impression management, and incomplete revelation hypothesis are re-examined through the lens of readability and linguistic complexity. The article further explores how firms adjust narrative strategies in response to profitability, governance structures, institutional ownership, sustainability pressures, and regulatory environments across different national contexts.

Methodologically, the paper synthesizes approaches used in prior empirical studies, including automated textual analysis, readability indices, sentiment analysis, and qualitative narrative assessment, while emphasizing the conceptual implications rather than numerical modeling. The descriptive results derived from the literature suggest that lower readability and higher complexity are often associated with poorer performance, higher earnings management, increased information risk, and adverse market reactions. However, this relationship is not uniform; it varies across institutional settings, reporting objectives, and stakeholder audiences.

The discussion highlights significant theoretical tensions between transparency and obfuscation, voluntary disclosure and strategic concealment, and standardization versus managerial discretion. Limitations of existing research are critically evaluated, including methodological constraints, language biases, and contextual heterogeneity. The article concludes by outlining future research directions that integrate multimodal analysis, sustainability narratives, and cross-country comparative frameworks, emphasizing the continued relevance of narrative disclosure as a determinant of corporate accountability and market efficiency.

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## INTRODUCTION

The Corporate reporting has undergone a profound transformation over the past several decades. Early accounting research was dominated by the belief that financial statements primarily conveyed information through numerical accounting measures such as earnings, assets, and liabilities. Seminal studies established that accounting numbers possess information content and influence investor decision-making, thereby linking accounting disclosures to capital market behavior (Ball and Brown, 1968). Over time, however, it became increasingly apparent that numbers alone do not fully capture the economic reality of firms, nor do they adequately explain observed market reactions. This realization shifted scholarly attention toward the qualitative dimensions of financial reporting, particularly narrative disclosures contained in annual reports and related corporate communications.

Narrative sections of corporate reports serve multiple functions. They provide context for financial performance, explain strategic decisions, communicate future prospects, and address stakeholder concerns. At the same time, narratives offer managers considerable discretion in framing information, selecting language, and emphasizing or downplaying specific issues. This discretion introduces the possibility that narratives may be used strategically to influence perceptions rather than simply to inform. Courtis (2004) conceptualized this phenomenon as corporate report obfuscation, questioning whether complex and opaque language is an unintended artefact of technical reporting or a deliberate managerial strategy.

Readability and textual complexity have thus emerged as central constructs in understanding narrative disclosure. Readability refers to the ease with which a reader can comprehend written text, while complexity encompasses sentence structure, vocabulary sophistication, length, and thematic organization. Research has shown that variations in readability are not random but systematically related to firm characteristics, performance outcomes, governance structures, and regulatory environments (Li, 2008; Clatworthy and Jones, 2001). The growing availability of computational tools has further accelerated interest in textual analysis, enabling researchers to examine large corpora of corporate disclosures with unprecedented depth and scale (Chakraborty and Bhattacharjee, 2020).

Despite the expanding literature, important gaps remain. First, much of the existing research examines readability or disclosure in isolation, without fully integrating performance, governance, and market consequences into a unified theoretical framework. Second, while numerous studies document associations between textual features and outcomes such as cost of capital or stock liquidity, fewer studies engage deeply with the theoretical mechanisms underlying these relationships. Third, empirical evidence is often context-specific, raising questions about generalizability across countries, sectors, and reporting regimes.

This article addresses these gaps by developing an integrative analysis of narrative financial disclosure grounded exclusively in the referenced literature. By synthesizing insights from studies conducted across diverse institutional settings—including China, Italy, Egypt, Vietnam, Australia, and various international capital markets—the article provides a comprehensive understanding of how readability and textual complexity interact with corporate performance and market dynamics. The objective is not merely to summarize prior findings but to elaborate extensively on their theoretical implications, counter-arguments, and nuanced interpretations, thereby advancing the conceptual foundations of narrative disclosure research.

## METHODOLOGY

The methodological approach adopted in this article is qualitative and integrative, relying on a systematic synthesis of peer-reviewed academic studies and foundational theoretical works included in the provided reference list. Rather than generating new empirical data, the methodology focuses on reconstructing and critically examining the analytical frameworks, measurement approaches, and inferential logic employed in existing research on narrative disclosure and readability.

Textual analysis methodologies discussed in the literature vary widely, reflecting both the evolution of computational tools and the diversity of research questions. Early studies relied on manual content analysis, where researchers coded narrative disclosures based on predefined categories related to tone, emphasis, and thematic structure (Brennan et al., 2009). While labor-intensive, these approaches allowed for rich contextual interpretation and were particularly useful in identifying impression management strategies. However, manual methods faced limitations in scalability and objectivity, prompting a shift toward automated textual analysis.

Automated readability measures, such as those developed by Bonsall et al. (2017), operationalize readability through linguistic characteristics including sentence length, word complexity, and syntactic structure. These measures enable consistent comparison across firms and time periods, facilitating large-sample analysis. Studies such as Li (2008) and Boubaker et al. (2019) employed such measures to examine the relationship between readability and earnings persistence, stock liquidity, and market reactions. The methodological strength of these approaches lies in their replicability and statistical power, though critics argue that mechanical indices may overlook semantic nuance and contextual meaning (Bloomfield, 2008).

Another important methodological strand involves sentiment and tone analysis. Asay et al. (2018) demonstrated that managers adjust language choices in response to performance and reporting goals, suggesting that tone conveys incremental information beyond numerical results. More recent developments, exemplified by Tailor and Kale (2025), integrate multimodal sentiment analysis across earnings calls and regulatory filings, highlighting the convergence of textual, vocal, and contextual cues. While such approaches offer deeper insights into communication strategies, they also raise concerns regarding model interpretability and potential overfitting.

Voluntary disclosure studies adopt a different methodological lens, focusing on disclosure decisions rather than textual properties alone. Research by Botosan (1997), Bradbury (1992), and Chow and Wong-Boren (1987) emphasizes the strategic nature of disclosure choices, linking them to cost of capital, investor relations, and market entry considerations. These studies often employ cross-sectional analyses comparing firms with varying disclosure levels, implicitly assuming that disclosure quality and readability are intertwined.

Across all methodologies, a common challenge is disentangling causality. Does poor performance lead managers to obfuscate disclosures, or does obfuscation itself contribute to market mispricing and subsequent performance outcomes? While longitudinal designs and robustness checks partially address this issue, definitive causal inference remains elusive. This article therefore adopts a theory-driven interpretive approach, emphasizing plausible mechanisms and consistency across findings rather than definitive causal claims.

## RESULTS

The synthesized findings from the referenced literature reveal several consistent patterns regarding narrative disclosure, readability, and corporate performance. One of the most robust results is the negative association between textual complexity and transparency. Firms with lower performance, higher earnings management, or greater information asymmetry tend to produce more complex and less readable narratives (Li, 2008; Alm El-Din et al., 2022). This pattern supports the notion that complexity may serve as a strategic tool to obscure unfavorable information.

Capital market consequences are another prominent theme. Studies demonstrate that readability influences investor behavior, analyst forecasting, and market liquidity. Bonsall and Miller (2017) found that less readable disclosures are associated with lower bond ratings and higher cost of debt, suggesting that creditors perceive complex narratives as signals of increased risk. Similarly, Boubaker et al. (2019) documented that higher readability enhances stock liquidity, consistent with reduced information processing costs.

Institutional context plays a critical role in shaping disclosure practices. Research in public sector settings, such as Italian universities, indicates that accountability pressures drive improvements in readability, even in the absence of direct market incentives (Allini et al., 2017). In emerging markets, such as Egypt and Vietnam, voluntary disclosure and environmental reporting are influenced by profitability, regulatory expectations, and stakeholder demands, often resulting in heterogeneous disclosure quality (Anh-Tuan et al., 2022; Alm El-Din et al., 2022).

Governance mechanisms also affect narrative characteristics. Studies linking board independence, ownership structure, and institutional investor presence to disclosure practices suggest that stronger governance mitigates opportunistic obfuscation (Bushee and Noe, 2000; Chen et al., 1998). However, governance effects are not uniform, and in some cases, sophisticated investors may tolerate complexity if they possess superior information processing capabilities.

Finally, sustainability and CSR reporting introduce additional dimensions to narrative disclosure. Al-Shaer et al. (2022) and Clarkson et al. (2020) showed that sustainability narratives vary widely in substance and readability, reflecting differences in reporting motivations and stakeholder engagement. These findings underscore the expanding scope of narrative disclosure beyond traditional financial performance.

## DISCUSSION

The results highlight a fundamental tension at the heart of narrative financial reporting: the trade-off between transparency and managerial discretion. From a theoretical perspective, voluntary disclosure theory posits that firms have incentives to disclose value-relevant information to reduce information asymmetry and lower the cost of capital (Botosan, 1997). Readability enhances the effectiveness of disclosure by facilitating information processing, thereby aligning with this theory. However, the incomplete revelation hypothesis suggests that managers may strategically withhold or obscure information when disclosure could harm firm value (Bloomfield, 2002). Textual complexity thus emerges as a potential mechanism for partial disclosure.

Impression management theory provides further insight into narrative strategies. Brennan et al. (2009) argue that narratives are crafted to shape stakeholder perceptions, particularly during periods of poor performance. Complex language, selective emphasis, and optimistic tone may create a favorable impression without explicitly misrepresenting facts. While such practices may yield short-term benefits, they risk eroding credibility and trust over time.

The discussion also reveals methodological and conceptual limitations in existing research. Readability measures, while useful, may conflate necessary technical complexity with deliberate obfuscation. Industry-specific terminology and regulatory requirements can legitimately reduce readability without implying opportunistic behavior. Moreover, most readability indices are developed for English-language texts, limiting their applicability in multilingual contexts (Brochet et al., 2016).

Future research should address these limitations by incorporating contextual and semantic analysis, exploring cross-linguistic differences, and examining the interaction between narrative and numerical disclosures. The integration of multimodal data, as suggested by Tailor and Kale (2025), offers promising avenues for capturing the richness of corporate communication.

## CONCLUSION

Narrative disclosure has become an indispensable component of modern corporate reporting, shaping how stakeholders interpret financial performance and assess firm value. This article has provided an extensive and theoretically grounded analysis of the relationships among readability, textual complexity, voluntary disclosure, and corporate performance, drawing exclusively on established academic literature. The evidence suggests that narrative characteristics are systematically related to managerial incentives, governance structures, and market outcomes.

By moving beyond summary and engaging in deep theoretical elaboration, the article underscores the importance of readability as both a reflection of transparency and a determinant of market efficiency. At the same time, it cautions against simplistic interpretations, emphasizing the nuanced and context-dependent nature of narrative disclosure. As corporate reporting continues to evolve, understanding the role of language will remain central to accounting research and practice.

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