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Balancing Transparency and Strategic Communication: Readability, Obfuscation, and Corporate Disclosure Quality in Modern Organizations

Dr. Lucas Martín Alvarez
Department of Accounting and Finance, University of Barcelona, Spain

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Abstract: Corporate disclosures constitute one of the most critical communication channels between firms and their stakeholders. Over the past several decades, scholars in accounting, finance, and strategic management have increasingly recognized that disclosure quality is not determined solely by the quantity of information released, but also by how that information is written, structured, and communicated. Readability, defined as the ease with which narrative disclosures can be understood by reasonably informed users, has emerged as a central construct in evaluating disclosure effectiveness. At the same time, concerns about deliberate or unintentional obfuscation—where complex language, excessive length, or ambiguous tone reduces clarity—have raised fundamental questions about managerial incentives, governance mechanisms, and organizational strategy. This study develops a comprehensive, theory-driven analysis of the relationship between readability, obfuscation, and balanced communication strategies in corporate reporting. Drawing strictly on established literature in disclosure readability, corporate governance, financial reporting, and strategic communication, the article synthesizes insights from accounting, finance, and organizational theory to propose an integrative framework explaining why firms vary in disclosure readability and how these choices affect capital market outcomes, stakeholder trust, and long-term strategic positioning. Using a qualitative, theory-expanding methodological approach grounded in prior empirical findings, this research elaborates on the mechanisms through which socially responsible behavior, risk incentives, governance structures, and market pressures jointly shape disclosure practices. The findings suggest that neither extreme transparency nor deliberate opacity alone maximizes organizational value; rather, firms that adopt a balanced disclosure strategy—one that aligns readability with strategic intent and stakeholder expectations—are more likely to achieve sustainable legitimacy and reduced information asymmetry. The article contributes to the literature by reconciling competing perspectives on readability as either a signal of quality or a managerial tool for impression management, and by outlining a future research agenda that integrates advances in narrative analysis and multimodal disclosure evaluation.

Keywords: Communication, Organizational strategy, Information, Readability, Obfuscation, Balanced strategy

Introduction

Corporate communication through annual reports and related disclosures has evolved from a narrowly defined compliance exercise into a complex strategic activity that shapes how organizations are perceived by investors, regulators, creditors, and society at large. Historically, financial reporting research focused primarily on numerical accuracy and adherence to accounting standards. However, as narrative sections of annual reports—such as management discussion and analysis, risk disclosures, and sustainability statements—have grown in length and prominence, scholars have increasingly turned their attention to the linguistic and stylistic features of these disclosures. Among these features, readability has become a focal point because it directly affects how users process, interpret, and act upon corporate information (Courtis, 2004; Lehavy et al., 2011).

Readability is not merely a technical attribute of text; it reflects deeper organizational choices about transparency, accountability, and strategic communication. Firms operate in environments characterized by information asymmetry, where managers typically possess superior knowledge about firm performance and prospects compared to external stakeholders. Disclosure serves as a mechanism to reduce this asymmetry, but it also exposes firms to scrutiny, potential litigation, and competitive costs. As a result, managers face incentives to carefully calibrate how much information to disclose and how clearly to present it. The tension between transparency and self-protection has given rise to what is often described as disclosure obfuscation, a phenomenon where reports are intentionally or unintentionally made difficult to read (Bloomfield, 2008).

The literature presents two competing perspectives on disclosure readability. One view holds that more readable disclosures signal higher reporting quality, stronger governance, and ethical commitment, thereby lowering information processing costs for investors and reducing the cost of capital (Ertugrul et al., 2017). Another perspective suggests that managers may strategically manipulate readability to conceal poor performance, heightened risk, or unfavorable outcomes, using complex language as a form of impression management (Courtis, 2004; Chakrabarty et al., 2018). These perspectives are not mutually exclusive; rather, they highlight the nuanced role of readability as both a signal and a strategic tool.

Recent research has expanded the scope of readability studies by linking narrative clarity to outcomes such as analyst following, forecast accuracy, stock price crash risk, borrowing costs, and investment efficiency (Lehavy et al., 2011; Kim et al., 2019; Al-Hadi et al., 2017). At the same time, governance-oriented studies have demonstrated that board structure, ownership concentration, and regulatory environments influence disclosure practices across different institutional contexts (Abdullah, 2006; Aksu and Kosedag, 2006; Akhtaruddin, 2005). These findings suggest that readability is embedded within broader organizational and institutional systems rather than being an isolated textual attribute.

Despite this growing body of research, several gaps remain. First, much of the literature treats readability either as a purely beneficial attribute or as a manifestation of obfuscation, without adequately theorizing the conditions under which each interpretation applies. Second, limited attention has been given to the idea of a balanced disclosure strategy, where firms consciously align readability with strategic objectives, risk profiles, and stakeholder expectations. Third, while recent advances in sentiment and multimodal analysis offer new tools for understanding disclosures, theoretical integration of these approaches with traditional readability research remains underdeveloped (Tailor and Kale, 2025).

This article addresses these gaps by developing an integrative, theory-driven analysis of readability and obfuscation within the broader context of organizational strategy and corporate governance. By synthesizing insights from accounting, finance, and strategic management, the study advances the argument that optimal disclosure quality lies not at the extremes of full transparency or deliberate opacity, but in a balanced approach that considers both informational and strategic dimensions of communication.

Methodology

The methodological approach adopted in this study is qualitative and theory-expanding in nature, designed to synthesize and reinterpret existing empirical and theoretical findings rather than generate new statistical estimates. This approach is particularly appropriate given the objective of developing an integrative framework that reconciles competing perspectives on disclosure readability. Prior research has already established robust empirical associations between readability and various economic outcomes; the present study builds on this foundation by exploring underlying mechanisms and strategic implications in depth.

The analysis begins with a comprehensive review of the disclosure readability literature, drawing on foundational studies that conceptualize obfuscation and narrative complexity as well as more recent work linking readability to market-based outcomes. Courtis (2004) provides an early conceptualization of corporate report obfuscation, questioning whether complexity is an artifact of reporting requirements or a deliberate managerial choice. Bloomfield (2008) further advances this discussion by emphasizing the role of investor cognition and information processing, arguing that readability affects how disclosures influence market behavior.

Subsequent studies introduce managerial incentives and governance considerations into the analysis. Chakrabarty et al. (2018) examine how risk-taking incentives embedded in compensation structures influence disclosure readability, suggesting that managers facing higher downside risk may prefer more complex disclosures. Ben-Amar and Belgacem (2018) extend the discussion to corporate social responsibility, proposing that socially responsible firms have incentives to communicate more clearly to reinforce legitimacy and trust. These studies collectively highlight that readability choices are shaped by a combination of ethical orientation, risk considerations, and governance mechanisms.

To contextualize readability within broader organizational systems, the methodology incorporates insights from corporate governance and disclosure research conducted in diverse institutional settings. Studies on board structure, ownership concentration, and regulatory environments demonstrate that disclosure practices are not uniform across firms or countries (Ahmed and Courtis, 1999; Abdullah, 2006; Abdul-Qadir and Kwanbo, 2012). By integrating these findings, the analysis acknowledges that readability is influenced by both firm-level and institutional-level factors.

The methodological framework also draws on financial economics research linking disclosure quality to investment efficiency, borrowing costs, and market stability. Ertugrul et al. (2017) provide evidence that readable reports with less ambiguous tone are associated with lower cost of debt, while Kim et al. (2019) show that poor readability increases stock price crash risk by delaying the release of bad news. These findings are interpreted through the lens of information asymmetry and agency theory, which posit that clearer communication reduces uncertainty and monitoring costs.

Finally, the methodology incorporates emerging perspectives on multimodal disclosure analysis. While the present study does not employ computational techniques, it draws conceptually on the work of Tailor and Kale (2025), who demonstrate that sentiment, tone, and linguistic features across multiple disclosure channels jointly influence market perceptions. This perspective supports the argument that readability should be analyzed as part of a broader communication ecosystem rather than in isolation.

Results

The synthesis of existing literature yields several interrelated findings regarding the role of readability and obfuscation in corporate disclosures. First, there is consistent evidence that higher readability is associated with positive market outcomes under conditions of stable performance and strong governance. Firms that produce clear and accessible reports tend to attract greater analyst coverage, benefit from more accurate earnings forecasts, and face lower information processing costs among investors (Lehavy et al., 2011). These outcomes are particularly pronounced in environments where external monitoring mechanisms are strong, suggesting that readability complements, rather than substitutes for, governance quality.Second, the evidence indicates that readability is sensitive to managerial incentives and risk considerations. Chakrabarty et al. (2018) show that managers with higher risk-taking incentives are more likely to produce less readable disclosures, potentially as a way to shield themselves from scrutiny or to manage perceptions of uncertainty. This finding aligns with agency theory, which predicts that managers will act in their own interests when monitoring is imperfect. Importantly, the relationship between risk and readability is not uniform; it varies depending on firm performance, industry characteristics, and regulatory context.

Third, studies focusing on social responsibility and ethical orientation reveal that firms with stronger commitments to corporate social responsibility tend to produce more readable disclosures (Ben-Amar and Belgacem, 2018). This suggests that readability can function as a credibility signal, reinforcing claims of ethical behavior and stakeholder orientation. In such cases, clarity is not merely an operational choice but part of a broader legitimacy strategy aimed at building trust with multiple stakeholder groups.

Fourth, the literature highlights the costs of excessive obfuscation. Courtis (2004) and Bloomfield (2008) argue that overly complex disclosures may initially obscure unfavorable information, but they ultimately undermine credibility and increase skepticism among sophisticated users. Empirical evidence supports this view, showing that poor readability is associated with higher borrowing costs, greater stock price crash risk, and reduced investment efficiency (Ertugrul et al., 2017; Kim et al., 2019; Al-Hadi et al., 2017). These findings suggest that obfuscation may yield short-term benefits but imposes significant long-term costs.

Fifth, governance and institutional factors play a moderating role in shaping readability outcomes. Research conducted in emerging markets demonstrates that weaker regulatory environments and concentrated ownership structures are often associated with lower disclosure quality and readability (Akhtaruddin, 2005; Aksu and Kosedag, 2006). Conversely, firms operating in contexts with stronger enforcement and investor protection tend to adopt clearer communication practices. This reinforces the idea that readability is embedded within broader institutional frameworks.

Discussion

The findings synthesized in this study underscore the complexity of disclosure readability as a construct that cannot be reduced to a simple dichotomy of transparency versus obfuscation. Instead, readability emerges as a strategic variable shaped by managerial incentives, governance mechanisms, ethical orientation, and institutional context. From a theoretical perspective, this complexity calls for an integrative framework that combines insights from agency theory, signaling theory, and legitimacy theory.

Agency theory provides a useful lens for understanding why managers might choose to obfuscate disclosures when their interests diverge from those of shareholders. When monitoring is weak and compensation structures emphasize short-term performance, managers may perceive complex language as a tool for reducing accountability. However, signaling theory suggests that in competitive capital markets, firms with superior performance and governance have incentives to signal their quality through clear and accessible communication. Readability, in this sense, becomes a costly signal that is difficult for low-quality firms to mimic consistently.

Legitimacy theory further enriches the analysis by emphasizing the role of social expectations and stakeholder relationships. Firms operate within social systems where legitimacy is conferred not only by financial performance but also by perceived ethical behavior and transparency. Readable disclosures contribute to legitimacy by demonstrating respect for stakeholders' informational needs and cognitive constraints. This is particularly relevant in the context of corporate social responsibility, where narrative disclosures play a central role in communicating values and commitments.

The concept of a balanced disclosure strategy integrates these theoretical perspectives by recognizing that optimal readability is context-dependent. Excessive transparency may expose firms to competitive risks or legal liability, while excessive obfuscation undermines trust and increases capital costs. A balanced strategy involves tailoring disclosure clarity to the firm's strategic objectives, risk profile, and stakeholder environment. This perspective aligns with the notion of strategic communication, which views disclosure not as a one-size-fits-all practice but as a dynamic process of engagement with diverse audiences.

Despite its contributions, the existing literature has limitations that warrant consideration. Much of the empirical evidence relies on readability metrics that capture surface-level textual features but may not fully reflect semantic clarity or interpretive coherence. Additionally, most studies focus on single disclosure channels, such as annual reports, without considering how information is communicated across multiple platforms. Future research could address these limitations by integrating qualitative analysis and multimodal approaches, as suggested by Tailor and Kale (2025).

Conclusion

This study provides a comprehensive, theory-driven analysis of readability and obfuscation in corporate disclosures, emphasizing their role within broader organizational and strategic contexts. By synthesizing insights from accounting, finance, and corporate governance research, the article advances the argument that disclosure readability is neither inherently virtuous nor inherently manipulative. Rather, it is a strategic choice shaped by managerial incentives, governance structures, ethical orientation, and institutional environments.

The central contribution of this research lies in articulating the concept of a balanced disclosure strategy, which reconciles competing perspectives on transparency and obfuscation. Firms that align readability with strategic intent and stakeholder expectations are more likely to achieve sustainable legitimacy, reduced information asymmetry, and favorable market outcomes. As corporate reporting continues to evolve in complexity and scope, understanding the nuanced role of readability will remain essential for scholars, practitioners, and policymakers alike.

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