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Investigating the Effect of Economic and Accounting Performance Criteria on the Readability of Financial Reporting Based on the Information Narrative Disclosure [1]

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INTRODUCTION

Financial reports are the main communication tools of companies and provide quantitative and qualitative accounting information that is useful for decision making. The complexity of the language used in disclosing the validity of accounting information makes it more difficult to extract information and is used as a trick for managers who perform poorly (DeSouza et al., 2019). According to the management obfuscation hypothesis, managers' motivation regarding disclosures with less transparency can cause obfuscation and concealment of information. Managers may hide information they do not want to disclose and it is difficult for investors to understand the financial reports.

In this research, in order to evaluate the performance of companies and whether good or poor performance is shown based on performance criteria, performance criteria are classified into three categories, economic, accounting and combined market and accounting criteria, and the impact of these criteria on the readability of financial reports. It has been studied empirically in the Iranian capital market with the approach of disclosure of the validity of information. The profit per share index, return on assets and return on equity, which are traditional accounting criteria and show the level of profitability and resource efficiency, have been used. These criteria have been examined based on the research of DeSouza et al. In this

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research, economic criteria, such as economic added value, market added value and cash added value, which are part of the new indicators for evaluating the performance of companies, have been used. In the third class, the performance criteria, from the combined market and accounting criteria, such as Q-Tobin ratio and price-to-earnings ratio, have been measured and tested in the research hypothesis based on theoretical foundations.

MATERIALS AND METHODS

In terms of nature and content, the current research is of the correlation type and in terms of purpose, it is applied and is placed in the field of proof theory research. In this study, the regression methodology based on panel data was used to analysis the data.

The statistical population of the research is all the companies admitted to the Tehran Stock Exchange in the period of 2012 to 2021 and the systematic elimination method was used for sampling. 152 companies were selected by considering the eligible companies and how to select sample companies.

RESULTS AND DISCUSSION

Poorly performing companies tend to hide this fact by complicating the validity of information. It is hypothesized that if current income is transitory, or if negative income is persistent, managers have an incentive to make the validity of accounting information harder to read, based on managerial obfuscation theory. Similarly, firms with better current and future performance may disclose less complex information, which lowers their information processing costs. Managers engaged in actions that maximize their self-interest (motivation) or in an effort to achieve an opportunistic criterion may provide complex narrative disclosure.

The results of the test of the first hypothesis of the research show that according to the negative coefficients of the variables of return on assets and profit per share, however negative the return on assets and profit per share of companies are, it indicates the poor performance of managers and according to the theory of obfuscation of management, a tendency It will provide complicated information and ultimately make the financial reports less readable. Investigating the return on equity variable in the first hypothesis also shows that this variable has a positive and significant effect on the readability of financial reports. Increasing the return on equity will increase readability. The results of the first research hypothesis conform to the findings of DeSouza et al. (2019).

The findings of the second hypothesis test also show that economic indicators such as economic, market and cash added value have a positive and significant effect on the readability of reports, and the more these indicators are positive, the managers tend to increase readability. And reports will have higher transparency. In the economic approach of the performance criteria of companies, which uses economic concepts, the current performance is evaluated by emphasizing the profitability of assets and according to the rate of return and the cost of capital employed. Only companies with the ability to earn returns above the average cost of capital will have positive economic added value. Economic value added shows that the value of the company directly depends on the performance of the management. Another variable in the economic approach is the added value of the market, which is obtained from the difference between the market value of the company and the capital employed. The measurement of these criteria, based to the positive coefficients of the model, shows that they have a positive and significant effect on the readability of financial reports.

In the third hypothesis of the research, the combined criteria of market and accounting are used, the test results show that due to the positiveness of the coefficients in the regression model, Tobin's Q and price to profit ratios have a positive and significant effect on readability. The high value of these ratios indicates the optimal performance of stock companies and will increase the readability and transparency of financial information. Due to some deficiencies that exist in accounting, financial and economic information to evaluate the performance of companies.

CONCLUSION

According to the results of the research, it is expected that the better performance of the companies accepted in the Iranian capital market, in the form of economic and accounting variables, will cause readability and transparency of information in financial reports and facilitate decision making for investors. In fact, companies that have better economic and accounting indicators make their financial reports easier to understand for users. As as a result, financial reports are more readable.

Considering the importance of readability in financial reporting and the impact of economic and accounting information, it is suggested to the editors of accounting standards to formulate the necessary guidelines for the publication of transparent financial reports for the users of financial statements. It may be expected that by providing short reports (in terms of number of pages and number of words) and with less volume from the stock exchange companies, the necessary ground will be provided to encourage the investors of the Iranian capital market to read such reports, and in the shadow of their informational content, it will be possible to read them. It increased the financial reports of companies. In fact, encouraging companies to publish readable financial reports through the necessary standards is an important step to strengthen the information transparency

of companies and increase the efficiency of resource allocation by investors. It is also suggested to Tehran Stock Exchange and Securities Organization by creating solutions to increase the readability of financial reporting of companies, including requiring companies to submit reports in Word files and using simpler sentences in the text of financial reports, in order to limit the opportunistic behavior of managers in terms of implementing whatever Most of the principles of social responsibility and its effect on the characteristics of the company and making the readability of financial reporting components more noticeable.

Keywords: Economic criteria, accounting criteria, Readability, Information Narrative Disclosure.

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