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The Impact of Financial Reporting Readability on the Accounting Information Quality with the Mediating Role of Managers' Reporting Tone and Environmental, Social, and Governance Performance

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1. Introduction

In today's dynamic economic environment, the quality of financial reporting constitutes a critical foundation for capital market efficiency, information transparency, and investor confidence. Beyond the presentation of numerical data, financial reporting serves as a strategic communication tool that enhances managerial accountability and conveys corporate performance to stakeholders. Within this framework, readability has emerged as a vital qualitative attribute, as even accurate and timely information cannot effectively support decision-making without linguistic clarity and comprehensibility. Prior research demonstrates that higher readability reduces information asymmetry, improves decision quality, strengthens stakeholder trust, and enhances financial analysis efficiency, whereas textual complexity and ambiguity may facilitate earnings management, undermine reliability, weaken market responses, and increase stock price crash risk. Moreover, the quality of accounting information is influenced not only by readability but also by managers' reporting tone, which significantly shapes investor perceptions. This relationship is particularly important in ESG reporting, where transparency and an appropriate tone enhance credibility, reduce greenwashing risk, and strengthen social legitimacy. In emerging economies such as Iran, integrating readability, managers' tone, and ESG performance can improve

accounting information quality, reinforce market confidence, and promote sustainable capital market development. Based on this premise, the present study aims to investigate the effect of financial reporting readability on accounting information quality, considering the mediating role of managers' reporting tone and environmental, social, and governance performance.

2. Hypotheses

The first to seventh hypotheses of the study are formulated as follows:

H1: The financial reporting readability has a significant effect on the accounting information quality.

H2: The financial reporting readability has a significant effect on managers' reporting tone.

H3: Managers' reporting tone has a significant effect on the accounting information quality.

H4: Managers' reporting tone mediates the relationship between the financial reporting readability and the accounting information quality.

H5: The financial reporting readability has a significant effect on environmental, social, and governance performance.

H6: Environmental, social, and governance performance has a significant effect on the accounting information quality.

H7: Environmental, social, and governance performance mediates the relationship between the financial reporting readability and the accounting information quality.

3. Methods

The present study is classified as applied research in terms of purpose and as descriptive–correlational research from a methodological perspective. Accordingly, its primary focus is on identifying, explaining, and analyzing the relationships among variables within a real-world context, with the aim of producing results applicable to practical decision-making. In terms of nature, the study adopts a causal ex post facto design and is conducted based on quantitative data, such that the research variables are examined after the occurrence of events. The required data were collected from reliable databases, documents, corporate records and audit reports, financial statements, and other relevant materials, along with explanatory notes, obtained from the archive of the Tehran Stock Exchange (CODAL website) and the Rahavard Novin software. Following initial processing, the data were computed using Microsoft Excel. To test the research hypotheses and analyze the relationships among variables, multiple regression analysis was employed using Stata software. The statistical population of the study

comprises all companies listed on the Tehran Stock Exchange during the period 2018 to 2024. The sample was selected through systematic sampling and a screening process, whereby all active companies were initially reviewed, and ultimately 149 eligible firms were selected as the final research sample.

4. Results

The findings of the study indicated that the readability of financial reporting, as a fundamental component of information transparency, plays a decisive role in enhancing the quality of accounting information. Specifically, the clearer, more coherent, and more comprehensible the linguistic structure of financial reports, the greater the reliability, relevance, and usability of accounting information for stakeholders. Moreover, the results demonstrate that financial reporting readability has a positive and statistically significant effect on managers' reporting tone, such that managers operating in more transparent informational environments tend to adopt a more balanced, realistic, and less biased tone in their disclosures. Additionally, environmental, social, and governance performance is found to be significantly influenced by the readability of financial reporting, insofar as clarity and simplicity in reporting strengthen organizational accountability and commitment to sustainable responsibilities. The findings further reveal that both managers' reporting tone and ESG performance exert direct and positive effects on the quality of accounting information by reducing information asymmetry and enhancing investor trust, thereby contributing to improved decision-making processes. Finally, the empirical evidence confirms that managers' reporting tone and ESG performance play a substantial mediating role in the relationship between financial reporting readability and accounting information quality, indicating that the impact of financial reporting readability on accounting information quality is largely transmitted and reinforced through these two key mechanisms.

5. Discussion and Conclusion

This study provides a coherent depiction of the role of financial reporting within the context of organizational decision-making and stakeholder accountability. It demonstrates that linguistic and structural transparency in reports can create a conducive environment for enhancing the informational landscape of companies. The readability of financial reporting facilitates the comprehension of information, enabling various users to interpret data more accurately and reducing ambiguity, misinterpretation, and unnecessary complexity in information disclosure. In such an environment, managers are also inclined to present their narratives

with greater precision and coherence, using reporting language as a tool to convey the organization's performance and outlook realistically. Furthermore, attention to environmental, social, and governance dimensions in reporting reflects a comprehensive perspective on corporate responsibility, extending beyond traditional financial indicators and addressing emerging stakeholder expectations. The synergy among reporting transparency, managers' communication, and sustainability considerations contributes to a framework in which accounting information exhibits greater coherence, reliability, and effectiveness. Accordingly, the findings of this research emphasize the importance of an integrated approach to the preparation and presentation of organizational reports, wherein the quality of expression, attention to broad organizational responsibilities, and informational order are simultaneously prioritized. This perspective can inspire policymakers, standard-setters, and corporate managers to reconsider reporting practices, thereby fostering public trust, improving accountability, and strengthening the functional value of accounting information.

Keywords: Financial reporting readability, accounting information quality, managers' reporting tone, environmental, social and governance performance.