

Exploring the Readability Level of Indian Companies' Management Discussion and Analysis Reports

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Abstract

This research explores the readability of Management Discussion and Analysis (MD&A) Reports of Nifty 50 companies. Regulations necessitate that publicly listed companies include MD&A reports in their annual disclosures. The sample comprises the top 50 companies listed on the National Stock Exchange (NSE). The Flesch readability method is employed to assess the comprehensibility of MD&A content, a method widely used in prior research. The findings indicate that MD&A reports from Indian listed companies exhibit challenging readability and can be understood by postgraduate students. These findings offer valuable insights for companies and regulators to enhance the clarity and accessibility of their MD&A Reports, as required by the Securities and Exchange Board of India (SEBI). This study is a novel addition to the literature, as prior investigations have not delved into the readability aspect of MD&A reports in the Indian scenario.

Keywords: Management Discussion and Analysis, Readability, Flesch Readability Indicator, MD&A Reports

1. Introduction

This study focuses on assessing the readability of MD&A (Management Discussion and Analysis) provided by companies listed on the Indian Stock market for the year 2022. Notably, the examination of the readability of various segments within annual reports has been a time-consuming endeavor. These annual reports encompass crucial details that aid stakeholders in understanding the company's current financial status, projecting future strategies, and evaluating

potential risks.(Pava and Epstein, 1993; Jayasree and Shette, 2020).To uphold their commitment to more transparent and relevant disclosures, companies provide MD&A reports to external stakeholders. The demand for MD&A reports surged in the early 2000s due to heightened scrutiny on performance. Stakeholders sought comprehensive and credible information, prompting this increased demand. Enhancing transparency to facilitate more accurate evaluations stands as a primary objective of MD&A reports. Furthermore, MD&A aims to foster transparency, thereby facilitating a more thorough assessment of a company's performance. The connection between MD&A and the overall complexity of a company's financial disclosures is explored, revealing that greater clarity in annual reports correlates with a company's deeper involvement in profitable activities.(Amar and Belgacem, 2018).

MD&A provides an overall image of the organization's disclosures directly from the eyes of the management. Overall, almost every listed company provides MD&A reports in their annual reports in India. But the ease of reading the contents of this MD&A report is a big concern and a challenge. It means whether the report is easy to read or not. Considering both kinds of information i.e. qualitative and quantitative, annual reports are intended to be beneficial for the readers in taking their decisions. Therefore, this study aims to ascertain the easiness of readability of MD&A reports provide by listed companies in India. Few recent studies (Jain and Lawrence, 2016; Laskar and Maji, 2016; Aggarwal and Singh, 2019)have endeavored to examine corporate CSR reporting practices; however, none have delved into the readability aspect of MD&A reports in the Indian context. This establishes a significant research gap that the present study seeks to fill by investigating the readability of MD&A reports furnished by listed companies in India.The rest of the study is organized as follows:

A rapid summary of the literature in this field is being studied in the second section. The methodology used in this research is described in Section 3. Section 4 explains the results and discussion, while the closing remarks were given in the last section.

2. Literature Review

2.1 Theoretical perspective:

Readability" is a phrase used to explain how simple something is to read(Smeuninx and Clerck, 2016). The narratives and disclosures of a corporation must be straightforward and comprehensible to non-sophisticated investors. Numerous academicians in the past have defined the term "readability" in various ways. Some call it "reading comfort." Researchers have been studying the readability of various sections of annual reports of companies for a very long time. (e.g., (Ernfjord and Gustafsson, 2014; Smeuninx and Clerck, 2016; Adhariani and Toit, 2020; Nilipour, De Silva and Li, 2020). Furthermore, according to studiesNazari, Hrazdil and Mahmoudian, (2017) there is a relationship between corporate performance and the readability of the reports. Although the goal of this research is to raise awareness about the readability of

MD&A reports, nobody knew how readability eventually improves or what specific aspects have an impact on it.

2.2 Research work on corporate financial reporting and readability:

Previous studies have shown that corporate reports are challenging to read (Kumar, 2014). The majority of readability research has been conducted in advanced economies like the United States and the United Kingdom, where readers are English language experts and authors are more prominent researchers (Schroeder and Gibson, 1990; Li, 2008; Qian, 2020). According to research Collins, Davie and Weetmanf, (1993), the UK gives more forward-looking disclosure than the US, even though the US has made a far greater effort in recent years. In developing economies like China, India, Malaysia, and South Africa only a few research have been explored (Mohamad and Rahman, 2006; Meenakshi and Manoj, 2010; Smeuninx and Clerck, 2016; Aggarwal and Singh, 2019) where English reports are presented and difficult to comprehend, this issue may be even more prevalent in these places, necessitating further research. Previous research looked at components of corporate reports such as the chairman or CEO report, risk disclosures, letters to shareholders, and CSR reports, among other things. Regardless of the portion examined, as per (Adhariani and Toit, 2020) text of business reports is difficult to grasp previous studies have demonstrated but not impossible.

MD&A reporting disclosures are not limited to just knowing the practices followed by the companies, but the role of Board members plays a significant role in more disclosures in developed nations. Nicolo et.al, (2022) have studied the impact of women directors on sustainability reporting in European Nations. They found improvements in the disclosures due to the presence of women directors. In the same manner, Cosma et.al, (2022) have checked the persuasion of regulators in the achievements of sustainable development purposes in non-financial reporting. They concluded that more involvement of Board members in non-financial reporting seems to be more associated with a strong commitment to sustainable development.

To attract increased investor interest, companies often employ the technique of impression management when presenting their managerial reports. Managers of financially robust firms tend to convey both current achievements and future strategies, while those overseeing struggling enterprises tend to utilize an impression management approach to shape the tone of their communication. (Caserio, Panaro and Trucco, 2016; Caserio, Trucco and Panaro, 2019).

2.3 An Overview of Readability Indices

This study employs Flesch readability measures to assess the readability of MD&A sections within annual reports presented by non-financial Indian companies. Introduced by Rudolf Flesch in 1948, the Flesch index calculates a text's readability score by considering sentence length and syllable count (Flesch, 1948). A lower score indicates that the text is more challenging for readers to understand. The Flesch-Kincaid Grade Level, on the other hand, is an improved

version of the Flesch Readability Ease (FRE) metric. It emphasizes the importance of grade level for assuring straightforward text understanding based on the achieved reading score.

3. Methodology

3.1 Sampling and Data Collection

The main objective of this research is to assess how easily readers in India can understand MD&A content that is offered in both yearly reports and standalone reports. For the fiscal year ending March 31, 2021, the top 50 non-financial enterprises listed on the National Stock Exchange (NSE) make up the sample size. This sample was chosen to show the current state of readability in the MD&A sections provided by Indian businesses.

The MD&A reports were obtained from the official websites of the relevant companies, with an emphasis on the most recent financial year accessible at the time the research was starting. These reports were converted to Microsoft Word format so that readability assessment software could be used to carry out a more thorough review. By using this method, the report will accurately reflect the readability landscape of MD&A literature offered by Indian businesses during the most recent fiscal year.

3.2 Analysis techniques

Using an online readability indicator tool, which made it simple and quick to evaluate several pages, the MD&A reports underwent study. Data analysis typically uses descriptive statistics.(Adhariani and Toit, 2020; Nilipour, De Silva and Li, 2020).The Flesch Readability Ease (FRE) and Flesch Kincaid metrics have been utilized to assess the readability of business and technical publications. These indicators were chosen due to their widespread use in evaluating the readability of corporate reports and their capacity to facilitate comparisons with other research studies.

Table I Indices of various readability formulas

Reading Ease scale	Flesch Score	Flesch-Kincaid Grade Level
Very difficult	0-30	Post Graduate
Difficult	30-60	Under Graduate
Standard	60-80	Grade 12 th
Easy to very easy	80-100	Grade 10 th

Table II Readability formulas

Readability index	Readability formula
Flesch Readability Ease (FRE)	$206.835 - (1.015 \times \text{Average Sentence Length}) - (84.6 \times \text{Average number of syllables per word})$
Flesch-Kincaid Grade Level (FKGL)	$(11.8 \times \text{syllables per word}) + (0.39 \times \text{Words per sentence}) - 15.59$ 0.4

Table I and Table II demonstrates how the readability score is computed using several readability methods. The level of readability is calculated differently for each technique. Based on the difficulty level the Flesch-Kincaid grade level technique indicates the reader's educational level necessary to read and understand the language.

4. Results and Discussion

Once the readability scores were calculated using software, descriptive statistics including measures such as mean, maximum, minimum, and standard deviation were computed for each of the readability indices. These statistics were employed to assess and facilitate a comparison between the readability scores of the two reports.

Table III Readability level by various readability Measure

Readability level	Readability Indicators	
	FKGL	FRE
Difficult	19	12
Very Difficult	31	38

Source: Own computed data

Table IV Mean Score of readability Measures by various Industries

Industry	Readability Indicators	
	FKGL	FRE
Automobile	15.10	27.17
Chemicals	14.14	35.2
Construction Material	21.30	25.1
consumer Durables	14.92	24.75
Consumer Services	16.64	17.54
FMCG	18.39	22.42
IT	17.76	24.67
Oil & Gas	13.78	22.18
Mean of Mean	16.45	24.35

Source: Own Computed Data

FKGL: Mean from Flesch-Kincaid grade level of MD&A FRE: Mean from Flesch Readability Ease of MD&A

Table III provides an overview of the Reading Ease scores for the MD&A section of the annual reports. The outcomes indicate that Flesch readability ease measurements demonstrate that roughly 76% of the observations are characterized as being highly challenging in terms of readability and comprehension. Meanwhile, the Flesch Kincaid Grade level analysis indicates that approximately 38% of the examined reports are accessible and understandable by individuals with a graduate-level education, whereas the remainder can be comprehended solely

by postgraduate students. These findings maintain consistency with earlier research studies. (Mohamad and Rahman, 2006; Jayasree and Shette, 2020; Nilipour, De Silva and Li, 2020).

Table IV presents a comparative analysis of MD&A readability across different industries using the Flesch Kincaid Grade level and the Flesch Readability Ease measures. The findings highlight that the Oil & Gas sector exhibits a higher level of readability in their MD&A sections based on the Flesch Kincaid Grade level assessment. Conversely, the chemical industry demonstrates improved MD&A readability according to the Flesch Readability Ease metric. These results suggest that while these reports are comprehensible for postgraduate students, they do not fall into the category of being unreadable.

5. Conclusions, Limitations, and Future Research

This research endeavors to assess the readability of MD&A sections within the annual reports of companies listed on the NSE. The study also examines the level of education required for comprehending these sections. The findings reveal that while the MD&A sections are readily available in annual reports, they present a certain level of difficulty, although not to the extent of being unreadable. This observation aligns with prior research both within the Indian and global contexts (Jayasree and Shette, 2020; Nilipour, De Silva and Li, 2020) among others. Additionally, the study indicates consistent readability outcomes when employing various readability assessment tools, suggesting minimal variation among them.

When considering the aggregate scores of each industry across all reports, the overall readability level is found to be difficult. This implies that while these reports can be understood by individuals with a university graduate education, they are not considered to be unreadable. The difficulty in readability of MD&A reports indicates the lack of willingness of the managers towards the fulfillment of the purpose behind providing MD&A reports.

By shedding light on the readability of MD&A content in the Indian context, this study contributes to bridging existing knowledge gaps. Given the increased demand from stakeholders' post-pandemic and ongoing regulatory enhancements in disclosure norms, Indian companies face a pivotal juncture to enhance the quality of their MD&A content. The results provide valuable guidance for companies to enhance transparency and clarity in their CSR reports, thereby offering stakeholders invaluable insights.

Nevertheless, similar to many research endeavors, this study has its limitations. The exploration is confined to a limited number of companies listed on the NSE. Future research could encompass the readability assessment of entire annual reports of Indian companies, along with analyzing information dissemination through newspapers and social media. Another potential avenue for future research lies in expanding the investigation to consider company attributes like profitability, size, and age to ascertain their impact on readability.

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