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The Influence of Corporate Governance and Corporate Strategy on Financial Reporting Tone and Readability: Evidence from the Iraqi Stock Exchange (2015-2024)

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ABSTRACT

This study investigates the determinants of clarity, readability, and user comprehension of financial reports, with particular emphasis on the roles of corporate governance mechanisms and business strategies among industrial companies listed on the Iraq Stock Exchange (ISE). A statistical sample of 20 out of 24 listed industrial companies was examined over the period 2015-2024, and multiple regression analysis was employed to test the formulated research hypotheses. The findings demonstrate that both corporate governance components and business strategies exert a direct, statistically significant influence on the linguistic characteristics of financial reports, particularly tone and readability. Regarding tone, independent company ownership, board independence, audit committee independence, and the adoption of an aggressive business strategy were found to have a positive effect, whereas management involvement, family ownership, and a defensive business strategy exerted a negative influence. With respect to readability, board independence, audit committee independence, the frequency of audit committee meetings, and an aggressive strategy, these factors had a direct, positive impact, while management involvement, family ownership, and a defensive strategy had a negative effect. The explained variance ratios further indicate that corporate governance components account for approximately 62.7% of the variance in financial report tone, whereas business strategy accounts for approximately 74.3% of the variance in readability. These results underscore the critical importance of robust governance structures and proactive strategic orientations in enhancing the transparency and communicative quality of corporate financial disclosures.

Keywords: Audit Committee, Business Strategy, Corporate Governance, Financial Report Readability, Iraq Stock Exchange (ISE)

1. Introduction

The difference between the terminology managers use and the volume of work investors use indicates a gap between managers and investors (Pouryousof et al., 2022). The color of the indicator settings suggests that a CEO who uses assertive, complex, and unengaging language is likely to achieve positive results (Patelli & Pedrini, 2015). Subsequently, the data presented provide useful information for distinguishing among various factors. Therefore, the ease of reading, understanding, and purchasing information from company annual reports, which tend to be an important indicator for predicting future company investments, is determined through careful planning (Huong Dau et al., 2024).

Furthermore, observations show that a reputable audit of a company's accounts by experts facilitates the interpretation of financial statements. Improving the creation of financial reports enhances readability, and increasing the efficiency of the company's internal audit department improves the ease of reading, quality, and style of financial assessments (Rahman et al., 2026). Additionally, larger board sizes and variations in versions are associated with greater readability and a more useful tone, indicating that varied design structures improve the quality of disclosure. In comparison, the duality of the main executive position relates more clearly to reporting, and the clarity and tone of the report are shaped independently by the web and financial characteristics, without interaction within a single disclosure strategy (Samarakoon et al., 2025). A research also note that increasing board diversity improves sustainability reporting, which is considered well-informed about the accuracy of financial statement reading and is not affected by board diversity (Ndegwa, 2024). Given the impact, companies contribute significantly to negative perceptions of reading annual reports. Studying these contributing factors and their impact on efforts and investors is sufficient (Zheng et al., 2025), as all companies that contribute to the completion of technical work have contributed to the makers of efforts, practitioners, and academics. In terms of its comprehensiveness, a complete framework is required, and practitioners must reassess the periodic management system and its diversity (Amanamah, 2024).

The practical importance of this study lies in the clarity and transparency of financial data for capital market participants. The lack of clarity and transparency in these reports can lead to misinformation exchanged between managers and shareholders, potentially resulting in financial losses for the company. Financial data must be simple, easy to read, and understandable for investors. Therefore, the researchers found a research gap in the Iraqi literature regarding the variables that this article will measure. Therefore, this study offers solutions that industrial companies in the Iraqi market and other sectors can benefit from, and these results can then be applied to different companies.

2. Literature Review

2.1. Corporate Governance

Corporate governance defines the rules and structures that guide company management. The rapid advancement of artificial intelligence (AI) (Tolozá Chávez & López Amaris, 2023) has the potential to improve multiple facets of corporate governance. This literature review evaluates the influence of AI on governance in non-financial sectors. Recent studies have investigated how AI affects board performance, forecasts financial distress, detects fraud, and facilitates corporate social responsibility and sustainability (Ahdadou et al., 2024). Nevertheless, interference has emerged as a significant concern because it can undermine causal relationships. Researchers are developing strategies to address this challenge (Khatib, 2024). Corporate governance comprises the systems, rules, and institutions that govern and direct organizations. Technological progress is enhancing the efficiency and transparency of board-centered governance, while also introducing new risks and challenges.

Governance practices in China offer valuable perspectives for global theories and applications (W. Jiang & Li, 2024). Chinese corporate governance is characterized by major shareholders, institutional investors, unique board structures, management incentives, information intermediaries, legal frameworks, three markets, and a focus on social responsibility (F. Jiang & Kim, 2024). Cultural factors are increasingly acknowledged as significant influences on governance. Recent scholarship underscores the importance of embedding cultural context within governance systems. Both culture and law, corporate law in particular, shape governance practices and account for their diversity and stability (Licht, 2024). Empirical evidence further demonstrates that board size, meeting frequency, and director independence can mitigate bank credit risk, whereas concentrated ownership tends to amplify it. By contrast, corporate social responsibility (CSR) initiatives are consistently associated with risk reduction (Hunjra et al., 2024).

Specific practices shown to advance sustainability outcomes include increasing board size, providing management incentives, establishing dedicated sustainability committees, and enhancing corporate transparency. Similarly, reducing ownership concentration, strengthening management's incentive structures, institutionalizing sustainability committees, improving organizational transparency, and encouraging individual investment have each been identified as advantageous for long-term sustainable development

(Yang et al., 2024). Corporate governance significantly influences economic results by harmonizing the incentives of shareholders and managers. This alignment can be attained through methods such as performance-based remuneration and the selection of independent board members. Delivering dependable and transparent financial reporting is another way to mitigate information asymmetries between managers and investors (Bui & Krajcsák, 2024). Research demonstrates a favorable correlation between environmental and social responsibility (ESR) considerations and anti-corruption initiatives: firms that exhibit greater transparency in their ESR disclosures also provide more information about their anti-corruption strategies. Moreover, board independence and size bolster anti-corruption initiatives, and the correlation between ESR considerations and anti-corruption is reinforced (Radhouani & Ajina, 2026).

2.2. Corporate Governance and Corporate Strategy

Most studies have focused on whether board structure predicts company outcomes, rather than the other way around. While company strategy plays a significant role in board formation, a cost-leadership strategy is positively correlated with board size, independence, gender diversity, and tenure, but negatively correlated with board skills. Similarly, a differentiation strategy is positively correlated with board size and gender diversity (Al-Shaer et al., 2024). In this context, forward-looking information is crucial for analysts' assessments and can be provided through the disclosure of the company's strategy. An appropriate strategy is essential for implementing sustainability activities, and analysts prefer integrated strategies to standalone ones (Thun et al., 2024). By integrating ESG principles, companies can simplify their operations and effectively address sustainability challenges (Annesi et al., 2025).

Additionally, including ESG factors into company planning improves governance, ethical decision-making, risk management, and organizational performance. One of the critical trends is the growing emphasis on regulatory compliance and ethical issues in corporate governance (Almnadheh et al., 2025), as well as the need for increased transparency, stakeholder engagement, and alignment of corporate social responsibility efforts with the Sustainable Development Goals to foster sustainability and mitigate risks in business sectors (Stella Emeka-Okoli et al., 2024). According to some research, there are no reliable, precise measurements for representing company strategy. The role of speculators, experts, and institutional investors is still not well understood. Further empirical research is also required to clarify the board of directors' role in regulating managerial behavior related to business strategy. Habib et al. (2024) stated that business governance and financial analysis are not merely fraud prevention measures, but also a long-term approach to business planning. As a result, the plan incorporates sustainability as part of the current trend toward sustainable practices (Xanthopoulou et al., 2024).

Furthermore, disclosure levels decrease when the CEO also serves as the board chairman. The role of government ownership in modifying CSR disclosure is also reinforced (Thuy et al., 2024). The decision to obtain a CSR assurance report depends on a complex mix of the influence of the CSR committee and certain board characteristics, such as company size, experience, independence, meeting frequency, gender, and the separation of the CEO from the board. These characteristics play fundamental roles and, when properly combined, stimulate the adoption of corporate social responsibility (CSR) assurance (Mardawi et al., 2024). Governance is viewed as the operating system of a company, where legal rules constitute only a basic structure.

Non-legal processes, including information flows, decision-making structures, and control mechanisms, constitute the vital core of corporate governance. Rather than existing in isolation, corporate governance is deeply embedded within labor markets, capital structures, and state institutions. The chapter critiques attempts to reduce this complexity to single-factor models, whether grounded in stakeholder theory, team productivity, managerial priority, or shareholder primacy, arguing that each framework is partial, static, and ultimately insufficient to account for the dynamic interactions among markets, institutions, and corporate strategies (Gilson, 2025).

2.3. Financial Reporting Tone and Readability

Corporate financial reporting has evolved beyond primarily digital disclosures toward increasingly complex narrative communication, in which textual content itself shapes investor perceptions, market reactions, and informational efficiency (Moreau, 2025). Companies operating in stakeholder-oriented

institutional environments particularly those with non-English official languages, greater financial opacity, or weaker legal frameworks are more likely to strategically withhold information. Such opacity is associated with higher equity costs, suggesting that management may deliberately adopt less transparent reporting practices to obscure unfavorable financial performance (Hossain, 2022). Risk and risk management disclosures remain hard to read and have not become clearer over time. These disclosures often use language that creates a sense of agreement and certainty (Enslin et al., 2025). Stock return volatility depends a lot on the actions and biases of both informed and uninformed traders. In qualitative accounting reports, managers try to shape investor behavior and attitudes by carefully choosing words with certain meanings (Aram & Soroushyar, 2024).

Another study shows that management tone in reports plays an important role, with about a third of the research focusing on what influences this tone and fewer studies examining its persuasive or manipulative effects. Most research still focuses on traditional sources such as SEC filings, conference calls, press releases, and annual reports, but interest in ESG reports and social media is growing (Ning et al., 2025). Making annual reports easier to read improves the quality of financial reporting. Information asymmetry also affects the relationship between readability and report quality. In particular, clearer annual reports help reduce information gaps and improve report quality (Thanh Dong et al., 2025). Profitability is associated with a more positive tone in annual reports, whereas less profitable companies use a more negative tone (Le & Nguyen, 2024). Clear financial disclosures exert a strong influence on experienced investors, whereas communication style proves more consequential for those new to investing. Accordingly, employing plain language in financial disclosures and understanding how management communication style shapes investor decision-making particularly among those with limited familiarity with financial terminology are matters of considerable importance (Hirose & Ito, 2024).

Audits are designed to provide stakeholders with objective, unbiased information about government operations; however, biases can still affect auditors' judgments. One significant source of bias is the language employed in government reports, which may be strategically manipulated by the entities under review. To identify such bias and support auditors in enhancing report quality for stakeholders, a rigorous analysis of audit reports is necessary. Audit reports serve as critical instruments of communication and contribute to reducing informational inconsistencies, notwithstanding their inherent limitations (Mohammadzadeh Moghadam et al., 2025).

3. Methodology

To assess the independent variable of corporate governance and strategy in relation to the dependent variables which are tone, readability, managerial ownership, institutional ownership, familial ownership, board size, gender diversity on the board, auditing committee independence, auditing committee size, frequency of auditing committee sessions, offensive strategies, and defensive strategies quantitative analysis was employed on the financial data of the study sample. The assessment of Financial Reporting Tone and Readability was conducted as follows:

- a. The initial, central, and concluding sections of each business report were randomly chosen to yield 100 words for the study.
- b. The sample size (measured by the number of sentences).
- c. Deduct the quantity of complete sentences from the total word count in each 100-word sample to ascertain the average sentence length.
- d. Determine the quantity of the 100-word texts that include compound words, defined as words composed of three or more individual words.
- e. The sum of the words in a phrase and the compound words equals the total word count.
- f. Calculate the average word count for each sentence and multiply it by 0.4, a constant factor. Summarize all the challenging terminology.
- g. Two further instances of 100 words each must be computed following the procedures outlined in paragraphs 4, 5, and 6.
- h. The average FOG index for the three samples is calculated as follows: $0.4 \times (\text{Average Sentence Length} + \text{Percentage of Complex Words})$ (Gunning, 1952). The FOG index is related to readability. An FOG score of 18 or higher indicates that the content is very complex and difficult to understand. A score of 14-18

indicates difficult text; 12-14 indicates suitable text; 10-12 indicates acceptable content; and 8-10 indicates simple text. The calculated value is multiplied by -1 to establish a direct benchmark for readability indices, where higher values for the selected index indicate a lower level of readability in financial reports.

To assess the independent variables of corporate governance and company strategy, if the influence of ownership, institutional ownership, family ownership, board independence, audit committee independence, and offensive and defensive strategies is below 5%, these variables significantly affect the trajectory of financial reporting. In contrast, board size, audit committee size, gender diversity on the board, and the frequency of board meetings do not influence the trajectory of financial reporting, as the error levels for these factors exceed 5%.

3.1. Study Design

The importance of the study lies in its theoretical significance, which lies in discussing previous studies and identifying research gaps in both theoretical and applied aspects. It also helps determine which companies and corporations have neglected the clarity and presentation of financial statements. It remains unknown which organizations are incentivized to improve or reduce the time and clarity of their financial reporting. This study aims to address this issue. Its practical significance is that the results of this analytical study will assist industrial companies and other emerging economies in clarifying and presenting financial reports to capital market participants. The lack of clarity in financial statements can lead to a lack of understanding of information between managers and shareholders, thus incurring agency costs for the company. Financial statements should be simple and easy for investors and other stakeholders to understand.

This study is guided by the following research questions, namely (1) Is there a statistically significant relationship between corporate governance mechanisms and the comprehensibility of financial statements? (2) Is there a statistically significant relationship between business strategy and the simplicity of preparing financial statements? Based on the research questions, the study hypotheses are:

H1: Corporate governance tools have an effect on financial reporting readability

H2: Corporate strategy has an effect on financial reporting readability

3.2. Study Sample

This research analyzed 20 industrial firms listed on the Iraq Stock Exchange. These were chosen among 24 companies, with 4 new companies omitted due to the absence of financial data released in 2015.

3.3. Data Collection Tools and Procedure

The data for the study sample were obtained from audited financial statements published on the official website of the Iraq Stock Exchange.

3.4. Data Analysis

SPSS version 26 was used to analyze the data and determine the correlations and influences among the research variables using multiple linear regression and correlation analysis.

3.5. Ethical

The study uses publicly available financial data from selected companies listed on the Iraq Stock Exchange, accessible on the exchange's website, for the period 2015-2024. No new data are collected from human participants; therefore, no approval from a human ethics committee is required. Copyright and data-use policies for public sources were adhered to, maintaining the privacy and anonymity of any entity or individual involved in the analysis. The results are limited to general indicators and reflect trends in the listed market, rather than focusing on specific companies. Any additional usage restrictions from the data source will be observed and documented in the Sources/Appendices section. There is no experimental intervention or direct risk to individuals, and this study adheres to the highest standards of research integrity and transparency in reporting sources and methods.

4. Results and Discussion

4.1. Research Results

4.1.1. Descriptive Statistics of Study Variables

Table 1 indicates that the average readability of financial reports was approximately -14.537, signifying that the documents produced by corporate boards were challenging to comprehend. The average rates of familial and management ownership are approximately 5% and 11%, respectively. The gender diversity of the board of directors' makeup was very low, at approximately 3%. The independence of the auditing committee was assessed at approximately 60%, with 34% and 64% of companies employing offensive and defensive methods, respectively.

Table 1. Descriptive Statistics of Study Variables

Variable	Number Observations	Mean	Deviation	Maximum	Minimum	Kurtosis	Skewness
Tone	1250	0.026	0.041	0.347	-0.118	4.553	-0.683
Readability	1250	-14.537	2.467	-9.734	-26.582	11.890	3.123
Manage-Own	1250	0.116	0.198	0.693	0	3.162	1.036
Family- Owned	1250	0.051	0.253	0.387	0	4.211	1.002
Ins	1250	0.295	0.141	0.546	0	7.177	2.593
Gender	1250	0.036	0.130	1	0	4.172	2.337
B-Size	1250	3.293	1.239	5	3	4.510	2.915
Outd	1250	0.314	0.264	0.66	0.20	8.711	4.326
Ind. Committee	1250	0.612	0.130	1	0	4.172	2.337
Meetings Committee	1250	4.337	2.116	12	4	9.219	4.376
Size. Committee	1250	3.472	1.506	5	2	6.472	3.091
Defensive	1250	11.811	3.171	15	5	9.170	4.391
Offensive	1250	18.931	2.967	25	6	8.110	2.496

4.1.2. Stationarity Test of Study Variables

A notable challenge in time-series analysis is spurious regression, which occurs when a high coefficient of determination is observed despite the absence of a meaningful relationship between the variables. To validate the regression relationships and confirm the robustness of the study's findings, stationarity tests were conducted using the Levin-Lin-Chu and Im, Pesaran, and Shin (IPS) methodologies. Where these tests indicate that a variable contains a unit root and requires first differencing, it is integrated of order one (I(1)). If the tests indicate that a variable is stationary at its level, it is integrated of order zero (I(0)). The results of the stationarity tests are presented in Table 2. The findings indicate that the test statistics were significant for all variables, leading to rejection of the null hypothesis of a unit root and confirming that the data are stationary.

Table 2. Stationarity Test of Study Variables

	B-size	Gender	Ins	Family- owned	Manage-own	Readability	tone
IPS	-7.30	-8.36	-11.87	-6.01	-6.53	-8.39	-4.63
Sig.	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Result	I(0)	I(0)	I(0)	I(0)	I(0)	I(0)	I(0)
LLC	-3.42	-5.39	-6.74	-4.63	-5.36	-4.88	-5.11
Sig.	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Result	I(0)	I(0)	I(0)	I(0)	I(0)	I(0)	I(0)

Table 3. Stationarity Test of Study Variables (Continued)

	Offensive	Defensive	Size. committee	Meetings committee	Ind. committee	OUTD
IPS	-5.101	-10.964	-11.371	-8.850	-4.216	-6.128
Sig.	0.000	0.000	0.000	0.000	0.000	0.000
Result	I(0)	I(0)	I(0)	I(0)	I(0)	I(0)
LLC	-3.155	-11.299	-9.907	-4.175	-6.536	-8.494
Sig.	0.000	0.000	0.000	0.000	0.000	0.000
Result	I(0)	I(0)	I(0)	I(0)	I(0)	I(0)

Table 4. Chow and Hussmann Test Results for the First Model

Test	n	Statistic	Cross-section	Prob
Redundant Fixed Effects Tests	1250	F	4.1654	0.000
Correlated Random Effects - Hausman Test	1250	χ^2	5.2177	0.000

Table 5. Chow and Hussmann Test Results for the Second Model

Test	n	Statistic	Cross-section	Prob
Redundant Fixed Effects Tests	1250	F	5.3245	0.000
Correlated Random Effects - Hausman Test	1250	χ^2	5.1094	0.000

The homogeneity of variance was evaluated in this study using the Breusch-Pagan test. The model is deemed to exhibit variance non-homogeneity because the p-value of this test is less than 0.05, rejecting the null hypothesis of variance homogeneity. To address this, the study employed GLS (Generalized Least Squares) estimation. Another important assumption of regression analysis, the lack of autocorrelation in the residuals, was evaluated using the Durbin-Watson (D-W) test. According to the first model estimation results, the residuals are independent if the Durbin-Watson (D-W) statistic falls between 1.5 and 2.5. Further, the Ramsey Test was employed to determine whether the model has a linear relationship and whether a non-linear model provides a more satisfactory explanation. Tables below provide a synopsis of the aforementioned tests.

Table 6. Test Results of Statistical Assumptions for the First Model

Ramsey		Dubin-Watson		Breusch-Pagan		Jarque-Bera	
<i>P-Value</i>	<i>F</i>	D		<i>P-Value</i>	<i>F</i>	<i>P-Value</i>	χ^2
0.165	3.225	1.813		0.009	.976	0.215	1.632

Table 7. Test Results of Statistical Assumptions for the Second Model

Ramsey		Durbin Watson		Breusch-Pagan		Jarque-Bera	
<i>P-Value</i>	<i>F</i>	D		<i>P-Value</i>	<i>F</i>	<i>P-Value</i>	χ^2
0.094	5.032	2.265		0.004	1.835	0.742	1.104

Based on the results of Tables 6 and 7, because the Ramsey Test's p-value is greater than 0.05, the null hypothesis of linearity is confirmed, and the model is said to involve no specification error.

Table 8. Results of Multivariate Regression of First and Second Hypotheses

Sig.	T. Value	Std. error	Coefficient	Variable Tone	Variable type
0.199	1.896	0.073	0.118	α	Dependent variable
0.000	-5.414	0.085	-0.293	MANAGE-OWN	Fixed coefficient
0.128	1.811	0.096	0.174	Ins	Independents variables
0.000	-4.328	0.068	-0.295	Family-own	
0.387	1.339	0.331	0.464	b-size	
0.000	6.042	0.050	0.307	OUTD	
0.531	1.217	0.247	0.301	Gender	
0.037	2.455	0.067	0.166	Ind-committee	
0.522	1.141	0.290	0.331	Size-committee	
0.000	4.774	0.086	0.412	Meetings-committee	
0.041	2.083	0.066	0.271	Defensive	
0.033	-2.201	0.087	-0.105	Offensive	
-	-	-	2.265	DW	
0.000	-	-	17.208	F	
-	-	-	0.743	R Square	
-	-	-	0.739	Adjusted R-Square	

In Table 8, management ownership, institutional ownership, familial ownership, board independence, audit committee independence, aggressive strategies, and defensive strategies all affect financial reporting tone with error levels below 5%. The number of board sessions, audit committee size, board gender diversity, and board size do not affect the financial reporting tone. The F statistic is significant at the 5% level (0.000), indicating that the regression model is statistically significant and that a meaningful relationship exists among the variables. According to the coefficient of determination, independent variables explain 62.7% of corporate financial reporting tone. The Durbin-Watson value (1.813) is within the acceptable range of 1.5 to 2.5, indicating no regression error-term autocorrelation.

One governance tool, management ownership, got a value of (-0.293), showing an adverse influence on financial report readability. A one-unit increase in management ownership affects financial report readability by 0.293 units. Thus, management ownership significantly and inversely affects financial report readability. Family ownership was negatively associated with financial report readability (- 0.295). One unit of family ownership affects financial report readability by 0.295 units. Thus, family ownership negatively impacts financial report readability

The multiple integrative functions after testing can be written as follows:

$$TONE_{i,t} = -0.387manage - owni,t + 0.174Insi,t - 0.295Family - owni,t + 0.307 OUTDi,t + 0.166 Ind + 412 Committeei,t + 271Defensivei,t - 0.105Offensivei,t + \epsilon_i,t \dots\dots\dots(1)$$

$$READABILITY_{i,t} = -0.293manage - owni,t - 0.295Family - owni,t + 0.307OUTDi,t + 0.166Ind - Committeei,t + 0.412Meetings - Committeei,t + 0.271Defensivei,t - 0.105Offensivei,t + \epsilon_i,t \dots\dots\dots(2)$$

4.2. Discussion

The findings of this study provide empirical support for the role of corporate governance and strategy in the readability of financial reports. It reveals that family owners are less sensitive and more confident regarding their ownership of company shares, and they exercise less oversight of the financial statements and the behavior of the managers who present them. This may reduce the positive tone of the financial reports of industrial companies listed on the Iraq Stock Exchange. Conversely, because institutional owners employ experienced capital market managers, they are better able to supervise the behavior of managers presenting financial statements, thereby enhancing the quality of the financial reporting tone. The low number of female board members in Iraqi stock companies reduces their ability to express their views, which ultimately does not affect the tone of the financial reports.

Board members can help improve the tone of financial reports by offering thoughtful, expert oversight. The quality and efficiency of board members’ oversight are crucial; therefore, the number of board members does not affect the tone of the financial reports. Inactive board members can enhance oversight of financial statements to prevent manipulation of financial reporting items, thereby strengthening the overall financial position. A large number of independent members on the audit committee allows for more thorough auditing of financial statements and the reporting of both intentional and unintentional errors, potentially leading to a more positive tone in financial reports. The number of audit committee meetings among the companies in the study sample also influences the tone of their financial reports. Audit committee size and meeting frequency alone aren’t enough to ensure a positive reporting tone; the independence and financial expertise of its members remain essential.

Offensive corporate strategies are positively associated with the tone of financial reports, whereas defensive strategies are associated with diminished positivity. This finding suggests that Iraqi industrial companies listed on the stock exchange that adopt defensive strategies are frequently constrained by financial resources, rendering their shares comparatively less attractive to investors. Such companies also tend to carry higher leverage and are less positioned to capitalize on growth opportunities. These constraints may incentivize managers to manipulate financial data and impede the delivery of accurate, transparent reporting to stakeholders, thereby further undermining the overall positive tone of financial disclosures. Conversely, companies that pursue offensive strategies tend to be financially robust and place considerable emphasis on market share and competitive positioning within their respective sectors. The current study differs from that

of Thanh et al. (2025) in its focus on the asymmetry in information about the relationship between readability and financial report quality. It also differs from that of Le et al. (2024), which indicated that profitability is associated with a more positive tone in annual reports. In contrast, less profitable companies use a more negative tone.

These companies endeavor to present accurate data to strengthen investor confidence and improve the overall tone of their financial reports. The study revealed that management ownership has a significant negative impact on the readability of financial reports, as managers tend to prioritize presenting the best performance for stakeholders. They are less bound by the principle of conformity and produce more complex reports, thus reducing the readability of the financial data. Similarly, family ownership has a significant negative impact on the readability of financial reports. Because family owners are less sensitive and more confident about their ownership of company shares, they exercise less oversight of the financial reports and the behavior of the managers who present them. The study's findings on the reverse effects of defensive strategies on the tone and readability of financial reporting suggest that the Stock Exchange should encourage companies to adopt defensive strategies to ensure more accurate audits. They should be compelled to cede the audit to famous audit firms. On the contrary, the Stock Exchange is advised to take into account the benefits to corporations when quantifying the tone and readability of corporate financial reports.

5. Conclusion

The study demonstrates that corporate governance components and business strategies have a direct, statistically significant impact on the language of financial reports, particularly tone and readability. The results show that independent corporate ownership, board independence, audit committee independence, and an aggressive strategy positively affect tone, while managerial and family ownership and a defensive strategy negatively impact tone. Regarding readability, the results indicate that board and audit committee independence, the number of audit committee meetings, and an aggressive strategy have a direct and positive impact. By contrast, managerial and family ownership, together with a defensive strategy, exert a negative impact. The variance-explained rates indicate that governance components account for approximately 62.7% of the variation in tone, while business strategy accounts for approximately 74.3% of the variation in readability.

These findings reveal a clear relationship between governance structure and corporate strategic orientation, on the one hand, and the linguistic character and readability of financial reports, on the other. This reinforces the understanding that ownership decisions, organizational structure, and robust audit committees can enhance the clarity and transparency of financial reporting, thereby enabling investors to read and evaluate performance more accurately. The Iraqi sample framework (Iraq Stock Exchange, 2015-2024) provides practical evidence for developing countries and emerging markets, demonstrating that disclosure quality can be improved through strengthened governance mechanisms and well-defined business strategies.

Relying on a limited sample of 20 companies over the period 2015-2024 may restrict the generalisability of the results and their applicability to other markets. Furthermore, the measurement of tone and readability depends on specific tools and techniques that may introduce potential errors, and the effects of certain factors may overlap and vary across different regulatory and cultural contexts. Potential biases in corporate reporting or time-sensitive adjustments to accounting standards may also affect measurement accuracy.

The study advances the following recommendations. Strengthening the independence of boards of directors and audit committees serves as a direct pathway to improving the clarity and tone of financial reports. Proactive strategies that prioritize transparency and readability should be encouraged, guiding companies toward measured language and away from excessive complexity that impedes investor comprehension. Regulatory bodies and internal auditors ought to be engaged in enhancing the quality of financial statement reporting through the adoption of automated reading tools and improved internal auditing practices that facilitate investor understanding. Finally, investing in the training of board members and audit teams in financial communication techniques aims to achieve clearer and more accessible reporting language for shareholders.

Future research prospects include expanding the sample to include industrial, service, and financial companies rather than industrial firms alone and extending the study period to longer timeframes to test the reliability and generalisability of the findings. Future work should also incorporate additional measures of tone and readability using more advanced text analysis techniques and examine their links to subsequent company performance. Moreover, further investigation into organizational culture and ownership diversity as mediating or moderating variables influencing tone and readability is warranted. Finally, examining the mechanistic interactions among governance structures, business strategies, firm-specific characteristics, and emerging technologies such as artificial intelligence in the preparation and evaluation of financial disclosures represents a particularly important avenue for future inquiry.

In conclusion, the study's findings suggest that strengthening governance components and adopting carefully considered business strategies can significantly enhance the readability and tone of financial reports. This, in turn, reinforces transparency and shareholder confidence, positively influencing investment decisions in emerging markets such as the Iraqi market, while duly accounting for contextual constraints and specificities.

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