Readability Score of Corporate Governance Report: Public Listed Companies in Malaysia

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ABSTRACT

Disclosure of corporate governance is meant to narrow the information gap between management and stakeholders; however, this objective will be frustrated where the disclosure is not easily understood. This paper evaluates the ease of readability of the Corporate Governance (CG) Report and Corporate Governance Overview Statement issued by public listed companies from the Malaysian Main Market based on the Malaysian Code of Corporate Governance (MCCG) 2021, which has a comply-or-explain approach. Previous Malaysian studies focusing on the readability of corporate governance have considered only the chairman's statement, notes to the account or the annual report as a whole without considering the CG Report as an independent regulatory narrative. Employing a quantitative approach using archival and content analysis methods, this paper highlights how the governance narratives of listed firms are extracted, prepared and analyzed using the Flesch Reading Ease, Flesch-Kincaid Grade Level, Gunning Fog and SMOG indices and how adjustments are made for governance-specific terms that create false difficulty. Readability will then have a relationship with firm size, industry, board attributes and the proportion of the reasons for exit provided by firms rather than reasons for compliance. Using past findings, this research assumes that governance narratives will be in the difficult category, explanatory narratives will be less readable than templated compliance narratives, and larger firms will have lower readability scores. Contributions of this research include an understanding of readability in governance reporting, five testable propositions and practical suggestions for regulators and issuers.

Keywords: Readability, Corporate governance report, Public Listed Companies, Bursa Malaysia, Malaysian Code of Corporate Governance

INTRODUCTION

Annual reports serve as the major formal medium of communication between Malaysian public listed firms and their shareholders, and narratives are read by many more people than the accounting data in the reports. The narratives are also crafted with substantial managerial latitude, and hence the form in which the message is conveyed can be equally important as the message itself. The disclosure may be completely compliant with all legal requirements, but not convey any information due to the cost it imposes on the investors to process it (Li, 2008; Loughran & McDonald, 2014).

In Malaysia, the Securities Commission Malaysia issued the MCCG 2021, which sets out Practices that listed companies apply on a comply-or-explain basis (Securities Commission Malaysia, 2021). Bursa Malaysia's listing requirements oblige issuers to publish a Corporate Governance Overview Statement and a CG Report on a prescribed template, in which the company states how each Practice is applied or why it has departed from it. Governance reporting is therefore a clear example of a narrative that is mandatory in scope but discretionary in expression. When a company varies from a Practice, the reason given is free text, so the length, the vocabulary, and the structure are selected by the preparer.

According to Ong et al. (2020), poorly readable annual reports are a frequent event in Malaysia, and they note that firms whose reports are more readable and have less information overload are likely to have higher

financial performance. Previous research had established that the chairman's statement and the notes to the accounts of the top one hundred Malaysian companies are very hard to read according to the Flesch scale and that management did not write the flexible chairman's statement in a more readable way (Mohamad & Rahman, 2006). Together these findings suggest a persistent readability problem in Malaysian corporate narratives.

The problem matters for governance in particular. Governance disclosure is intended to allow shareholders, especially minority shareholders, to judge whether the board is discharging its monitoring role. If the disclosure is drafted using highly technical language, then the monitoring role of the disclosure becomes ineffective because those parties that rely most on the disclosure cannot understand it. Furthermore, regulators cannot determine if the comply or explain regime is effective without understanding the nature of the explanations.

The knowledge gap comprises four elements. Firstly, in the case of readability analysis, most of them evaluate the whole annual report or its segments, including the chairman's letter, while the CG Report is a stand-alone report with a semi-templatized regulatory narrative. Second, evidence that predates the MCCG 2021 cannot reflect the revised Practices and the stronger expectations placed on explanations of departures. Third, conventional formulas were calibrated on general prose and misclassify financial text, because many polysyllabic business terms are not hard to understand (Loughran & McDonald, 2014); governance-specific vocabulary has not yet been handled in a Malaysian setting. Fourth, the association between board characteristics and readability has been examined in other emerging markets, for example among Egyptian banks (Metwally et al., 2024), but there is little Malaysian evidence for governance narratives.

The study therefore asks four research questions.

RQ 1: What is the readability level of the CG Report and the Corporate Governance Overview Statement of Malaysian public listed companies?

RQ 2: Does readability differ across firm size, industry and between comply and explain narratives?

RQ 3: Are Board characteristics, namely independence, gender diversity, size and meeting frequency, associated with the readability of governance narratives?

RQ 4: Is there any difference in findings drawn from domain-adjusted and formulaic scores of readabilities?

This paper makes an important contribution to the field of disclosure because it looks at the governance report as a separate subject for readability assessment. In addition, the paper is consistent with the regulators' goal of making governance reports meaningful, and not just compliant, and provides clear recommendations to company secretaries and IR departments.

LITERATURE REVIEW

2.1 Corporate Governance

Issues of corporate governance deal with systems of governance that reconcile management interests with owner interests and the protection of the rights of the minority. According to agency theory, there is a need for monitoring and reporting to address the information asymmetry that occurs as managers possess information that cannot be easily monitored by the owners and thus leads to agency problems (Jensen & Meckling, 1976). Unlike the dispersed ownership in the original agency theory, Malaysian listed firms involve concentration and family ownership, where the conflict between the controlling and minority stockholders becomes key.

The regulation of corporate governance in Malaysia has shifted from being rule-based to a principle-based regulation. The 2021 MCCG continues to adopt the compliance or explain approach but expects more rigorous requirements regarding board composition, sustainability management and reporting, and Bursa Malaysia requires the reporting in its pre-scribed format (Securities Commission Malaysia, 2021). A principle-based system relies extensively on the narrative explanation, and the effectiveness of the narrative lies in its ability to

be written well. Readability is thus an intrinsic characteristic of governance disclosure and not a superficial one. A board can be well-structured but poor at communicating, and vice-versa.

In addition to agency theory, studies on governance use stakeholder and legitimacy approaches where disclosure acts as an instrument of accountability to a broader audience besides the shareholders. The board of directors is always seen as the key governance institution in this case, playing the dual role of control and resource provision. Meeting frequency, independence, and size are the features commonly used to assess the performance of a board in its role, but the literature reveals conflicting findings, depending largely on the institutional environment. For example, according to Metwally et al. (2024), the frequency of meetings and diversity affect the readability of annual reports among Egyptian banks.

A further distinction must be made between the substance of governance and the communication of governance. There may be a case where a firm has implemented the Practice perfectly but describes it badly, or vice versa, where a firm may have described a Practice perfectly, yet implemented it in letter alone. The 'comply or explain' system presumes that the reader can read the explanation, evaluate it for reasonableness and then act through voting, engagement or investment decisions accordingly. This is true only if there is understanding of the explanation. Repetitive, generic or jargon-filled narrative will lead to a situation where there is compliance in name alone.

There are certain characteristics of the Malaysian context. Ownership within many listed companies is concentrated within families, related business groups or within state-related organizations. This results in a change in the core principal-agent conflict from one between managers and owners to one between controlling shareholders and minority shareholders (Haniffa & Cooke, 2002). Disclosures play an important role for minority and retail shareholders in such a market environment, since they do not have access to private information. The audience to which a CG Report is addressed is also varied, as it consists of institutional shareholders, analysts, rating agencies, regulators, and retail shareholders. Their literacy levels also vary widely. Hence, the disclosure suitable for an expert can be incomprehensible for the protected investors.

2.2 Readability Score

Readability refers to the ease with which any text can be read and comprehended. One of the most basic formulas for measuring readability is the Flesch formula, which calculates a reading score by averaging sentence length with the average number of syllables per word, where low scores correspond to difficult texts, and scores under thirty are traditionally associated with college graduate level texts (Flesch, 1948). The Gunning Fog index measures the approximate years of schooling that would allow the reader to comprehend the given text immediately on the first reading based on average sentence length and percentage of difficult words.

In the area of accounting and finance, Li (2008) found that the more difficult the annual report is to understand, the lower and more volatile the company's earnings; Lo et al. (2017) associated readability with earnings management. In a study carried out by Loughran and McDonald (2014), it was discovered that the Fog Index is incorrectly specified in the case of financial texts since some frequently used business terms, which happen to have a large number of syllables, increase the index while not making the text any more complicated and that document size can be a much better predictor. Bonsall et al. (2017) developed a plain English measure that takes into account passive voice, buried verbs, jargon and long sentences and which is able to predict results of United States filings more accurately than other measures. According to Bloomfield (2008), low readability may actually be due to complex business nature of the company.

Evidence from Malaysia is limited. Mohamad & Rahman (2006) describe the narrative parts of the hundred leading companies as being hard to understand and state that even if the chairman’s statement was easy to comprehend, it did not mean that the notes to the accounts were easily comprehensible. According to Ong et al. (2020), higher readability and lower information overload lead to superior financial performance of the firms listed in Malaysia.

Measurement is itself a subject of debate. Traditional formulas rely on two surface features, sentence length and word length, and they cannot tell whether a sentence is logically coherent, whether a technical term is

familiar to the intended reader, or whether the structure of the document helps a reader find what matters. The short sentence full of abstract ideas may get an easy score, while the lengthy sentence made up of common words gets a difficult score. Syllable counting has its own limitations, since the syllable counting by computer software works on rules that break down for acronyms, numbers, and proper nouns, which are very common in government documents. This is why researchers today see formula scores as indicators of language complexity rather than measures of comprehension (Loughran & McDonald, 2014; Bonsall et al., 2017).

Two remedies to the above problems can be found in the existing literature. One is the use of multiple indices so that any conclusion will not be based on a single formula. The other is the creation of indices that will be appropriate to the text being analyzed by means of domain-related wordlists, size of document and file, as well as clear English markers like passive voice and nominalization. Both methods are used in the current design. It should be remembered in Malaysia, where English is the principal language used in the reports of companies listed on stock exchanges but is not the first language of many readers. A text that receives a seemingly moderate score on a formula calibrated using native English texts may actually be more difficult to understand.

The readability results can also be interpreted in two conflicting ways. One possibility is that a low score might suggest that the managers are hiding negative news, as per the obfuscation theory, whereas the other possibility is that the subject matter is truly complex in nature (Bloomfield, 2008; Li, 2008). Distinguishing the two requires controls for firm complexity and, ideally, comparison between narratives that are discretionary and those that are tightly prescribed. The CG Report offers such a comparison within one document, because its templated comply statements and its free-text explanations differ in the freedom they give the writer.

2.3 Theoretical Perspectives and Determinants of Readability

This third subtopic acts as a linkage between the first two and supplies the logic for the propositions. Other possibilities might include the regulation and institutional setting of governance disclosure in Malaysia or impression management in narrative disclosure.

There are four theoretical perspectives that apply to this phenomenon. One is the perspective of obfuscation or managerial opportunism in which the idea that managers will try to use language that is hard to understand in order to hide their low performance or bad governance is presented (Li, 2008; Lo et al., 2017). Complexity perspective in which complexity in a company leads to complexity in text. Thus, it does not imply hiding. Agency and monitoring arguments suggest that effective boards should demand clear reporting, because readability reduces information asymmetry between management and owners.

The determinants of readability identified in prior work include firm size, performance, leverage and business complexity (Li, 2008; Lim et al., 2018), together with managerial and board attributes. Hasan (2020) finds that managerial ability is related to the readability of narrative disclosures in annual reports. Metwally et al. (2024), studying Egyptian banks, associate readability with board meetings, gender diversity and cultural diversity. Results across studies are mixed, so the direction of these effects for Malaysian governance narratives is an empirical question. The consequences of readability include effects on liquidity, cost of capital, analyst behaviour and perceived transparency, and the common mechanism is a lower information-processing cost for investors (Rjiba et al., 2021).

2.4 Synthesis and Hypothesis Development

The reviewed studies point to three conclusions. First, readability is a meaningful attribute of corporate narratives, with documented links to earnings quality, earnings management, performance and capital-market outcomes (Li, 2008; Lo et al., 2017; Rjiba et al., 2021). Secondly, readability is influenced by the characteristics of firms and the characteristics of managers and boards, but their influence directions differ depending on the context (Hasan, 2020; Lim et al., 2018; Metwally et al., 2024). Third, the Malaysian evidence is limited to general annual report sections and to older regulatory periods, and it leaves the governance report unexamined (Mohamad & Rahman, 2006; Ong et al., 2020).

These conclusions motivate the propositions advanced later in the paper. Agency and monitoring theories argue that firms having greater independence and diversity in their boards will demand more transparency in

the reports. The complexity theory indicates that complex firms will make use of difficult text for appropriate reasons. The structure of the comply-and-explain system implies that free texts will be more difficult to understand than templates. Measurement studies imply that difficulty in conclusion will depend on how the governance language is handled. Testing these ideas in the Malaysian governance report fills the gap identified in the introduction and extends the readability literature to a regulatory narrative that has not yet been studied as such.

METHODOLOGY

3.1 Research Design

The study adopts a quantitative, archival and cross-sectional design that can be extended to a panel. The approach is positivist and deductive, in that propositions derived from agency and complexity perspectives are tested with text-derived variables and publicly available firm data.

Population comprises Main Market firms quoted at Bursa Malaysia which produce a CG report in accordance with the MCCG 2021. Stratified random sampling is used based on market capitalization and industry grouping. Financial institutions are analyzed separately because of their sector-specific regulation. The sample size should be fixed through a power analysis, and a guide for a multiple regression with about ten to twelve predictors is a minimum of roughly one hundred and fifty to two hundred firms. The observation period is a recent financial year, or two, after the MCCG 2021 became effective.

CG Reports and Corporate Governance Overview Statements are collected from Bursa Malaysia announcements and from company annual reports. Financial and board data are taken from annual reports and from a recognized commercial database, subject to institutional access.

3.2 Content Analysis

In the first stage the documents are converted from PDF to plain text, and tables, headers, footers, page numbers and the fixed question text of the template are removed so that the scores reflect the company's own wording. In stage two, each of the reports is separated into the Overview Statement and the responses to the CG Report per Practice and then each response is coded as applied, departed from with explanation or adopted as a Step-Up practice.

In stage three, the level of readability is calculated using four commonly used indices utilizing a script that has been validated. The Flesch Reading Ease score is determined using the formula: 206.835 - 1.015 times average number of words per sentence minus 84.6 times average number of syllables per word. The Flesch-Kincaid Grade Level equals 0.39 times the average number of words per sentence, plus 11.8 times the average number of syllables per word, minus 15.59. The Gunning Fog index can be defined as 0.4 times the average number of words per sentence plus one hundred times the percentage of complex words. The SMOG index is calculated as the fourth independent method of measurement.

Domain adjustment takes place in the fourth step. Following the approach of Loughran and McDonald (2014), the list of governance and legal terms such as nomination, remuneration, independent and whistleblowing is prepared, and is considered as non-complex while computing the Fog index. Scores are provided both with and without adjustment, answering the fourth research question in this process. Total number of words and file size are provided as complexity measures.

In the fifth stage, the reliability of coding is checked. Ten percent of the reports are selected and coded independently by two coders for section classification, and Cohen's kappa (Cohen, 1960) score of at least 0.80 is taken as the measure of reliability. Output generated from the software is compared with a second tool on a small subsample.

3.3 Variables and Analysis

Readability of the governance narrative, which is quantified primarily through the use of the Flesch Reading Ease score, is the dependent variable in this study, while the Fog, Flesch-Kincaid and SMOG measures are

employed in the robustness tests. The independent variables include proportion of independent directors, proportion of female directors, board size, board meeting frequency, and proportion of Practices that explain departure. Firm size, leverage, ROA, industry classification, audit firm membership of Big Four, ownership concentration, and report length are the control variables.

The analysis starts with the calculation of descriptive statistics and checking for normality, then comparing means across groups through ANOVA/Kruskal Wallis, and finally using multivariate ordinary least squares regression controlling for industry and year fixed effects and robust standard errors for heteroskedasticity. The estimated model relates readability to board independence, gender diversity, board size, meeting frequency, explanation intensity and the control variables. Robustness checks use alternative readability indices, winsorisation of extreme values at the first and ninety-ninth percentiles, exclusion of financial firms and a logarithmic transformation of word count.

FINDINGS AND RECOMMENDATION

Because no data have been collected for this manuscript, this section sets out the findings expected on the basis of the evidence reviewed, and these expectations are to be replaced with the study's own results once the analysis is complete.

4.1 Expected Findings

The first expectation concerns the overall level of readability. Malaysian and international evidence points to corporate narratives in the difficult to very difficult range (Mohamad & Rahman, 2006; Li, 2008), and governance narratives, with their long sentences and formal legal vocabulary, should follow the same pattern.

The second expectation concerns the difference between comply and explain narratives. Free-text explanations of departures are expected to be longer and more variable, and probably less readable, than templated compliance statements, who's wording closely mirrors the text of the Practice itself.

The third expectation relates to the size and complexity. It is believed that large firms have a lower readability (Li, 2008; Lim et al., 2018). Since Bloomfield (2008) claims that such an effect can indicate actual business complexity, not concealment, the relationship between size and readability should be interpreted carefully.

The fourth expectation relates to the characteristics of the board of directors in which mixed associations are expected. Gender diversity and frequency of meetings have been significant for Egyptian banks (Metwally et al., 2024), but these associations may not hold for Malaysian firms that have a concentrated ownership structure and a different board design model.

Expectation number five concerns the measurement process. The domain adjustment is supposed to make the text seem more readable than before, hence proving that the formulas without domain adjustment make the governance texts appear much more difficult. The findings will be presented in terms of the descriptive statistics for all the measures of readability; these will be adjusted and unadjusted in comparison among other things, in different market capitalization levels and different sectors, in comparison of the comply and explain approaches, and through regressions.

4.2 Interpreting the Results

After the data analysis process is completed, there are three different levels on which the interpretation can be done. The first level is that of absolute readability. On the Flesch Reading Ease scale, scores ranging from sixty to seventy constitute plain English, thirty to fifty constitute difficult English, while scores below thirty represent very difficult English, ideal for a graduate audience. In contrast, the difficulty on the Fog and Flesch-Kincaid scales is measured by the number of years of schooling required to comprehend the document, and a score higher than seventeen suggests that a very highly educated specialist is needed to read the document.

The second indicator is variation. It is possible that the difficulty of the hard median might obscure considerable variation because, while one company writes in clear language, another company uses language

that is almost impossible to understand. The calculation of variation, which includes both the percentage of firms scoring above and below the cutoff level of plain English, and the difference between the upper and lower quartiles, is equally important as the average. Large variation would mean that the difficulty was due to firm discretion rather than the template.

The final criterion is association. In evaluating regression coefficients, we have to take into consideration the statistical and economic significance of the coefficient, such as the effect on the Flesch score of increasing the proportion of independent directors by ten percentage points. Results have to be presented with and without the domain correction; an association which is no longer apparent after the correction has to be interpreted as a measurement artefact rather than as evidence. Since the research design is cross-sectional, associations must be considered consistent or inconsistent with the propositions but not as causes. In case the results are contrary to expectations, for example, when the explain narrative is found to be more readable than the comply statement, we have to find out whether the reason is that the explanations are replacing the boilerplate comply text.

4.3 Recommendations

The recommendations for the regulator, in particular, Bursa Malaysia and the Securities Commission are to develop plain language guidelines containing examples of clear explanations with annotations and improve readability assessment of explanations in their quality of disclosure reviews. Also, regulators may consider providing explanations with a simple structure including the rationale of departure, an alternative measure used, and time frame for such a change in order to make explanations clear and concise.

Issuers and company secretaries have to draft the corporate governance narrative in short sentences, active voice, and defined terminology and put the main idea of the narrative first. Moreover, the use of headings and tables is also recommended by the study. The audit or nomination committee could check the readability of the governance narrative before its issuance, in particular, with the help of a non-expert test reader. Additionally, firms have to avoid repetition of the practice wording every year because the same readable scores do not increase information value of the content.

Persistently poor readability levels must be viewed as a red flag calling for closer examination and not as evidence of poor corporate governance. In the case of educators and professional bodies, writing in clear language should be included in the training of company secretaries and accountants.

More can be done by regulators who can incorporate readability as one aspect of the periodic review of governance disclosures which the Kuala Lumpur Stock Exchange is undertaking. A quick screening of the CG Reports using predetermined indices will allow those outliers to be flagged and encouraged to make improvements without changing the regulations at all. Anonymously publishing readability benchmarks according to capitalization tiers will provide a basis for comparison, while recognizing clearly written reports in current awards for good governance and reporting practice will provide an additional motivation. Since evidence of Malaysian narratives is still sparse, this should be piloted first.

Company secretaries and IR departments, which write most of the report, form the most relevant target group for this document. These writers may craft a style manual for governance stories with guidance on the desired sentence length, preference for common vocabulary to legal jargon, and definition of every term of art the first time it appears. The organization could distinguish between what the corporation does and what the Practice mandates, thereby ensuring that the Practice is not repeated within the narrative. A narrative that describes a deviation could revolve around four questions that a person would normally pose: What was not done? Why? What will be done instead? And when will it be reexamined? Preliminary drafts could be reviewed using the same measures of readability applied in this study, along with an assessment by a layperson.

The boards could help by viewing the readability of the CG Report as part of their accountability. This can be done through the audit or nomination committee asking for a plain language summary to precede the report and having the final draft evaluated prior to being approved. The investors and advisers will have the opportunity of using readability as a screening signal, without judging the governance process by consistently

low scores, taking into consideration the warning that complex texts might actually indicate complex issues (Bloomfield, 2008).

4.4 An Illustrative Plain-Language Rewrite

This example has been created for illustrative purposes and is not quoted from any company report. A possible explanation of a departure could look like this: the board considers that the membership of the nomination committee, in connection with the current situation in the group and the existing structure for the governance of the board membership, is still adequate and will be reviewed in the future. This sentence is very long and abstract and does not give information on what is not fulfilled and when this will be changed. A better way to express this thought could be: the nomination committee has not met the Practice recommending a majority of independent directors yet. Only two out of five members are independent. The board will appoint another independent director at the next annual general meeting. Its Flesch score would be markedly higher, and, more importantly, a shareholder could act on it.

4.5 Implications for Theory

The proposed findings will have an impact on the theoretical perspective. In case there is a connection between board independence and diversity and readability of narratives, this will confirm the agency and monitoring perspective according to which a better level of governance results in improved levels of communication and control. In case size and complexity of the company prevail, this will confirm the complexity perspective, and it will be advised not to consider low readability as an attempt to confuse. In case explain narratives turn out to be less readable, this will indicate that the principle-based system requires additional guidance. Whatever pattern will prevail, it will help to determine the nature of governance disclosure whether it is communication or merely compliance.

CONCEPTUAL FRAMEWORK AND PROPOSITIONS

The conceptual framework proposes that governance and firm characteristics, namely board attributes, ownership, size and complexity, shape managerial reporting behavior, which ranges from clear communication to obfuscation. Behavior reporting in turn affects the readability of the governance narrative, which in turn affects the outcome for stakeholders in the form of information asymmetry, transparency, and investor confidence. The compliance/explain narrative affects the relationship between firm characteristics and readability, and all of this takes place in the regulatory framework provided by the MCCG 2021 and Bursa Malaysia's template.

Here are five propositions based on this framework. The first proposition is that the more a firm uses independent directors, the more readable their governance narrative will be because stronger monitoring leads to less opportunistic obfuscation as per agency theory. The second is that there is more readability as board gender diversity increases in keeping with improved disclosure due to diversity as noted by Metwally et al. (2024). The third is that there is less readability in the case of explain narratives compared to comply narratives due to the fact that free-text explanation allows for more complicated language. The fourth is that more complex firms will have lower readability due to legitimacy of complexity as seen in Bloomfield (2008) and Li (2008).

FUTURE RESEARCH

The following design suggests various paths for research, which are categorized based on what they add to the research process.

6.1 Methodological Extensions

The first and most obvious extension is longitudinal. A panel dataset across several years before and after the implementation of the new MCCG 2021 practices would reveal the effect of the revision of the Practices on the way the firms describe corporate governance and the change in their readability – whether they became

more readable, less readable, or converged to the template. With a panel approach, it would be possible to control for the firm fixed effects, eliminating the effect of the stable features of the firms, such as their culture and style of writing, and thus enabling better causal analysis. The second extension refers to the measurement

of the dependent variable. It may be done using the methods of natural language processing, which include English language metrics, classifiers, trained on human assessments of clarity, and clarity ratings provided by the large language model (Bonsall et al., 2017).

6.2 Contextual and Comparative Extensions

This paper is concentrated on Main Market listed firms. However, companies on the ACE and LEAP markets, which are small and usually less equipped, should receive special treatment. The bilingual and Malay language reporting will also make it possible to test for differences between the levels of readability depending on the reporting language. Another option for cross-country analysis exists. Analysis of the Malaysian situation in comparison with other countries that use comply-or-explain framework, especially in Southeast Asia and other developing countries, will help understand whether the results are connected with specific characteristics of Malaysian situation or are typical for principles-based system in general.

6.3 Outcome-Based Extensions

This paper concentrates on the antecedents of readability, but the more consequential question is what readability does. Future studies can test whether more readable governance narratives are associated with lower information asymmetry, higher liquidity, lower cost of capital, greater analyst following or higher voting support at general meetings, as research on annual report readability suggests for other disclosures (Rjiba et al., 2021). Event-study designs around the publication of the CG Report could test whether the market reacts differently to clear and unclear explanations of departures. Studies could also examine whether firms that depart from a Practice and explain it clearly are treated differently from firms that depart and explain poorly.

6.4 Behavioral and Organizational Extensions

Formula scores say little about what readers actually understand. Experiments or surveys with retail investors, analysts and institutional investors could present matched governance explanations written at different readability levels and measure comprehension, confidence and willingness to act. Qualitative research with the people who write the reports would be equally valuable. These individuals play a great role in determining the text of the narrative, and interview methods will help in establishing the process of decision making in terms of wording, how many times they utilize templates and previous years' texts, and if there is a consideration of readability. This research will assist in understanding how the governance narrative comes about and what intervention measures can work.

6.5 Evaluation of Regulatory Interventions

In addition to the above, it will be possible for researchers to measure the impact of various regulatory and professional efforts. With the implementation of various guidelines, benchmarking, or awards on firms, quasi-experimental techniques can be used to determine the impact of such initiatives on the readability of reports and on the performance of investors.

6.6 Empirical Validation and Longitudinal Extensions

The crucial progression forward must involve empirical validation. Future research should test the theory in practice using actual data on Malaysian listed firms to determine whether the predicted patterns hold, or whether they require revision. Given that readability measures capture only surface characteristics of text, these quantitative measures must be validated through expert judgement and reader surveys. For example, panels of company secretaries, corporate governance experts, analysts, and ordinary investors could assess the clarity of specific corporate governance explanations in reports and compare their assessments with the formula scores, demonstrating the degree of correspondence between the indices and actual understanding of the report, and revealing which features of corporate governance narratives readers find difficult to understand,

such as sentence length or vocabulary. Future research will also examine whether readability varies over time and will take into account management attributes such as the tenure of the chief executive officer, the experience of the management team and board, the qualifications of the individual who drafts the statement, and the performance of the firm. A longitudinal study will determine whether low performance results in lower readability, which is consistent with obfuscation theory, or whether high performance and high-quality management result in higher readability (Hasan, 2020; Li, 2008).

LIMITATIONS

The conclusions of this study should be read with the following limitations in mind.

7.1 Measurement Limitations

Formula-based indices measure surface features such as sentence and word length, not comprehension, and they were designed for general English and not for governance and legal text. Syllable counting by software is approximate, and acronyms, numbers and names can distort scores. However, the use of the governance terms list that is employed for domain adjustments entails subjective evaluation of which terms will be familiar to the reader, even though the list can be made public and tested for sensitivity of its results to other lists. Similarly, the readability formula is incapable of evaluating the actual informative value of the governance definition provided, as a very readable report can be completely uninformative.

7.2 Design and Data Limitations

The fixed structure of the CG Report minimizes flexibility and makes comparisons with stories that are written freely by managers difficult, as the text has some parts in line with the Practices. Text extraction from the PDF file may involve mistakes, especially when there are tables or columns in the report, and even though the cleaning procedure eliminates many of the mistakes, some still remain. The cross-sectional methodology captures correlation and not causation, and other unmeasured variables like the writing ability of the firm's secretary, the involvement of consultants, recycling of last year's text, and the firm's board culture could be linked to both the corporate governance features and the legibility of the text.

7.3 Generalizability

The sample includes companies in the Main Market of Malaysia within a specific regulation period. These results are not necessarily generalizable to companies in the ACE and LEAP markets, unlisted companies, past periods under different revisions of the Code, or companies of other countries speaking other languages. Financial institutions are considered separately because of their unique nature and therefore the results will be different from those of other industries.

7.4 Interpretive Limitations and Status of the Paper

The low readability could be attributed to various factors and, hence, the study cannot always differentiate between obfuscation and complexity (Bloomfield, 2008). Thus, the results should not be interpreted to imply that companies are guilty of any form of wrongdoing. Further, while the paper includes the research design and expected outcomes, it lacks any empirical data. The propositions have not been tested and the patterns anticipated in light of previous literature might not emerge in the Malaysian governance report. Such limitations dictate prudent interpretation of the results and set out an agenda for the follow-up study outlined in the preceding section.

CONCLUSION

The CG Report is the primary tool of Malaysia's governance regime based on principles, and the aim is for shareholders and other stakeholders to be able to assess the governance of an enterprise through disclosure. For this purpose to be served, disclosure needs to be understandable. The paper has recognized a missing element in the existing literature regarding the readability of the governance report because previous studies from

Malaysia focused on the chairman's statement, notes to the account or complete annual reports but not the governance report as emphasized by MCCG 2021.

The paper proposes a replicable design for content analysis. It includes four different measures of readability, domain adaptation for governance vocabulary, coding reliability tests and a regression model of readability with respect to characteristics of the board of directors, types of narratives and corporate characteristics. Drawing on the literature, it has advanced five propositions: that board independence and diversity are associated with clearer narratives, that explanations of departures are harder to read than templated compliance statements, that larger and more complex firms write harder text, and that conclusions about difficulty depend on how governance vocabulary is treated. The paper has also offered recommendations for regulators, issuers, boards and investors, together with an illustration of how an unclear explanation can be rewritten so that a reader can act on it.

The paper contributes both in concept and practice. In the former, the paper integrates the body of literature on readability with the issue of whether the comply-or-explain system provides true communication or simply compliance. In the latter, the paper provides regulators with a tool with which they can check the readability of governance reporting without amending regulations, and the issuers with guidelines on writing to their readers. These limitations – the use of formulaic measures and lack of empirical data at this stage – are important considerations in terms of how to interpret the results of the paper. The most important step now is to gather the data and test the hypotheses. If the governance reports turn out to be just as hard to understand as previous Malaysian reports, clearer writing provides a cheap way to improve transparency.

ETHICAL CONSIDERATION

As the research makes use only of publicly available documents of the corporations and involves no human participants, the research is categorized as exempted from review. The research reports on the sources used, the procedure of extraction of information, the list of terms used, and the coding in order to allow replication of the research. Results are reported in aggregates or by categories. Individual corporations will not be mentioned as ineffective communicators without proper precautions, because bad readability does not imply misbehavior.

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