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Developing Pattern of Forward-Looking Risk Disclosure in Annual Reports with the Phenomenological Approach and Attride-Stirling Theme Analysis

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Abstract

Purpose: Disclosure of forward-looking risk discloses a type of information that can change the decisions of users of financial statements if they are not aware of them and provide users with a better perspective regarding the future and future performance of the company. Considering the importance of prospective risk disclosure; the present study deals with the formulation of the prospective risk disclosure model in the company's annual reports.

Method: This research is of the qualitative research type and its paradigm is of the interpretation type in which the qualitative research method and the phenomenological approach are used. The dimensions and components of prospective risk disclosure have been identified through Atride-Stirling (2001) thematic analysis method, and research analyzes have been performed using the 7-step collage technique. The research sample includes 22 capital market experts who were selected through the snowball technique.

Results: The findings indicate that 94 propositions have been extracted in the form of 29 basic themes, 5 organizing themes and 2 inclusive themes, including prospective soft risk disclosure and prospective hard risk disclosure, which form the components of the proposed prospective risk disclosure model.

Conclusion: This research, by comprehensively examining prospective risk disclosure in the company's annual reports, provides a new perspective in examining the prospective risk disclosure model to the users of the research results and improves the stakeholders' awareness of this type of disclosure.

Contribution: This research, by comprehensively examining the components of prospective risk disclosure, provides a new perspective in examining the components of annual reports to the users of the research results.

Keywords: Forward-Looking Risk Disclosure, Strategy, Business, Annual Reports, Phenomenological Approach.

Research Article

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Introduction

Forward-looking risk disclosure refers to any risk-related information that informs readers about potential future opportunities or threats and uncertainties arising from the interaction of external market and environmental risks and internal operational risks. Companies that voluntarily release more verifiable forward-looking risk information will have lower standard deviation, more accurate forecasts and fewer revisions (Oliveira et al., 2011; 830). Forward-looking risk disclosure provides early warning signals to stakeholders, and despite the costs of information generation and potential losses when risk information and strategic plans are exploited by competitors and new entrants, costs can be reduced and revenues increased. In particular, more forward-looking risk disclosures help improve a firm's access to capital markets to attract more shareholders by reducing their information-gathering costs. This reduction in information gathering costs, in turn, improves the liquidity of the company's stock and potentially reduces the cost of capital. Theoretically, if a manager publishes less forward-looking risk information, the information needs of stakeholders may not be met and Investors may consider the company risky. Investing as such managerial behavior may entail costly outright claims. In addition, other stakeholders may predict that internal risk management is ineffective, indicating managers' limited ability to obtain capital at fixed rates (Salama et al., 2011; 200). Conversely, a firm that discloses more forward-looking risk information is generally perceived as less risky because the firm's risk position is fully reflected in the market. The present study deals with the formulation of the forward-looking risk disclosure model in the company's annual reports.

Materials and Methods

Many phenomenological researchers believe that humans derive meaning from the world through personal experience. Examining people's experience is a very complex phenomenon. Annotating and clarifying human experience can be a challenging task not only because of the complexity of human nature, but also because A person's experience is a multidimensional phenomenon, that is, it has psychological orientation, culture-oriented and social structure (Gasparian, 2021; 39). Therefore, among the many approaches of qualitative research, the phenomenological approach was chosen to investigate the dimensions and components of the prospective risk disclosure model in the company's annual reports. This research based on phenomenology tries to investigate the factors affecting prospective risk disclosure based on the experiences of research experts. A semi-structured in-depth interview was used to collect data, and the snowball technique, which is one of the targeted sampling methods, was used to identify experts. The statistical population of the current research are financial experts in the field of capital market, who in addition to having full experience, expertise and nobility on the issue of prospective risk disclosure, are also experts in this field. Therefore, a total of 22 interviews were conducted, but due to the fact that the process of interviews was repeated and no new data was provided from the 18th interview onwards, in other words, the data reached the limit of saturation, so the interviews were stopped and the analysis based on the same number was carried out. The method of reaching opinion saturation was that in the process of analyzing the interviews, instead of the analysis being done all at once, it was done gradually and after each interview, the process of thematic analysis was carried out until a new concept was obtained.

Results and Discussion

The proposed model of forward-looking risk disclosure resulting from the research includes 2 overarching themes, including forward-looking soft risk disclosure and forward-looking hard risk disclosure. Hard risk disclosure is forward-looking, quantitative and quantitative, and can be easily stored and transferred, and their content is independent of their collection process; In this research, the disclosure of forward-looking hard risk includes (forward-looking financial risk and prospective non-financial risk), which financial risks are quantitative and quantitative, and non-financial risks can also be converted into quantitative and quantitative, disclosure of forward-looking soft risk. It includes (strategy disclosure, business disclosure and forward-looking risk disclosure tone). In the forward-looking hard risk disclosure section, the forward-looking financial risk includes (exchange rate risk, interest rate risk, default risk, liquidity risk, market risk, and reinvestment risk). Financial risk information disclosed in financial statements is a critical factor in identifying and limiting risk for users of financial statements. However, such data are not enough today and the scope of disclosures should be expanded. Also, the next dimension of forward-looking hard risk disclosure is forward-looking non-financial risk, which includes (management risk, political risk, industry risk, operational risk, environmental risk, technology and information risk, legal risk, development risk) and penetrating the target market, the risk of capacity building and branding, the risk of improving quality and productivity, and the risk of developing and empowering human resources). Non-financial risk information is increasingly important, because it allows the investor to evaluate the market position and development possibilities of the business unit, and it plays a double role in the accounting system. In the field of prospective soft risk disclosure, one of its dimensions includes strategy disclosure, which strategy disclosure includes four parts of corporate strategy, business strategy, opportunities and challenges, and strategy implementation. The company's strategy for the correct disclosure of information can create long-term performance stability for the company. Business strategy, based on overall strategic development goals, determining long-term revenue goals, determining long-term profitability goals, strategic positioning of business factors, differentiation, key strategic markets in the current situation, markets for future growth, products, key strategic services in the current situation, products and Services for future growth, key investment plans to achieve strategic goals and value creation strategy are influential in guiding the company's annual disclosure. On the other hand, the prospective soft risk disclosure is business disclosure, which includes value creation, communication, business ethics, description of the company's business activities, and evaluation of the company's competence. Value creation in the direction of correct disclosure of information can create long-term performance stability for the company, and the description of the company's business activities and the company's expertise/competency emphasizes the structure, writing and importance of annual reporting disclosure; And another dimension of forward-looking soft risk disclosure is forward-looking risk disclosure tone, which includes pessimistic tone disclosure, optimistic tone disclosure, and tone management. Examining the tone of disclosure and the numerical nature of forward-looking risk disclosures show that more good news and slightly more disclosed risks can significantly improve forecast accuracy.

Conclusions

By comprehensively examining prospective risk disclosure in the company's annual reports, this research provides a new perspective in examining prospective risk disclosure patterns to the users of research results and improves the awareness of stakeholders on this type of disclosure. This research provides a new perspective by comprehensively examining the components of prospective risk disclosure in reviewing the components of the annual reports, it provides the research results to the users. In order to increase comparability, the stock exchange organization and also the auditors in reviewing the reports can oblige the companies to present a similar form regarding future risk disclosure. In addition, it is suggested to the tax policymakers to be clear in drafting tax circulars and related instructions, because many companies are facing the problem of legal risk arising from tax issues. The results of this research also provide managers with clearer instructions that exactly what kind of forward-looking risk disclosures to include in their annual reports for the benefit of analysts and investors. This guidance can be issued almost immediately and it does not take time for the unprecedented companies to change their practices and for other companies to feel obliged to imitate their behavior. Considering the high risk of the country's capital market, it is essential for investors to know how to disclose The company's risks should be informed by the managers because the economic conditions surrounding the company and the personal motivations of the managers can affect the tone of their disclosure in relation to the company's risks.

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Conflict of Interest

According to the authors, there is no conflict of interest in this article.

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