Chapter 10
Determinants of the Readability and Comprehensibility of Risk Disclosures: Evidence From Portuguese Listed Companies

Jonas da Silva Oliveira
Instituto Universitário de Lisboa (ISCTE-IUL), Portugal

Graça Maria do Carmo Azevedo
University of Aveiro, Portugal

Augusta da Conceição Santos Ferreira
University of Aveiro, Portugal

Susana Patrícia Henriques Martins
University of Aveiro, Portugal

Cláudia Roberta de Araújo Alves Pinto
Polytechnic Institute of Viana do Castelo, Portugal

ABSTRACT

The chapter intends to determine if managers make use of impression management strategies to hide or obfuscate risk disclosures through the analyses of the risk information disclosed by Portuguese non-financial listed companies. A content analysis of the management reports, notes to the financial statements, and corporate governance reports of companies listed at Euronext Lisbon, in the years 2007, 2010, and 2013 was carried out. Findings indicate that the understandability of the risk information is positively associated with the company’s size. Results also indicate that there is a negative association between the readability of risk information disclosed and the company’s size and industry.

DOI: 10.4018/978-1-5225-7817-8.ch010
INTRODUCTION

Portuguese companies listed at Lisbon stock exchange have to comply with the legal obligations required either by accounting standards and corporate governance recommendations issued by the Securities Market Commission. More importantly, aligned with these requirements they have to disclose, in the management report, their main risks and uncertainties.

Companies are constantly subject to risks that result from their own decisions, but also from the decisions of their stakeholders. Although risk and uncertainty may be positive or negative, they tend to be perceived as negative. For this reason, sometimes the disclosure of risk information is planned in order to adopt the form considered less harmful to the company. Such planning may be justified by the fact that risk information is commercially sensitive and therefore its reporting through the use of narratives may include specific communication strategies (such as obfuscation through the manipulation of readability), to pursue opportunistic purposes.

Narrative documents are then used as vehicles to influence stakeholders’ perception on the company’s performance. These manipulation techniques of narratives are called Impression Management (IM).

This topic has been studied by several researchers (Godfrey et al., 2003, Ogden and Clarke, 2005, Merkl-Davis and Brennan, 2007 and Cho et al., 2010). But so far the literature on the readability of risk-related disclosures has been scant. Consequently, this paper seeks to answer the following following research questions:

1. What is the level of readability/comprehensibility of risk information disclosed by Portuguese non-financial companies listed at Euronext Lisbon?
2. What factors affect the level of readability/comprehensibility of risk information?

The main objective of this work is to analyze the information disclosure on risk and to identify if there are IM practices and, as a secondary objective, to categorize the types of risk reported by the companies, to relate the level of disclosure (dependent variable) with factors that can influence the amount of information disclosed by the company, and to identify the communication strategies followed by the managers.

To this end, the management reports, the notes to financial statements, and the corporate governance reports for 2007 of a sample of 37 Portuguese non-finance companies will be analyzed.

Findings show that risk reporting comprehensibility (readability) is associated positively (negatively) with size. In addition, the results also show that there is a negative association between risk reporting readability and company’s industry. Regarding the different risk categories disclosed, both financial risk and operational risk are those with greater level of disclosure.

The present study contributes to the perceived understanding of the information disclosure on risk, namely in what concerns to the use of IM strategies. In addition, it is also the purpose of this empirical study identify which factors determine the comprehensibility and readability of risk reporting. Thus, the paper contributes to the existing literature on risk reporting and IM.

To achieve our objectives the chapter is divided into four sections. In the first section, there is a literature review where the contributions of the literature on IM are evidenced. Then, the methodology is described. In a third moment, the results are discussed. Finally, the main conclusions and limitations are presented.
21 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the product’s webpage:

www.igi-global.com/chapter/determinants-of-the-readability-and-comprehensibility-of-risk-disclosures/223680?camid=4v1

This title is available in Advances in Finance, Accounting, and Economics, InfoSci-Books, InfoSci-Business and Management, Business, Administration, and Management, Communications, Social Science, and Healthcare, InfoSci-Media and Communications. Recommend this product to your librarian:

www.igi-global.com/e-resources/library-recommendation/?id=88

Related Content

Pre-GFC Bank Behaviour Change and Basel Accords
www.igi-global.com/chapter/pre-gfc-bank-behaviour-change-and-basel-accords/102519?camid=4v1a

DSP Acceleration for Dynamic Financial Models
www.igi-global.com/chapter/dsp-acceleration-dynamic-financial-models/61446?camid=4v1a

Stress Management in Educational Institutions: A Questionnaire-Based Study
www.igi-global.com/chapter/stress-management-in-educational-institutions/104284?camid=4v1a

The Problems of Stage Acquisition Under the New Consolidation Accounting Standards
www.igi-global.com/article/the-problems-of-stage-acquisition-under-the-new-consolidation-accounting-standards/193900?camid=4v1a