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# Organisational Characteristics, Corporate Governance and Corporate Risk Disclosure: An Overview

Musa Uba Adamu ✉

PhD Student

[ORCID](#)

E-mail: musubadam@gmail.com

National Research University Higher School of Economics, Moscow, Russia

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## Abstract

Certain attributes of corporate governance behaviour have been identified in academic research as major factors correlating with corporate risk disclosure amongst listed companies. This is in spite of the fact, however, that much of the empirical research in the area reveals mixed results.

This study analyses corporate risk disclosure practice involving listed companies and investigates whether such diverse results are attributable to regulation, jurisdiction, operating industry, business environment, or the methodologies employed. We use risk disclosure, corporate governance and organisational characteristics keywords to search the relevant studies on which 46 empirical research papers were sampled, and employ a meta-analysis procedure to evaluate the findings of the previous empirical research.

Our analyses reveal that firm size is the major organisational-specific characteristic affected by moderators, and board size and institutional investors are the major corporate governance variables that affect moderators. On the analysis of the nature of disclosure, financial risk information is higher for companies operating in the banking sector, while operational risk disclosure is higher for non-financial companies. Additionally, the study finds that the data generating procedure, time interval, diversity of sample and size, and the statistical technique employed are among the major factors that influence discrepancies among the prior studies.

Such variables complicate stakeholders' effort to comprehend the main factors that influence companies to unveil their risks profile. We propose that the current data collection process is labour intensive and time consuming, and promote the selection of smaller sample sizes compared to most of the existing research. It may be the case that constraints can be overcome through research that employs an automated procedure for analysis of textual data.

**Keywords:** risk disclosure, risk management, corporate governance, organisational characteristics, financial sector, non-financial sector, emerging countries

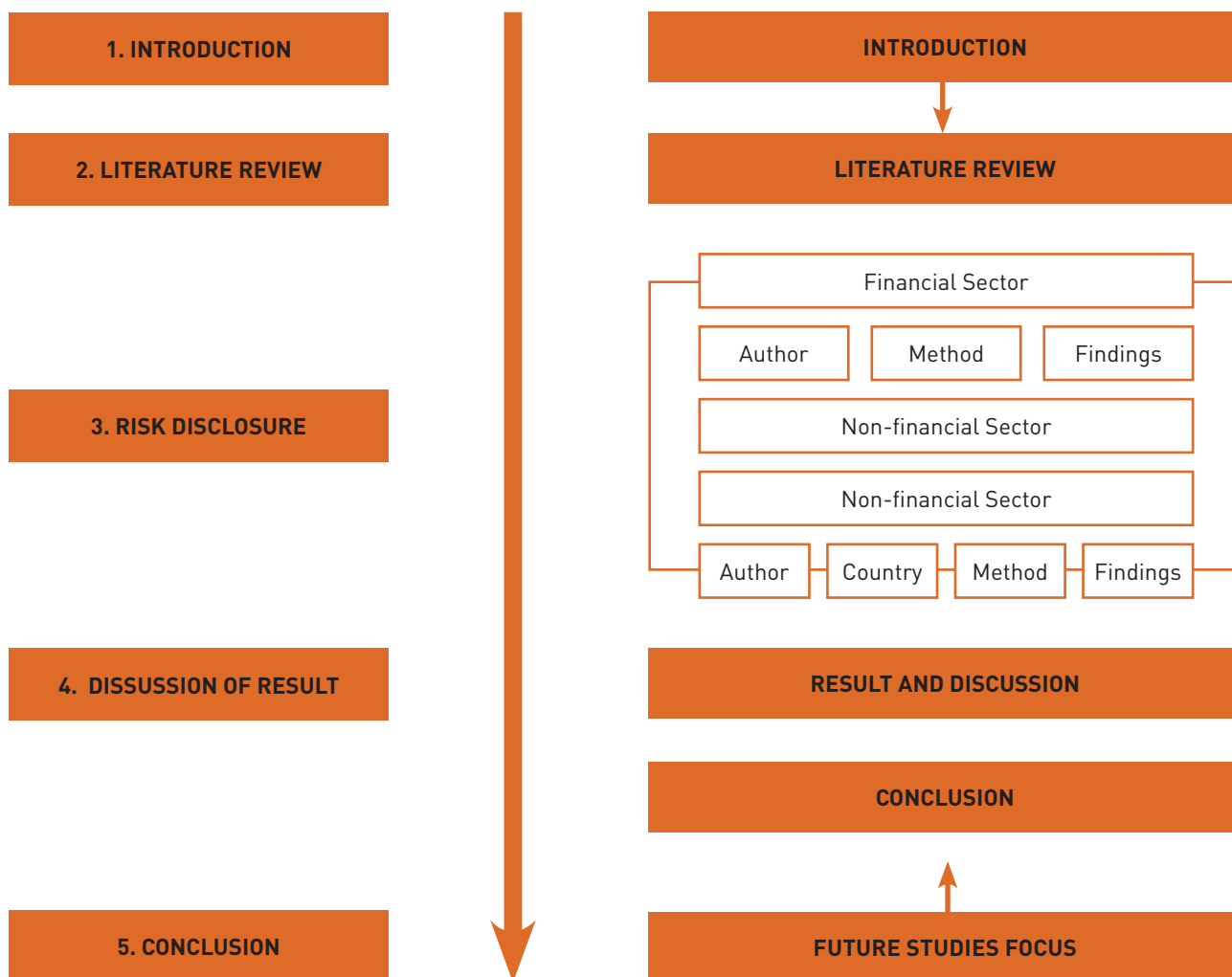
## Introduction

Risk disclosure is the process of ascertaining, quantifying, handling, and disseminating organisational prospects and challenges that have the potential to impact present or future firm value to users of corporate reporting. Disclosure of this nature is usually facilitated in the ‘risk review’ section of annual reports (e.g. management discussion, chairman statement), interim reports, prospectuses, company websites, or other media, provided the users of financial statements can access the information for informed decision-making. A short time ago, and sparked by the financial and economic crisis, corporate risk disclosures considerably puffed-up the interest of regulators, standard setters, analysts and academic communities worldwide [1–3]. In light of the prominent corporate scandals involving companies with extraordinary reputations (e.g. WorldCom and the Enron Cooperation), the restoration of public self-confidence or faith has become one of the main agenda topics among today’s business frontrunners [4]. These were the major factors that caused the release of IFRS 7, which requires corporate entities to disclose the risk associated with financial instruments for informed decision-making. These new regulations have been

adopted by several companies operating in developed and emerging markets. For example, it is reported that the European Union (EU) requires all listed companies to disclose their risk profile and create more transparency in their annual reports [5].

According to earlier conceptions [6], only occurrences of bad or negative events are considered as ‘risk’. However, the contemporary impression of risk embraces occurrences of both positive and negative events as well as uncertainties. According to [7], certain disclosed items have been acknowledged as ‘risk disclosures’ provided the person who reads the annual report is notified about every business prospect or negative challenge (e.g. danger, hazard, harm, threat and exposure, etc.) previously encountered by the corporation, or may be encountered by the corporation in the future, or proposed techniques to deal with business opportunity and negative challenges. The readers are thus informed through an extensive explanation of risk that comprises positive and negative factors, risks and uncertainties, and ways of managing risk.

The relevance of studying risk disclosure cannot be overemphasised, as company transparency on risk related information is helpful for capital markets to behave optimally [8].



In order to accomplish and preserve a precise stock valuation, self-confident and conversant investors are required. In the absence of sufficient disclosures, a management team has greater information than outside stakeholders, who may not fully appreciate the fundamental risks and returns of an organisation's business [8]. As such, corporate risk disclosure can be vital in minimising investor uncertainty [9] thus decreasing the premium associated with risks that are required from the firm [9].

This study is aimed at analysing the literature on risk reporting. We focus mainly on corporate governance and organisational characteristics that seem to facilitate corporate risk disclosure for firms that are functioning in countries with advanced and emerging economies. As a result of the financial and economic crisis of 2008–2009, corporate governance has become one of the most extensively examined aspects of company activities [10]. Given the high exposure of financial firms to different risks, we firstly examine the relevant literature on the financial sector. The papers on non-financial firms from developed and emerging countries are analysed in section 3, our results are discussed in section 4, and section 5 concludes the study by proposing directions for future research.

## Financial Sector and Corporate Risk Disclosure

The research at reference number [7] argues that the finance and accounting fields have recently unfolded one of the most interesting areas of research, relating to 'corporate risk disclosure'. The fact is that several studies have been conducted over the last couple of decades with a focus on risk disclosure, due among other things, to improving corporate transparency. A prior long-time concern of regulatory authorities seemed to concern the management of risk disclosure in their jurisdictions [11], or the voluntarily reporting of same by corporate managers. Despite this, much of the existing research establishes that existing corporate risk disclosure is insufficient, and extensive regulatory improvement is required.

Recently, the amount of research on risk related information disclosures has been increasing in the field of finance and accounting. For instance, various scholars [12–15] have explored diverse jurisdictions and evaluated the degree of risk disclosure practice in the content of companies' annual reports, interim-reports, and prospectuses. The financial sector remains one of the most important sectors in driving global economic activities. This can be evidenced from the 2007/2008 global financial crises. Stakeholders across the globe support the idea of incorporating corporate risk profile after the incidence. The financial sector is one of the most regulated industries, because entities are exposed to different regulations. Hence, most of the previous studies [7] suggested the studying of the financial sector independently. In addition to regulations, several factors have been identified in the literature as major drivers behind corporate risk disclosure in the financial sector. These drivers include liquidity, profitability,

company size, leverage, dual listing, industry, and listing status. Corporate entities vary considerably in terms of the levels of asset base, annual profit, turnover, location, governance, financial architecture, and, clearly, several other factors. Consequently, previous studies [e.g. 7; 13; 16–21] found some of these characteristics to be major determinants of risk related information disclosure in the financial industry. The majority of these studies were conducted in both developed and emerging economies.

For example, one the first studies conducted by [22] examines corporate risk reporting practice in the annual reports of Canadian and UK banks. Content analysis and regression methods were used as evaluation methods. It was established that the quantity of risk definition and company size are positively and significantly related with corporate risk disclosure, while profitability and degree of risk in the company was insignificant in explaining risk disclosure behaviour. They also found no significant difference in terms of the level of information disclosed by Canadian and UK banks. The 2007 global financial crisis has drawn several scholars' attention towards evaluating the effect of the crisis on the disclosure patterns of the banks. For example, [23] samples eight (8) German banks and evaluated their risk disclosure pattern. A total of 32 annual reports were taken from 2005–2006. The content analysis and regression result shows that profitability and bank size do not influence risk disclosure behaviour of banks from 2005 to 2006. However, it was interesting to discover the bank size variable driving risk disclosure upward from 2007 to 2008 – perhaps this is the influence of the global financial crisis. Nonetheless, GAS 5-10 might explain risk disclosure levels for the 2005–2006 financial years. Moreover, the result highlighted significant risk reporting improvements in terms of quality and quantity over the study period.

The study at reference [13] evaluates the effect of a firm's governance as well as the demographic behaviour of top governing squads on voluntary corporate risk disclosure in the Saudi banking sector. The investigation employs the content analysis method in measuring the amount of risk information contained in the annual reports of listed bank between the years 2009 to 2013. They discovered that board size, profitability, size, gender, audit committee meeting and outside ownership are the most important factors that influence corporate risk disclosure. Meanwhile, [24] assesses the influence of governance attributes on risk disclosure practice in Jordan. The data was extracted from the 15 listed banks' annual reports over the period of 2008 to 2015. The study divides the disclosure into voluntary and mandatory risk disclosure categories, and utilises content analysis and OLS regression as analytical tools. The findings show that the presence of a non-executive director, and the variables of board size, separation of duties, and audit committee meetings had a statistically positive influence on voluntary risk disclosure, while this was not the case with the managerial ownership attribute. However, audit committee size and independent directors are positively significant in explaining mandatory risk disclosure. Table 1 below shows the summary of the prior empirical studies in the financial sector:

**Table 1.** Prior Research on Financial Institutions

| Scholar(s) | Country             | Sample & Method  | Findings  |
|------------|---------------------|--|---|
| [22]       | UK & Canada         | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*18 banks</li> </ul>   | <ul style="list-style-type: none"> <li>*Canadian banks disclosing more risk than UK counterparts.</li> <li>*Most of the disclosures are qualitative and past related information.</li> <li>*Size, volume, risk definition, are positively significant.</li> <li>* Degree of bank's risk and profitability are not significant</li> </ul>  |
| [25]       | Best 25 world banks | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Disclosure index</li> <li>*Descriptive statistics</li> <li>*25 top world banks</li> <li>*2000–2006 annual reports</li> </ul>              | <ul style="list-style-type: none"> <li>*Risk disclosure trends increases overtime.</li> <li>*Institutional approaches to voluntary disclosure seem to overshadow the part played by code of practice (e.g. IFRS, US GAAP) in shaping risk disclosure patterns.</li> <li>*Length of annual reports is linked with supplementary corporate risk disclosures.</li> <li>*Bank size is not significant in explaining market risk disclosure.</li> <li>*Market risk disclosure unveils substantial difference within and across geographical borders</li> </ul> |
| [20]       | Portugal            | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Disclosure index,</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*111 banks</li> <li>*2006 annual reports</li> </ul>      | <ul style="list-style-type: none"> <li>*Size, age, listing status, investors' confidence and risk management ability are positively significant.</li> <li>*Mutual credit bank is negatively significant.</li> <li>*Profitability and ownership structure are not significant.</li> <li>*The disclosures are low, mostly qualitative and past information.</li> <li>*Operational risk disclosure dominates capital structure and adequacy disclosure</li> </ul>  |
| [16]       | Europe              | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> </ul>  | <ul style="list-style-type: none"> <li>*Regulations, vigorous audit committee, concentrated external non-governmental ownership, lesser executive ownership, external board members, and delivery of higher quality risk reporting.</li> <li>*The supervisors' role in the quality of risk disclosure depends on the bank ownership structure</li> </ul>  |
| [26]       | Greece              | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Pearson correlation</li> <li>*15 listed banks in ASE</li> <li>*2008 &amp; 2005 annual reports</li> </ul> | <ul style="list-style-type: none"> <li>*Basel II increases the amount of risk disclosure; nonetheless, some insufficiencies still exist.</li> <li>*Minor numerical and more historical risk related disclosures are publicised.</li> <li>*No quasi-norm is proved between bank risk profile, profitability or firm size and corporate risk disclosure</li> </ul>  |

| Scholar(s) | Country                                  | Sample & Method   | Findings   |
|------------|--|---|--|
| [17]       | Gulf Corporation Council (GCC) Countries | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*677 listed firms</li> <li>*2007–2011 annual reports</li> </ul>   | <ul style="list-style-type: none"> <li>*Marker Risk Disclosures (MRD) are substantially greater for companies with an independent RC.</li> <li>*RC characteristic (size and qualification) is positively related with MRDs.</li> <li>*The effect of an RC on MRDs is higher for firms in a mature lifecycle stage</li> </ul>   |
| [13]       | Saudi Arabia                             | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Disclosure index</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*12 listed banks</li> <li>*60 observations</li> <li>*2009–2013 annual reports</li> </ul> | <ul style="list-style-type: none"> <li>*External ownership, gender, audit committee meeting, firm size and profitability are positively significant.</li> <li>*Board size is significant negatively.</li> <li>*Internal ownership, non-executive director, independent director, independent audit committee, size of audit committee, education, tenure and diversity are not significant.</li> </ul>   |
| [18]       | United Arab Emirate                      | <ul style="list-style-type: none"> <li>*Disclosure index *Regression</li> <li>*176 observations for the listed banks</li> <li>*2003–2013 annual reports</li> </ul>  | <ul style="list-style-type: none"> <li>*The corporate risk disclosure is low.</li> <li>*There are momentous variances in the whole risk disclosure, thus; financial, strategic, and risk management reporting between Islamic banks and conventional banks.</li> <li>*The complete risk disclosure have influence the banks' performance</li> </ul>  |
| [19]       | Egypt                                    | <ul style="list-style-type: none"> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*28 banks</li> <li>*2010–2017 annual reports</li> </ul>  | <ul style="list-style-type: none"> <li>*Level of total risk disclosure is average.</li> <li>*Independent director, audit committee size, institutional ownership and big four, board size and CEO duality are significant positively.</li> <li>*Bank social responsibility, bad news and leverage are negatively significant.</li> <li>*Bank size, profitability, liquidity and listing status are not statistically significant</li> </ul>    |
| [21]       | China                                    | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Disclosure index,</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*100 financial firms</li> <li>*2013–2015 annual reports</li> </ul>                      | <ul style="list-style-type: none"> <li>*Firm size, growth (BTM), board size, audit quality is positively significant.</li> <li>*Capital structure, board independence is negatively significant.</li> <li>*State ownership, CEO duality, firm risk and leverage appeared to be insignificant.</li> <li>*The quality of risk disclosure has an effect to the market liquidity.</li> <li>*Banks disclose less risk during 2014 crisis</li> </ul> |

## Studies on Non-financial Firms: Evidence from developed countries

There are vast numbers of studies that are peculiar to the economies of the developed world that identify relevant benefits and drawbacks as well as determinants of corporate risk disclosure. For a review, see studies [7; 23; 27–31]. The study referenced at [28] samples 90 non-financial firms quoted in the Tokyo Stock Exchange and analyses risk disclosure behaviour reported in the annual reports for the year 2003. Based on content and regression analysis, the results indicate that Japanese companies disclosed their risk information voluntarily. Firm size and risk disclosure are significantly connected in a positive way, while profitability and ownership distribution pattern are not significant in explaining corporate risk disclosures. Similarly, the research cited at [7] explores corporate risk reporting practices in the UK. The sample includes the annual reports of 79 companies. The content and regression tools employed show that company size and environmental risk are positively significant in explaining risk disclosure level. Nevertheless, no association

appears to exist between corporate risk reporting and five other measures of risk, i.e. beta factor, quiscore, asset cover, book to market value of equity, and gearing ratio. In another study, [27] analyses risk management disclosure behaviour and its determinants in Belgium. The sample comprises non-financial companies quoted on Euronext for the year 2006. The findings show that size and beta are positively significant in determining corporate risk disclosure, while profitability is negatively significant. The beta factor demonstrates that corporate managers of firms with large quantity of systemic risk are very conscious about their risk profile and they are willing to reveal it. In Spain, [29] samples 35 listed companies' annual reports for the year 2009 and evaluates their risk disclosures practice. The tools of analysis used were content analysis and regression. It is discovered that the firm size and the industry of a firm are positively correlated with corporate risk disclosures, while foreign market quotation, profitability, and the pursuit of SOSO reports have no association with corporate risk disclosure. Table 2 summarises a number of the previous studies focusing on advanced economies.

**Table 2.** Prior Studies on Non-Financial Firms: Evidence from Developed Countries

| Scholar(s) | Country | Sample & Method  | Findings  |
|------------|---------|--|---|
| [3]        | Canada  | *Content analysis *Disclosure index<br>*Descriptive statistics<br>*300 TSE listed firms<br>*1999 annual reports  | *Large volume of voluntary and mandatory risk management disclosures.<br>*The most regular disclosure is financial risk.<br>* The risk assessment analysis lacks uniformity, clarity, and quantification  |
| [28]       | Japan   | *Descriptive statistics<br>*Disclosure index<br>*Content analysis statistics<br>*Pearson's correlation<br>*90 listed firms in Tokyo Stock Exchange<br>*2003 annual reports | *Firms are revealing their risk voluntarily.<br>*Firm size is positively correlated with risk disclosure.<br>*Ownership distributing pattern, level of risk, and profitability are insignificant.<br>*Past and descriptive risk outweigh future and quantitative information respectively   |
| [7]        | UK      | *Descriptive Statistic<br>*Disclosure index<br>*Content analysis<br>*Pearson's correlation<br>*79 FT-SE 100 Index<br>*Year 2000 annual reports                             | *EcoValue '21 and firm size are positively correlated with financial risk disclosure, non-financial risk disclosure and total risk disclosure.<br>*Asset cover, beta factor, market value of equity, gearing ratio and quiscore are insignificant.<br>*Non-monetary, future and good news dominates monetary, past and bad news risk information respectively.<br>*The presence of general risk management policy statements are too much and therefore reduces the disclosure relevance to users |

| Scholar(s) | Country | Sample & Method   | Findings  |
|------------|---------|---|---|
| [32]       | UK      | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*420 observation</li> <li>*1991–2003 *Prospectors</li> </ul>  | <ul style="list-style-type: none"> <li>*IPO firms disclosed much future information but less information on risk management and internal controls than the listed firms disclosed.</li> <li>*The disclosure has improved over time.</li> <li>*The directors' ownership caused the minimisation of risk disclosure</li> </ul>  |
| [33]       | UK      | <ul style="list-style-type: none"> <li>*Descriptive statistics</li> <li>*Disclosure index</li> <li>*Content analysis *Regression</li> <li>*52 firms listed in FTSE-100</li> <li>*1998, 2001 &amp; 2004 annual reports</li> </ul>              | <ul style="list-style-type: none"> <li>*Accounting regulation causes the risk disclosure to increase within six-years.</li> <li>*Qualitative, non-time, as well as good news dominate quantitative, past &amp; future and bad news respectively.</li> <li>*Industry and US dual listing improve risk disclosure.</li> <li>*Leverage and company size are insignificant</li> </ul>   |
| [27]       | Belgium | <ul style="list-style-type: none"> <li>*Descriptive statistics</li> <li>*Disclosure index</li> <li>*Content analysis *Regression</li> <li>*46 listed firms in Euronext as at 2006</li> </ul>  | <ul style="list-style-type: none"> <li>* Large variation in the quantity of risk disclosures.</li> <li>*Operational and financial risk have the highest disclosures.</li> <li>*Size and beta are positively significant.</li> <li>*Profitability is negatively significant.</li> <li>*Audit quality, presence or risk committee or manager, non-executive director and CEO duality are not statistically significant</li> </ul>   |
| [34]       | Canada  | <ul style="list-style-type: none"> <li>*Descriptive statistics</li> <li>*Disclosure index</li> <li>*Content analysis *Regression</li> <li>*225 companies</li> <li>*year 2002</li> </ul>   | <ul style="list-style-type: none"> <li>*Qualitative dominate quantitative disclosure and operational risk disclosure dominate the remaining categories.</li> <li>*Service sector faces the highest exposure to operational risk more than financial, mining and transportation sector.</li> <li>*Size and independent directors are positively significant.</li> <li>*Minority holding impact disclosure negatively.</li> <li>*CEO compensation shows mixed results</li> </ul>  |
| [3]        | US      | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Disclosure index,</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*S&amp;P 500 listed manufacturing companies</li> <li>*2006–2009 annual reports</li> </ul> | <ul style="list-style-type: none"> <li>*In each year, operational risk disclosures are substantially dominated by business risk disclosure.</li> <li>*Bad news, risk factors, non-monetary, and future risk disclosure are the most dominant.</li> <li>*Non-monetary risk disclosures was steady all over the financial crisis era.</li> <li>*Board size, firm size, firm risk (BMV ration) and board independent are negatively significant.</li> <li>*Leverage and profitability are positively related with total and business risk disclosures</li> </ul> |



| Scholar(s) | Country            | Sample & Method  | Findings  |
|------------|--------------------|--|---|
| [9]        | Spain              | <ul style="list-style-type: none"> <li>*Disclosure index</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*Firms listed in Madrid Stock Exchange</li> <li>*231 annual reports for the year 2007 to 2009</li> </ul>   | <ul style="list-style-type: none"> <li>*Size is not statistically significant.</li> <li>*Leverage and BMV are positively significant.</li> <li>*Financial risk and cost of capital are positively associated, while no evidence is found in relation to non-financial disclosure</li> </ul>   |
| 35         | Spain              | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Disclosure index,</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*All non-financial firms listed in Madrid Stock Exchange.</li> <li>*2007–2009 annual reports</li> </ul>                                | <ul style="list-style-type: none"> <li>*Companies reveal little information on risk.</li> <li>*Compulsory risk disclosure and board size are positively associated.</li> <li>*Board size and firm size influence voluntary risk disclosure but negatively.</li> <li>*External directors, managerial ownership, board activity, profitability, leverage and sector are not significant in both compulsory and voluntary disclosure</li> </ul>  |
| [36]       | UK, Germany and US | <ul style="list-style-type: none"> <li>*Automated content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*219, 339 and 320 firms from German, UK and US respectively.</li> <li>*2005–2010</li> <li>*Annual reports: 1000 German, 1,410 UK and 1,270 US</li> </ul> | <ul style="list-style-type: none"> <li>*US publicised the highest mandatory risk disclosure, then Germany, while UK discloses the lowest.</li> <li>*US publicised the lowest voluntary risk disclosure, then Germany while UK discloses the highest</li> <li>*The legal system, systematic risk and cultural values are substantially caused by VRR and MRR variations.</li> <li>*Firm and country characteristics had greater explanatory influence over the observed variations in MRR than over those VRR</li> </ul>                             |
| [37]       | UK and Italy       | <ul style="list-style-type: none"> <li>*Automated content analysis,</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>* UK and Italy firms</li> <li>*2005–2010 annual reports</li> </ul>  | <ul style="list-style-type: none"> <li>*Non-executive directors, firm size and board size boost voluntary risk disclosure in UK.</li> <li>*In UK, dividend and audit quality are negatively related with VRD and MRD respectively.</li> <li>*Growth, profitable and firm risks are negatively associated with MRD.</li> <li>*Mandatory risk disclosure rises provided CEO duality exists.</li> <li>*Liquidity is causes the reduction of both VRD and MRD in Italy.</li> <li>*Firm risk and size have significant impact on MRD in Italy</li> </ul> |
| [2]        | Germany            | <ul style="list-style-type: none"> <li>*Descriptive statistics</li> <li>*Disclosure index,</li> <li>*Content analysis *Re-<br/>gression</li> <li>*100 non-listed manu-<br/>facturing firms</li> </ul>  | <ul style="list-style-type: none"> <li>*Non-listed companies disclose lower risk.</li> <li>*Big 4 and presence as well as size of a supervisory board escalate the risk disclosure volume.</li> <li>*Risk disclosure is decreases family firm or subsidiaries have block ownership</li> </ul>   |

| Scholar(s) | Country | Sample & Method   | Findings  |
|------------|---------|---|---|
| [38]       | Italy   | *Descriptive statistics<br>*Disclosure index,<br>*Content analysis *Re-<br>gression<br>*Italian firms<br>*2016 annual reports | *Firm size is statistically significant.<br>*Leverage, industry, independent director and share block<br>holder are not significant |

### Evidence from Emerging Capital Markets

The contribution of emerging countries towards economic development is highly significant. Nevertheless, the extent of corporate transparency is not substantially relative to developed economies. The study referenced at [39] examines a sample of 6 years non-financial listed firms in India and evaluates the major factors that influence their risk disclosure. They examine the annual reports of 318 firms. The results conclude that large levels of independent directors, gender diversity, and board size quotients improve risk disclosure, although the dual function of CEO constrains maximum disclosure. A smaller amount of profit, less liquidity, and big firms are more likely to divulge better risk disclosure, especially historical disclosures. Furthermore, the study referenced at [40] evaluates the voluntary and mandatory risk disclosure quality among Indonesian firms. They examined 48 annual reports of listed firms for the period 2011 to 2012 as the sample. The results reveal that the major emphasis is still on quantity rather than quality. Firm size and industry competition determine the firm's preference on the maximum risk to disclose. In reference to South Africa, the study referenced at [1] examines the effect of firm governance on risk reporting. The study samples 169 listed firms for the years 2002–2011. It is reported that in instances where fewer persons hold significant ownership, they are reluctant to divulge much risk disclosure. Aside from this, a higher number of persons on the board, non-executive

directors, and higher diversity levels on the board are enthusiastic in terms of increasing risk disclosure. Strangely, the presence of a CEO who also serves as chairman of the board has no influence on the amount of risk information to be disclosed. In another study, referenced at [41], the authors analyse the impact of having a member of royalty as a board member, as well as the features of the board on amount of risk information to be disclosed in Saudi Arabia. They evaluate 307 observations over the period of 2008 to 2011. The descriptive statistics result shows a moderate level of corporate risk disclosure practices among the companies. Moreover, board size, royal board member, firm size, independence, and frequency of board meetings each have a significant influence on corporate risk disclosure. Furthermore, the study cited at [42] assesses the quality of risk disclosure and its causes in Egypt. Based on the authors' framework, the disclosure can be qualitative, provided the risks disclosed are relevant, understandable, comparable and verifiable. They sampled 135 listed firms' annual reports for the year 2006–2010. The findings give the impression of being high quality, because the risk data unveiled are pertinent and comprehensible. Nevertheless, the data is incomparable and unverifiable. In addition, leverage and company size play a considerable role in generating qualitative risk confession, whereas audit firm size, profitability, and book-to-market values remain silent in providing any evidence that enriches risk disclosure quality. Table 3 below presents summaries of some of the existing studies focusing on emerging market economies:

**Table 3.** Prior Researches on Non-Financial Firms: Evidence From Emerging Countries

| Author(s) | Country | Method & Sample   | Findings   |
|-----------|---------|---|--|
| [43]      | Kuwait  | *Regression<br>*Descriptive statistics<br>*Content analysis<br>*109 listed firms              | *Firm size, auditor type, complexity, and liquidity are positively related to CRD.<br>*Leverage and profitability are insignificant.<br>*Results indicate significant differences among industries |
| [42]      | Egypt   | *Content analysis<br>*Descriptive statistics<br>*Regression<br>*135 observation<br>*2006–2010 | *Leverage and firm size cause RDQ.<br>*Audit size, B/M ration and profitability insignificant  |

| Author(s) | Country        | Method & Sample  | Findings   |
|-----------|----------------|--|--|
| [44]      | MENA Countries | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*320 companies</li> <li>*789 observations</li> <li>*2007–2009</li> </ul> | <ul style="list-style-type: none"> <li>*Board size and structure enhance risk confession.</li> <li>*CEO duality is insignificant</li> </ul>  |
| [45]      | South Africa   | <ul style="list-style-type: none"> <li>*Descriptive statistics</li> <li>*Regression</li> <li>* 80 top JSE companies</li> <li>*2011 annual reports</li> </ul>                                     | <ul style="list-style-type: none"> <li>*Presence of chief risk officer and frequency of meeting are significant.</li> <li>*Existence of risk committee, presence of independent director and his experience in the audit committee, audit, firm size, profitability and industry are not significant</li> </ul>  |
| [46]      | Indonesia      | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*118 observations</li> <li>*2013 annual reports</li> </ul>               | <ul style="list-style-type: none"> <li>*The degree of risk revelation is still low in public companies.</li> <li>*Financial performance, firm size and audit committee size improve risk disclosure.</li> <li>*Managerial and institutional ownership as well as independent commissioners are statistically insignificant</li> </ul>  |
| [47]      | Pakistan       | <ul style="list-style-type: none"> <li>*Descriptive statistics</li> <li>*GLS regression</li> <li>*85 observations</li> <li>*2011–2016 annual reports</li> </ul>                                  | <ul style="list-style-type: none"> <li>*Audit committee meetings, firm size, big four and z-score are significant with risk disclosure quality (RDQ).</li> <li>*Dual leadership structure is negative and significant impact on RDQ.</li> <li>*Executive ownership, first shareholders ownership, governmental ownership and institutional ownership has insignificant and negative association with RDQ.</li> <li>*Board size, profitability and independent director has positive and insignificant relation with RDQ</li> </ul> |
| [48]      | Indonesia      | <ul style="list-style-type: none"> <li>*Content analysis</li> <li>*Descriptive statistics</li> <li>*Regression</li> <li>*365 listed firms for the year 2015</li> </ul>                           | <ul style="list-style-type: none"> <li>*Good news overcomes bad news.</li> <li>*Ownership concentration has an inverse influence on risk disclosure.</li> <li>*Risk committees, board size, government ownership, profitability, firm size have a positive effect.</li> <li>*No significant effect is evident from gender diversity, independent director, foreign ownership, and leverage on degree of risk revelation</li> </ul>   |
| [49]      | Saudi Arabia   | <ul style="list-style-type: none"> <li>*Content analysis, *Descriptive statistics</li> <li>*307 companies</li> </ul>   | <ul style="list-style-type: none"> <li>*Risk disclosure is low because non-monetary, historical, current, unspecific time and impartial risk confessions overshadow the monetary, forthcoming, and negative risk confessions.</li> <li>*CRD increases over the period of study</li> </ul>  |

| Author(s) | Country      | Method & Sample  | Findings  |
|-----------|--------------|--|---|
| [50]      | Malaysia     | *Content analysis<br>*Descriptive statistics<br>*Regression<br>*300 listed companies<br>*2014 annual reports | *Service sector has the highest disclosure on which operational risk disclosures dominate.<br>*Board membership is positively significant.<br>*CEO duality and tenure of independent director are negatively significant<br>*Independent non-executive director, tenure and firm size and sector are not significant  |
| [51]      | Indonesia    | *Content analysis<br>*Descriptive statistics<br>*Regression<br>*96 observations<br>*2008–2015 annual reports | *Auditor type, board size, entry obstructions, board size, and industrial profile escalate risk revelation.<br>*Ownership concentration have a negative effect on risk disclosure<br>*Cost leadership and liquidity are insignificant   |
| [52]      | Jordan       | *Content analysis<br>*Descriptive statistics<br>*Regression<br>*376 observations<br>*2014–2017               | *Foreign director and sector are positively significant.<br>*Industrial sector reports more than service sectors.<br>*Leverage and company size are not significant   |
| [53]      | Malaysia     | *Content analysis<br>*Disclosure index,<br>*Descriptive statistics<br>*Regression<br>*200 companies          | *Institutional ownership is positively significant.<br>*Managerial ownership, family ownership, firm size and industry are not significant.<br>* Risk disclosure lessens a firm's profitability   |
| [54]      | Saudi Arabia | *Content analysis<br>*Descriptive statistics<br>*Regression<br>*307 companies<br>*2008–2011 annual reports   | *Risk disclosure diverges fundamentally among companies and improves over time.<br>*Royal ownership and government ownership are positively significant.<br>*Board size, family and institutional ownership are negatively significant.<br>*Executive and independent directors' ownership, ownership dispersion and leverage are not significant.<br>*Board independence, board meeting frequency, and firm size are also significant positively |

## RESULTS AND DISCUSSION

Corporate risk disclosure is among the most popular current research topics in finance and accounting. Our study illustrates that current risk disclosure practices involving developed and emerging countries are not sufficient to meet stakeholder demand, although, it is observed this trend is gradually moving in a positive direction. Our review of the existing literature highlighted that financial news, forecasts, and information on negative developments are the major sources of information required by interested parties. Nevertheless, directors often prefer to release non-financial news, old news, and information on

positive developments. This practice has reduced the relevance of the information disclosed by firms. The financial sector is more likely to release risk information more than the non-financial sector, although firms operating in the financial sector experience more regulations (CBN, insurance commission etc.) than other sectors.

We have uncovered a lack of uniformity in risk disclosure practices, as many researchers employed different approaches in their study. Moreover, the major problematic issue found is the risk disclosure coding process. Scholars have extensively discussed the difficulty in the coding procedures, its labour-intensive nature, the level

of time consumption, and the element of subjectivity. For example, labour-intensive content analysis is inefficient and causes the selection of smaller sample sizes in most of the prior studies. We hereby postulate that perhaps such constraints could be resolved by research that employs an automated procedure to analyse their textual data.

This study also identifies a greater use of small sample sizes in risk disclosure research. Perhaps this is connected with manual content analysis, which is considered highly stressful. Nevertheless, several scholars [2; 43; 53; 55–56] are still encouraging researchers to consider a wider sample in their respective studies in order to validate or refute earlier findings. Moreover, the study uncovered a greater use of cross sectional data on which single-time year duration data is considered. Nonetheless, [13; 53] contend that the use of single-year data has the limitation of not generalising the findings, and consequently they motivate studies to elongate the time-frame beyond a one year period. Accordingly, this can strengthen research findings and help with the analysis of risk disclosure trends.

Despite the numerous avenues by which firms can release information for informed decision-making, our study found that annual reports constitute the most common document considered by previous studies in sourcing their study data. However, [13; 53; 56] recommend the use of other media, including the internet, press releases, prospectuses, and interim reports, as these could also potentially be the vehicles for transmitting significant data relevant to corporate risk disclosure.

Meanwhile, regardless of the suggestion of some scholars [9; 13; 21; 27; 43; 55–57] in favour of comparative studies between two or more countries, our study discovered few research papers that explored more than one country. The comparative study concept is very important as it would clarify our understanding about risk disclosure variance across geographical borders. Diverse regulatory and accounting policies, economic and political systems, cultural, religious and social settings as well as the extent of countries' interactions with international communities would certainly shape the firms' risk disclosure pattern across national boundaries.

## CONCLUSION

This study analyses literature focusing on the effect of corporate governance and the organisational characteristics of corporate risk disclosure. It generally appears that risk disclosure practice is not adequately disclosed by firms, as there is no static regulatory framework that can be used as a term of reference. Therefore, researchers are regularly developing or adopting risk disclosure analysis instruments (e.g. checklists) used by earlier studies in order to identify and code risk information. Consequently, the pattern under which firms divulge their risk profile in annual reports is vague. Moreover, despite the lack of risk disclosure regulation in many jurisdictions, various directors are enthusiastic about disclosing less essential risk information (past information, non-monetary

information and positive information) rather than most valuable risk information (future information, financial information, and negative information) predominantly to impress stakeholders who aspire to see risk information in corporate reporting. Although risk disclosure practices do not meet the demand of investors and other stakeholders, developed countries and financial firms are fair in terms of risk disclosure relative to emerging countries and non-financial firms, respectively.

Although corporate risk disclosure is amongst the most popular research topics in finance and accounting, nonetheless data generating procedures have influenced many prior studies to focus on cross sectional data and small sample sizes. This practice has created space for future research studies to consider wider sample and panel data especially in emerging countries. Likewise, the listing status of the companies has been identified as one of the foremost aspects that effect corporate risk disclosure. The non-listed firms studied deliver a fascinating direction for future research, as promoted by scholars [2; 21]. Potentially-omitted variables include ownership structure [53], cost of capital [43] and management team characteristics [13], each of which are worthy of being explored in future studies.

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