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Empirical research on risk reporting: An update and venues for future research

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Risk reporting: A review of the literature and implications for future research[☆]



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Presentation outlines:

- Papers that were considered to draw our conclusions
- The approaches adopted on those papers and their main distinctive differences
- Summary of these differences
- Venues for future research

Table 1

The study sample

Panel A: papers on incentives for risk reporting

N	Paper	Journal
1	Solomon (1999)	The British Accounting Review (BAR)
2	Solomon, Solomon, Norton, and Joseph (2000)	The British Accounting Review (BAR)
3	Beretta and Bozzolan (2004)	The International Journal of Accounting (IJOA)
4	Linsley and Shrives (2006)	The British Accounting Review (BAR)
5	Abraham and Cox (2007)	The British Accounting Review (BAR)
6	Marshall and Weetman (2007)	Journal of Business Finance and Accounting (JBFA)
7	Deumes and Knechel (2008)	Auditing: A Journal of Practice and Theory (AJPT)
8	Hill and Short (2009)	Accounting and Finance (AF)
9	Taylor, Tower, and Neilson (2010)	Accounting and Finance (AF)
10	Miihkinen (2012)	The International Journal of Accounting (IJOA)
11	Barakat and Hussainey (2013)	International Review of Financial Analysis (IRFA)
12	Elshandidy, Fraser, and Hussainey (2013)	International Review of Financial Analysis (IRFA)
13	Ntim, Lindop, and Thomas (2013)	International Review of Financial Analysis (IRFA)
14	Elshandidy, Fraser, and Hussainey (2015)	The British Accounting Review (BAR)
15	Malafrente, Porzio, and Starita (2016)	International Review of Financial Analysis (IRFA)
16	Al-Hadi, Hasan, and Habib (2016)	Corporate Governance: An International Review (CGIR)

Panel B: papers on informativeness of risk reporting, presented in chronological order (12 papers discussed in Section 3, categorized in Section 5, and summarized in Table 4)

Paper	Journal	
Rajgopal (1999)	The Accounting Review (TAR)	
Roulstone (1999)	Accounting Horizons (AH)	
Hodder and McAnally (2001)	Financial Analysts Journal (FAJ)	
Jorion (2002)	The Accounting Review (TAR)	
Linsley and Lawrence (2007)	Accounting, Auditing and Accountability Journal (AAAJ)	
Akhigbe and Martin (2008)	Journal of Banking and Finance (JBF)	
Pérignon and Smith (2010)	Journal of Banking and Finance (JBF)	
Kravet and Muslu (2013)	Review of Accounting Studies (RAST)	
Abraham and Shrivs (2014)	The British Accounting Review (BAR)	
Bao and Datta (2014)	Management Science (MS)	
Elbannan and Elbannan (2015)	Journal of Accounting Auditing and Finance (JAAF)	
Filzen (2015)	Accounting Horizons (AH)	

Panel C: papers on both,

Paper	Journal	
Campbell, Chen, Dhaliwal, Lu, and Steele (2014)	Review of Accounting Studies (RAST)	
Elshandidy and Neri (2015)	Corporate Governance: An International Review (CGIR)	
Elshandidy and Shrikes (2016)	The International Journal of Accounting (IJOA)	
Hope, Hu, and Lu (2016)	Review of Accounting Studies (RAST)	

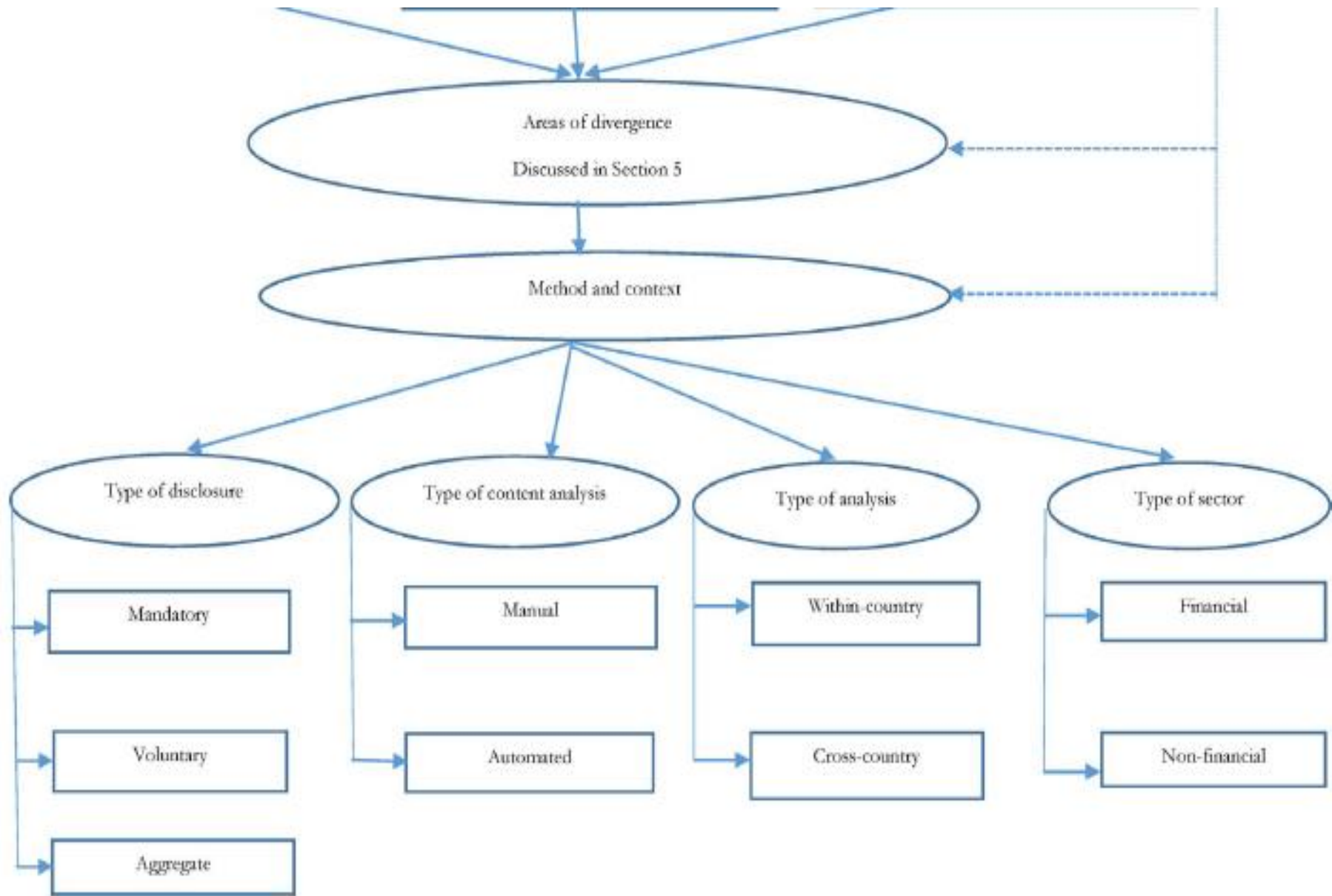


Fig. 1. Criteria for selection of reviewed papers, main themes, and areas of divergence.

Areas of divergence for papers on incentives for risk reporting

N	Main classification	Method and context								
		Type of disclosure			Type of content analysis		Type of analysis		Type of sector	
		Mandatory	Voluntary	Aggregate	Manual	Automated	Within-country	Cross-country	Non-financial	Financial/insurance
1	Solomon (1999)			✓	Not applicable		✓		Not applicable	
2	Solomon et al. (2000)		✓	✓	Not applicable		✓		Not applicable	
3	Beretta and Bozzolan (2004)		✓		✓		✓		✓	
4	Linsley and Shrives (2006)		✓		✓		✓		✓	
5	Abraham and Cox (2007)		✓		✓		✓		✓	
6	Marshall and Weetman (2007)		✓		✓			✓	✓	
7	Deumes and Knechel (2008)		✓		✓		✓		✓	
8	Hill and Short (2009)			✓	✓		✓		✓	
9	Taylor et al. (2010)	✓	✓		✓		✓		✓	
10	Miihkinen (2012)	✓	✓		✓		✓		✓	
11	Barakat and Hussainey (2013)		✓		✓		✓			✓
12	Elshandidy et al. (2013)	✓	✓	✓		✓	✓		✓	
13	Ntim et al. (2013)		✓		✓		✓		✓	
14	Elshandidy et al. (2015)	✓	✓			✓		✓	✓	
15	Malafrente et al. (2016)			✓		✓		✓		✓
16	Al-Hadi et al. (2016)	✓	✓		✓			✓		✓

Areas of divergence for papers on informativeness of risk reporting

N	Main classification	Method and context								
		Type of disclosure			Type of content analysis		Type of analysis		Type of sector	
		Mandatory	Voluntary	Aggregate	Manual	Automated	Within-country	Cross-country	Non-financial	Financial/insurance
17	Rajgopal (1999)		✓		Not applicable		✓		✓	
18	Roulstone (1999)	✓			✓		✓		✓	
19	Hodder and McAnally (2001)	✓			✓		✓		✓	
20	Jorion (2002)	✓			✓		✓			✓
21	Linsley and Lawrence (2007)			✓	✓		✓		✓	
22	Akhigbe and Martin (2008)	✓			✓		✓			✓
23	Pérignon and Smith (2010)			✓	✓		✓			✓
24	Kravet and Muslu (2013)	✓				✓	✓		✓	
25	Abraham and Shrivs (2014)			✓	✓		✓		✓	
26	Bao and Datta (2014)			✓		✓	✓		✓	
27	Elbannan and Elbannan (2015)			✓	✓		✓			✓
28	Filzen (2015)	✓				✓	✓		✓	

Areas of divergence papers on risk reporting incentives and informativene

N	Main classification	Method and context								
		Type of disclosure			Type of content analysis		Type of analysis		Type of sector	
		Mandatory	Voluntary	Aggregate	Manual	Automated	Within-country	Cross-country	Non-financial	Financial/insurance
29	Campbell et al. (2014)	✓				✓	✓		✓	
30	Elshandidy and Neri (2015)	✓	✓			✓		✓	✓	
31	Elshandidy and Shrives (2016)			✓		✓	✓		✓	
32	Hope et al. (2016)			✓		✓	✓		✓	

Venues for Future Research

- Incentives versus informativeness
- Voluntary versus mandatory risk reporting
- Manual versus automated content analysis
- Within-country or cross-country variations in risk disclosure
- Financial versus non-financial firms
- Risk-related conceptual aspects
- Standard-setters' involvement

Incentives versus informativeness

- US/ EU approaches in dealing with risk reporting (the choice is mainly driven by responding to regulatory bodies).
- How internal and external governance factors affect managers' decisions on risk reporting needs further attention.
- All issues related to incentives and informativeness need to be examined in debt market as were done in equity market.
- Considering different outlets rather than annual reports.

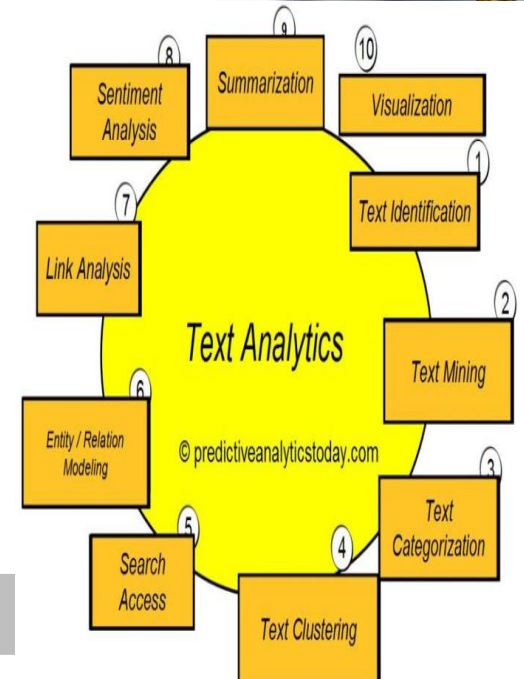
Voluntary versus mandatory risk reporting

- Interaction between both types: complement or substitute ?
- Debate on stand-alone risk reporting regulation (standard).



Manual versus automated content analysis

- US and UK (European research)
- Different outlets
- More attention has been paid towards automated content analysis these days.
- Different approaches to the automated method:
 - ❑ the dictionary method,
 - ❑ supervised learning, and
 - ❑ unsupervised learning



Within-country or cross-country variations in risk disclosure

- An update based on reviewed papers (current empirical evidence).
- Research design issues (institutional factors within single country studies, within cross-country studies how to integrate the country level variables).
- Practical issues (for example, managing the data, different languages, and different currency).



Financial versus non-financial firms

- An update based on reviewed papers (current empirical evidence).
- Linking historical events with future-oriented risk information related to financial instruments' major risk types.
- Firms' hedging activities.
- Risk reporting and banks' stability.



Risk-related conceptual aspects

- Risk concept
- Risk types
- Measuring risk

Standard-setters' involvement

- Overlapping between different accounting standards.
- Adopting “risk Report”/ in which firms will be required to adopt a comply or explain approach.

Thank you

