Management of risks associated with the disclosure of future-oriented information in integrated reports

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Abstract

Purpose – Integrated reporting (IR) promotes the disclosure of future-oriented information to enable financial stakeholders to make better-informed decisions. However, the downside to this type of disclosure is the risk to management of disclosing such future-oriented information. This paper aims to explore how IR preparers manage the risk of disclosing future-oriented information in companies' integrated reports.

Design/methodology/approach – This study represents an exploratory interpretative thematic analysis of 33 semi-structured interviews with managers involved in IR in eight Sri Lankan companies representing various industries. The thematic analysis is informed by the research literature and prior studies on IR.

Findings – This paper provides evidence of various strategies to manage the risk associated with the disclosure of future-oriented information in integrated reports. These strategies include making non-specific predictions; increasing the accuracy of the predictions; linking performance management to disclosed targets, thus ensuring individual responsibility for target achievement; disclosing *ex post* explanations for not achieving previously disclosed targets; and linking disclosed targets to the company's risk management procedures. However, these strategies can cause managers to provide conservative future-oriented information, rather than "best estimate" future-oriented information.

Practical implications – The study describes the strategies that managers use to mitigate the risks involved in disclosing future-oriented information. These strategies can provide support or raise concerns, for managers in deciding how to deal with such risks. Regulators tasked with investor protection, as well as stock exchanges interested in the transparency and accountability of listed companies' activities should be aware of these strategies. Furthermore, the International Integrated Reporting Council (IIRC) should be interested in the implications of this study because some of the identified strategies could undermine the usefulness of integrated reports to stakeholders. This is a significant concern given that the IIRC envisages integrated reporting and thinking as vehicles that could align capital allocation and corporate behaviour with wider sustainable development goals.

Social implications – The trend of future-oriented information moving from being used only in organisations' internal management systems to being externally reported in integrated reports has implications for stakeholder groups interested in the reported targets. This study reveals management strategies that could affect future-oriented information reliability and reduce their usefulness for users of integrated reports.

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