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ACCOUNTABILITY OF CORPORATE BOARDS IN FINLAND

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Abstract

This paper focuses on accountability and reporting from a corporate governance (CG) perspective. Drawing on a theoretical framework, empirical analysis was conducted on a dataset collected using a questionnaire implemented with a sample of board members of Finnish listed companies. We had two study questions. 1) To whom are the board members accountable? and 2) What information is required to deliver adequate reporting to meet accountability requirements? The findings show that board members are accountable to shareholders and stakeholders, and their accountability encompasses responsibilities to society and the environment. They see that current financial reporting does not provide sufficient information on ethical, environmental and societal issues. Focusing on board accountability, the study provides empirical evidence to support the concept of accountability and explains the relationship between accountability and reporting in the Finnish context.

Keywords: Corporate Governance; accountability, financial reporting, boards of Finnish listed companies.

1. INTRODUCTION

The nature of corporate governance (CG) has been defined as the processes by which organizations are directed and controlled. It relates to decision-making, accountability, controlling and board behaviour (Cadbury, 2000; Solomon and Solomon, 2004). The research on corporate governance has mostly polarised been between the shareholder perspective and stakeholder perspective (Brennan and Solomon, 2008; Letza et al. 2004). The shareholder perspective is a narrow framework, focusing on the board's responsibility to the owners of the firm. However, the framework for CG is not static, and companies have to be alert to changes in their circumstances. They have to take environmental and social effects into account as an example of how expectations in society change (Cadbury, 2000; Gray et al., 1988; Letza et al. 2008). The broader approach, the stakeholder-oriented framework, emphasizes that the company is responsible to all its stakeholders (Brennan and Solomon 2008; Letza et al., 2004; Pajunen, 2010; Werhane and Freeman, 1999).

Keay and Loughrey (2015) note that one of the key reasons for identifying what accountability means is that no other issues linked to CG, such as whom the board is accountable to and how accountability is to be secured, can be discussed without a definition for accountability. Accountability is understood as a core notion linked to CG. The premise is that accountability is the duty to give an account of those actions the board is responsible for. The question remains, to whom is the board accountable – shareholders, stakeholders or society in general (Benston, 1982; Huse, 2005; Keay and Loughrey, 2014; Sinclair, 1995; Cooper and Owen, 2007; Parker, 2007; Collier, 2008). The traditional and dominant approach to researching accountability from a corporate governance perspective is using a quantitative and positivistic methodology including studies that investigate a wide range of governance factors related to a board of directors and measuring performance (Brennan and Solomon, 2008). Quantitative analysis has contributed to corporate governance research by increasing knowledge about the quality and efficiency of board decisions (Gupta et al., 2008), the relationship between corporate governance and firm value (Carter et al., 2003; Garay and Gonzalez, 2008), the links between the composition of the board of directors and organizational performance (Brennan, 2006), and the relationship between CG ratings and company success (Bauer et al. 2004; Renders et al. 2010) among others. Qualitative and hermeneutic studies have examined relationships and conflicts between national culture and values, and the rationale of imported practices like corporate governance (Uddin and Choudhury, 2008). Such studies have also offered interpretative analyses of how corporate governance and the effects of the Sarbanes-Oxley Act (SOX) are socially constructed through autonomous agents (Stein, 2008), and shown that the UK lacks institutional structures and mechanisms to enable workers to secure a greater proportion of the firm's income (Sikka, 2008). Some research indicates that accountability is a key factor when creating effectiveness in the boardroom (Roberts, McNulty and Stiles, 2005).

As seen above, there is an enormous volume of research on CG, and still we know very little about it (Ahrens et al., 2011). There is a lack of consensus as to what being held accountable actually entails. To analyse accountability there are six lines of inquiry presented by Mashaw (2006); who, to whom, about what, through what processes, by what standards and with what effect (Hardy and Ballis, 2013; Mashaw, 2006). In this study we focus on the questions to whom and through what processes. We have two study questions. 1) To whom are the board members accountable? 2) What information is required to deliver adequate reporting to meet accountability requirements? The study is intended to contribute to corporate governance research in three ways: first, it provides empirical evidence on what is the accountability of Finnish corporate boards; second, the study explains the relationship between accountability and reporting; and third, the study aims to increase our knowledge of how the two

theoretical research approaches of agency and stakeholder thinking work in practice with corporate boards.

The remainder of the paper is organized as follows. The next section will outline the existing research on accountability and reporting in a corporate governance context. We will formulate two study questions in light of the previous literature, and then introduce the data and methodology. This is followed by the results of the statistical analyses. The final section includes a summary of the results, conclusions and limitations of the study.

2. FRAMEWORK FOR THE STUDY QUESTIONS

Accountability

Sinclair (1995) wrote that accountability is like the chameleon, a cherished concept, sought after but elusive (Sinclair 1995). The board of directors is the key actor in creating accountability. The board is responsible for financial results as well as stakeholder issues (Solomon and Solomon, 2004). Traditionally, conflicts of interests between shareholders and managers have been investigated from the point of view of principal-agent theory formulated by Jensen and Meckling (1976). Principal-agent theory postulates that having delegated the management of companies to managers (agents), the owners (principals) have to create mechanisms to align the agents' interests with their own (Jensen and Meckling, 1976; Brennan and Solomon, 2008; Machold et al., 2008). The agency-oriented approach has been applied to accounting research focusing on how the effectiveness of a board affects its ability to contribute profit and value for the firm's shareholders (Ezzamel et al., 2007). In such a situation, the main purpose of the corporation is seen to be the maximization of shareholder wealth (Jensen and Meckling, 1976; Letza et al. 2004).

The alternative approach, the stakeholder perspective on corporate governance, emerged in the wake of developments in the theory developed by Freeman (1984). The stakeholder-oriented framework emphasizes that the company is accountable to all stakeholders, and enjoys the advantage of a broader view of the corporation as a socially embedded institution (Sison, 2009; Machold et al., 2008; Brennan and Solomon, 2008). Stakeholder theory is seen as a credible alternative to agency theory, and has been labelled its intellectual successor. The challenge to stakeholder theory arises from the claim that the company should serve the wider interests of stakeholders rather than shareholders alone. Stakeholders such as employees, creditors, suppliers, customers and local communities have relationships with the company and affect its success (Letza et al., 2004). Some interpretations of

stakeholder theory suggest that the environment, animal species and future generations should be understood as stakeholders (Solomon and Solomon, 2004).

The debate on corporate governance and the shareholder and stakeholder perspective has been questioned by Letza et al. (2004, 2008), who asserted that both perspectives attempt to generalize and simplify the reality of corporate governance, which is in fact very complex. The same study goes on to call for a more inventive, flexible and pluralist approach to corporate governance. Letza et al. argue that CG is a social rather than economic reality, and a processual rather than fixed reality. They see that CG is a process involving the two extremes of the shareholder and stakeholder perspective continuum. This is a dynamic view of CG in a changing reality where CG is always moving forward and backward between the two extremes (Letza et al., 2004, 2008).

In this study we adopt the ideas presented by Brennan and Solomon (2008). They write that accountability to shareholders can no longer be the sole aim and objective of corporate governance. They offer a shift from the traditional predominantly adopted agency theory to the joint goals of shareholder wealth maximisation and stakeholder accountability. Both stakeholder accountability and social responsibility are seen as key ingredients for business success (Brennan and Solomon, 2008). In this study we understand that the board of directors is accountable to shareholders and other stakeholders (Sikka, 1995; Letza et al., 2004; Solomon and Solomon, 2004). The first research question is:

RQ1. To whom are the board members accountable?

In this study, both agency theory and stakeholder theory, including the environment and future generations, are acknowledged and used as approaches to shape the empirical research (Letza et al., 2004). CG is seen as the system by which boards are accountable to shareholders and other stakeholders (Keay and Loughrey, 2015).

Reporting

Parker (2005, 2007) has pointed to the dearth of studies addressing financial and external reporting (FER) from a corporate governance perspective. The traditional FER of corporate governance was seen to be too narrow, focusing on markets and investor reactions (Parker, 2007). Themes of accountability, such as social or environmental accounting, are designed to open up a space for new accounting between the traditional accounting literature and practice and the alternative critiques and theorizing (Gray, 2002).

Accountability is usually understood in financial or numerical terms, and defined as a duty to provide an account or reckoning of those actions for which an entity is held responsible (Sinclair, 1995; Cooper and Owen, 2007; Parker, 2007; Collier, 2008). In financial accounting, the focus is on the accounts disclosed to external shareholders and the public (Messner, 2009). In management accounting, however, the exchange of accounts takes place within the organization or between the organization and some of its contractual stakeholders (e.g. customers, suppliers), often by means of reporting and control routines in which costs, profits, returns or other management-related information are communicating (Messner, 2009). Roberts and Scapens (1985) suggested that accountability is not only about the responsibility to produce and submit accounts, and pointed out that its importance lies in compacting information and allowing it to bridge physical distances and become visible. In other words, accounts provide a form of presence at the lower levels of the organization. They further argued that in the absence of a shared context of extensive mutual knowledge, selectively transmitted accounting information could be used to convey a stylized image of the organization (Roberts and Scapens, 1985; Ahrens, 1996).

According to Ahrens (1996), a defining feature of corporate processes and accountability is aligning the organizational rhetoric and practice with wider public discourses. The individuals held accountable in an organization are those who actually create the style of accountability with their accounting processes (Ahrens, 1996). Ezzamel et al. (2007), approached corporate governance as a socially constructed phenomenon and associated its meaning with 'the regulatory and the folk sources of meaning construction'. They distinguished two discourses of accountability: those related to the legislative obligations of companies to acquire and maintain legitimacy, and those discourses through which corporate actors legitimize their routine activity to other actors (Ezzamel et al., 2007).

Accountability and actual board performance are connected. A positive boardroom climate and decision-making culture matter most for creating accountability, which is linked to the behavioural perspectives adopted by boards (Huse, 2005; Roberts, McNulty and Stiles, 2005).

It is very difficult to envisage stakeholder accountability established in a situation where company directors acknowledge enforceable duties only to shareholders, and exclusively pursue the maximization of shareholder value. Establishing stakeholder accountability would require a far more pluralistic form of corporate governance. Internal activities, such as budgeting, project appraisal, costing systems and performance measurement have social and environmental effects (Bebington, 2004). Evidently a broader understanding of reporting is warranted (Orij, 2010). Considering both the content and the practice of accountability is important when it comes to understanding the ethical dimension of accountability (Messner, 2009). The focus of this study is on how the members of boards see financial

and external reporting, and whether they think that the traditional concepts of financial reporting are enough, or if they pay attention to the goals of other stakeholders, including society, the environment and the public interest (Cooper and Owen, 2007; Parker, 2007). The second research question focuses on board members' opinions of the reporting that is a prerequisite of accountability:

RQ2. What information is required to deliver adequate reporting to meet accountability requirements?

Cooper and Owen (2007) questioned the role of accounting as an independent and value-free financial communication mechanism, and suggested that financial and accounting practitioners socially construct external reporting. The relationship between reporting and accountability is related to the types of information that must be produced about accountability for corporate governance purposes (Cooper and Owen, 2007).

3. RESEARCH DESIGN

Data

The data were collected from board members of Finnish listed companies. The researchers identified 763 members of boards of 128 companies listed on the Finnish Stock Exchange (OMX) in the spring of 2009. The number of male members was 674, while the number of female members was 89. The questionnaires were mailed to the company addresses of the 62 Finnish-speaking female members of boards, which generated 26 responses, representing a response rate of 42.9%. The researchers selected 82 male members at random, and mailed them the same questionnaire, which generated 38 responses, representing a response rate of 46.3%. The sample and the response are presented in Table 1.

TABLE 1 - POPULATION AND SAMPLE FOR THE RESEARCH

	Female	Male	Total
Seats on boards	89	674	763
Sample	62	82	144
Response	26	38	64
Per cent/sample	42.9	46.3	44.4
Per cent/ seats	29.2	5.6	8.3

The personal characteristics of the board members are presented in Table 2, showing the distributions of marital status, number of children, and age for female and male board members. Most of the respondents were married and had children, as Table 2 show. A majority of the board members were within the age range of 51–60 years. There is presented the educational background of the board

members as well. Since many of Finland's listed companies operate in the field of technology, we also examined the presence of engineers on the boards besides looking at the educational level in general. Finally, Table 2 presents the years the respondents have worked on the board.

TABLE 2 - PERSONAL CHARACTERISTICS OF BOARD MEMBERS

<i>Personal characteristics</i>			
Marital status	Female	Male	Total
Single	1	2	3
Married	21	34	55
Cohabiting	1	2	3
Divorced	2	0	2
Total	25	38	63
Number of children			
No children	5	5	10
1	5	2	7
2	10	17	27
3 or more	6	14	20
Total	26	38	64
Age			
20-35	1	0	1
36-50	10	10	20
51-60	13	17	30
61 or older	2	11	13
Total	26	38	64

<i>Education</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
PhD or licentiate	6	7	13
Master's degree	14	16	30
Graduate engineer	1	7	8
Higher vocational diploma	2	5	7
Vocational education	1	2	3
Other	2	1	3
Total	26	38	64
Years as a board member			
	Female	Male	Total
1 year	17	7	25
2-3 years	8	26	34
4-5 years	0	4	4
6 or more years	1	0	1
Total	26	38	64

The main questions governing this research stem from the object of accountability, which processes must be accounted for and how accountability is delivered through reporting. Research Question 1 (RQ1) investigates accountability to shareholders and stakeholders, including society, the environment, and future generations (Sikka, 1995; Letza, Sun and Kirkbride, 2004; Solomon and Solomon, 2004).

The 10 statements related to RQ1 are given in Appendix A. Three of them analyse accountability to stakeholders (RQ1.1, RQ1.2 and RQ1.7). These questions state that the board is accountable to the owners, has responsibility to the shareholders, and generates profit for the shareholders. Four statements deal with accountability to a larger group of stakeholders (RQ1.3, RQ1.5, RQ1.8 and RQ1.10). Furthermore, there are three statements presented to board members analysing accountability to both shareholders and stakeholders (RQ1.4), the environment and future generations (RQ1.6) and environmental issues (RQ1.9) (Cadbury, 2000; Sikka, 1995; Letza et al., 2004 and 2008; Solomon and Solomon, 2004; Spitzeck and Hansen, 2010). The second research question examines the board members' views on financial reporting. Appendix A lists the 10 statements related to Research Question 2 (RQ2) concerning reporting. Five statements (RQ2.1, RQ2.2, RQ2.3, RQ2.8, and RQ2.10) analyse the use of existing financial and external reporting. The statements relate to the need for reporting (RQ2.2, RQ2.8, and RQ2.10). Statements RQ2.1, RQ2.3 analyse whether the board members see that the information given by reporting is true and fair as the legislation requires, and whether it is only a mandatory task. The other five statements (RQ2.4, RQ2.5, RQ2.6, RQ2.7, RQ2.9) question the adequacy of financial and external reporting for providing information about ethical responsibility, non-monetary facts and other important information related to the larger responsibility of the board.

Variables

The study survey items were presented to the board members of the Finnish listed companies in Finnish. The translation of the questionnaire from Finnish to English was done carefully (Appendix A), aiming to preserve the original content of the statements. The questionnaire was pilot tested by doctoral students and faculty personnel at an accounting seminar in order to be sure of the reliability. We used the Likert scale to measure board member attitudes and opinions on accountability and reporting. The Likert Scale is the most commonly used scale in quantitative research for measuring opinions. It is designed to determine the view or attitude of a subject, and contains a number of statements with a scale after each statement. In our study, the variable agreement was defined as having five attributes: 1 = Totally disagree; 2 = Disagree; 3 = Hard to say; 4 = Agree, 5 = Totally agree (<http://www.researchproposalsforhealthprofessionals.com>, 2015).

The statements were presented simply, trying to avoid any misunderstandings (Bowerman et al., 2003; Clason and Dormody, 1994). Furthermore, more than one statement focusing on the same issue was presented in order to be sure that the statements were understood correctly, as presented here;

RQ1.1 The board is accountable to the shareholders

RQ1.2 The board has to generate profit for shareholders

RQ1.7 The board has a responsibility to the shareholders.

We can see in Appendix B, that the correlations between variables R1.1, R.1.2 and R1.7 are high and statistically significant. This provides evidence that the variables are measuring the same thing they were meant to. We processed the data using the statistical package for social sciences (SPSS). The analysis examined the correlations, frequencies and means of the data. The main method was a factor analysis, which reveals the pattern of correlations between variables. The generalized least squares method was applied owing to its suitability for this kind of small dataset (DeCoster, 1998).

4. RESULTS

To whom are the board members accountable?

The correlations between the variables linked to RQ1 – To whom are the board members accountable – are presented in Appendix B. Variables RQ1.1, RQ1.2 and RQ1.7 are linked to the statements that the board is accountability to the shareholders, and generates profit for them. Correlations between the variables are high and statistically significant at the 0.05 level. Variables RQ1.3, RQ1.5, RQ1.8 and RQ1.10 are linked to the statements about accountability to a broader group of stakeholders, and here again we can see correlations between them to be significant at the 0.05 level. The theoretical basis for variables RQ1.4, RQ1.6 and RQ1.9 is an approach that considers shareholders, other stakeholders, society and the environment. Here again there are high correlations between variables RQ1.4 and RQ1.6 and between variables RQ1.6 and RQ1.9. Each of these correlations is significant at the 0.05 level. There are high variable correlations between RQ1.4 and RQ1.5, RQ1.8 and RQ1.10 as well. Furthermore, RQ1.6 correlates with RQ1.8 and RQ1.10, which indicates relationships between these variables. In summary, the variables measuring accountability to shareholders are highly correlated, and there are high correlations between the variables measuring accountability to other stakeholders.

Frequencies and means for the variables are presented in Table 3.

The means for all of the variables are high, and we can see that the board members consider that their accountability has several dimensions. They are accountable to shareholders and other stakeholders, and they try to balance their needs. The next step in the analysis was the factor analysis. The target of the analysis was to discover the different lines of accountability. The factors found in the data for RQ1 (To whom are the board members accountable?) are presented in Table 4.

TABLE 3 - FREQUENCIES AND MEANS FOR THE VARIABLES LINKED TO RQ1

Variables	1	2	3	4	5	Miss.	Mean	Total
RQ1.1	0	1	0	13	49	1	4.75	64
RQ1.2	0	3	4	30	26	1	4.25	64
RQ1.3	0	2	8	23	26	2	4.13	64
RQ1.4	1	14	9	23	16	1	3.62	64
RQ1.5	2	13	4	27	17	1	3.70	64
RQ1.6	0	4	10	33	16	1	3.97	64
RQ1.7	0	1	1	13	48	1	4.71	64
RQ1.8	3	11	10	24	15	1	3.59	64
RQ1.9	0	1	7	34	21	1	4.19	64
RQ1.10	1	12	18	23	9	1	3.43	64

TABLE 4 - FACTORS FOR RQ1

	Factor		
	1	2	
RQ1.1	.903	.028	The board is accountable to the shareholders
RQ1.2	.616	-.140	The board has to generate profit for the shareholders
RQ1.3	.096	.693	The board has to take all of the stakeholders into account
RQ1.4	.054	.687	The board has to balance the interests of both shareholders and other stakeholders
RQ1.5	-.056	.646	The board has to be equal and fair to all of the stakeholders
RQ1.6	.075	.622	The board has a wider responsibility to the environment and future generations
RQ1.7	.914	-.081	The board has a responsibility to the shareholders
RQ1.8	-.035	.669	The board has a responsibility to several stakeholders
RQ1.9	.472	.339	The board has a responsibility for environmental issues
RQ1.10	.005	.819	The board has to take care of the weak stakeholders

Extraction Method: Generalized Least Squares.

Goodness-of-fit Test

Chi-Square	Df	Sig.
14.768	26	.961

There are two factors representing the lines of accountability. The first factor is correlated with variables RQ1.1 (The board is accountable to the shareholders), RQ1.2 (The board have to generate profit for the shareholders), RQ1.7 (The board has a responsibility to the shareholders) and RQ1.9. (The board also has a responsibility for environmental issues). The first factor found in the data illustrates the best level of accountability to shareholders and the environment, and it is here called Accountability to shareholders and the environment. The second factor correlates with variables RQ1.3 (The board has to take all of the stakeholders into account), RQ1.4 (The board has to balance the interests of both shareholders and other stakeholders), RQ1.5 (The board has to be equal and fair to all of the stakeholders), RQ1.6 (The board has a wider responsibility to the environment and future generations), RQ1.8 (The board is responsible to several stakeholders) and RQ1.10 (The board has to take care of the weak stakeholders). This line of accountability is here called Accountability to stakeholders, society

and the environment. The significance value of the chi-square test was 0.961, indicating that the factor analysis was a highly suitable method for this dataset. Based on the results of the factor analysis, there appear to be two accountability lines: 1) Accountability to shareholders and the environment, and 2) Accountability to stakeholders, society and the environment.

What information is needed to meet the requirements for adequate reporting?

The correlations between variables linked to RQ2 are presented in Appendix C. There we can see positive correlations statistically significant at the 0.05 level between variables RQ2.2 (Financial and external reporting is needed for management) and RQ2.8 (The board needs financial and external reporting to carry out its work). Furthermore, there are high correlations between variables RQ2.4 (Financial and external reporting provides only part of the important information) and RQ2.6 (Financial and external reporting does not include all the factors affecting decision-making), and RQ2.6 (There should be more non-monetary reporting) and RQ2.7 (There should be more non-monetary facts included in reporting). Furthermore, RQ2.6 correlates strongly with other variables with statements about broadening reporting to include social, ethical and environmental issues. There is a high negative correlation significant at the 0.01 level between RQ2.1 (Financial and external reporting is only a mandatory task of a company) and RQ2.4 (Financial and external reporting provides only part of the important information).

TABLE 5 - FREQUENCIES AND MEANS FOR THE VARIABLES LINKED TO RQ2

Variables	1	2	3	4	5	Miss.	Mean	Total
RQ2.1	35	24	3	1	1	1	1.59	64
RQ2.2	0	2	1	21	39	1	4.54	64
RQ2.3	0	11	9	33	10	1	3.67	64
RQ2.4	1	8	10	25	19	1	3.84	64
RQ2.5	5	18	15	16	8	2	3.06	64
RQ2.6	1	3	5	25	29	1	4.24	64
RQ2.7	3	15	23	17	5	1	3.10	64
RQ2.8	0	2	8	26	26	2	4.23	64
RQ2.9	4	20	12	21	6	1	3.08	64
RQ2.10	23	31	8	1	0	1	1.79	64

The frequencies and the means of variables RQ2.1 and RQ2.10 in Table 5 are rather low. This means that the board members consider that financial and external reporting is important and not merely a mandatory routine of the firm. The reports are necessary to support the decisions of the corporate board. The high mean of RQ2.8 (The board needs financial and external reporting to do its work) strengthens the importance of financial and external reporting for the board's work. The highest mean was calculated for two variables: RQ2.2 (Financial and external reporting is needed for management) and RQ2.6 (Financial and external reporting does not include all the factors affecting decision making).

The results of the factor analysis on RQ2 are presented in Table 6.

TABLE 6 - FACTORS FOR RQ 2

	Factor			
	1	2	3	
RQ2.1	-.253	.123	-.356	Financial and external reporting is only a mandatory task of a company
RQ2.2	.245	.121	.785	Financial and external reporting is needed for management
RQ2.3	-.546	-.030	.393	Financial and external reporting gives a true and fair representation of the company
RQ2.4	.943	-.223	-.026	Financial and external reporting provides only part of the important information
RQ2.5	.171	.785	.086	There should be a representation of the company's ethical responsibility included in reporting
RQ2.6	.504	.272	-.046	Financial and external reporting does not include all the factors affecting decision making
RQ2.7	.228	.813	-.082	There should be more non-monetary facts included in reporting
RQ2.8	.137	-.141	.482	The board needs financial and external reporting to do its work
RQ2.9	.223	.912	-.016	There should be more information on the company's responsibility to society included in reporting
RQ2.10	-.274	-.058	-.106	Outside investors only need financial and external reporting
Extraction Method: Generalized Least Squares.				
a. 3 factors extracted. 28 iterations required.				

Goodness-of-fit Test

Chi-Square	df	Sig.
17.749	18	.472

The first factor is strongly and positively linked to variables RQ2.4 (Financial and external reporting provides only part of the important information) and RQ2.6 (Financial and external reporting does not include all the factors affecting decision-making). It seems to us that board members view external reporting as providing only a part of the information. This is very understandable because the decisions made by the board require far more detail than can be gleaned from financial reports alone. Factor 1 correlates negatively to two variables that are RQ2.3 (Financial and external reporting gives a true and fair representation of the company) and RQ2.10 (Outside investors only need financial and external reporting). It seems that board members again emphasize the need for information, and that financial reporting does not provide enough of the required information. Factor 1 here is called Inadequate financial reporting.

The second factor, in turn, is linked to three variables measuring ethical dimensions of reporting: RQ2.5 (There should be a representation of the company's ethical responsibility included in reporting) refers directly to the need to report on ethical issues, RQ2.7 (There should be more non-monetary facts included in reporting) refers to statements for more non-monetary facts in reporting, and RQ2.9 (There should be more information on the company's responsibility to society included in reporting) for more social responsibility. We name this second factor Calls for reporting on ethical and social issues.

The third factor then is correlated positively with variables RQ2.2 (Financial and external reporting is needed for management) and RQ2.8 (The board needs financial and external reporting to do its work), and negatively with RQ2.1 (Financial and external reporting is only a mandatory task of a company). This emphasizes the use of reporting in the board's decision-making. Factor three is called Importance of reporting for decision-making.

Here again, the significance value of the chi-square test is 0.472, which indicates a highly suitable method for this data.

Summary of the results

The essential findings of the analysis were presented in a format of factors. The first research question asked to whom the board is accountable. Two factors were found to answer the question 1) Accountability to shareholders and the environment, and 2) Accountability to stakeholders, society and the environment. According to this result, board members incline towards accountability to shareholders, and to other stakeholders. It is no surprise that accountability to the shareholders is the dominant principle for members of corporate boards. In fact, accountability has often been interpreted only as corporate accountability to shareholders, and corporate profitability and value for shareholders have been the primary targets of companies. In addition, other stakeholders do not have as strong a legitimate statement as the shareholders have (Brennan and Solomon, 2008).

The second factor was constructed of variables measuring accountability to stakeholders and society, which seems to be another line of accountability. The environment issue was particularly emphasized in both of the factors. In summary, the board members of Finnish listed companies view themselves accountable to shareholders and to other stakeholders, including society and future generations. Even those who feel a strong sense of accountability to shareholders acknowledge that they are accountable for effects on the environment as well.

The second research question focuses on what constitutes adequate reporting for accountability. The three factors found in the data were called 1) Inadequate financial reporting, 2) Call for ethical reporting and 3) Importance of reporting for decision-making. The first factor, Inadequate financial reporting, emphasizes the relevance of financial reports and their usefulness in managing and decision-making. However, it seems that board members want to have more information because the existing reporting does not include all the facts needed for decision-making. Factor 2, Call for ethical reporting, emphasizes the result of Research Question 1 that board members are accountable to the environment and society as well. Factor 2 includes variables calling for ethical, non-monetary responsibility and

responsibility for society. Factor 3, Importance of reporting for decision making, expresses the use of financial reporting as a basis for the board's decisions.

5. CONCLUDING COMMENTS

In this paper our aim was to find out, to whom the board members of Finnish listed companies are accountable, and what reporting is needed to meet the requirements of accountability. We conducted empirical research and presented the results in the form of factors. The research indicates that the board members of Finnish listed companies see themselves as being accountable to shareholders, stakeholders, society and the environment. They incline towards being most accountable to shareholders, and think themselves primarily accountable to the owners of their firms. This view reflects the traditional way of understanding accountability (Jensen and Meckling, 1976). The current research also reports clear findings indicating board members hold themselves accountable to several stakeholders and the environment. In addition, being accountable to shareholders and stakeholders are not mutually exclusive and can be complementary. This result strengthens the ideas presented by Letza et al. (2004), who wrote that there is no pure theory that can explain the reality of CG (Codbury, 2000; Hines, 1988, 1989; Parker, 2007; Letza et al. 2004, 2008). The result strengthens our basic assumption adopted from Sison (2009), Brennan and Solomon (2008) and Letza (2004) that the boards are not accountable either to shareholders or stakeholders but to both of them, including the natural and societal environment. We can confirm the notions of Letza et al. (2008) that a pluralistic view and framework for CG and accountability is better than the mainstream agency and stakeholder theories. However, we cannot deny them totally, as our results suggest. The factors we found in our data were not mixed but they clearly represented two dimensions of accountability.

When it comes to the second study question, board members view financial reporting important for decision-making. Furthermore, they see that there should be more information on ethical, environmental and societal issues. There is a need for more information on the company's ethical responsibility and on non-monetary aspects. Indeed, it seems that there is a gap between the financial reporting and the need for information on ethical, social and environmental issues. This result is congruent with Parker (2005, 2007), who presented that the FER system is not able to take into account all of the societal and environmental aspects of today. We also found in this research that board members need more information for decision-making in regard to ethical issues. The changing circumstances of companies require more knowledge of what is happening. Accountability is a much richer concept than monitoring and reporting the past, as traditional FER used to assume (Keay and Loughrey). The board members in

our data see accountability as a large responsibility that requires a different kind of reporting and not only numerical calculations.

To summarize the results of this paper, accountability according to the board members of Finnish listed companies does not only mean being accountable to shareholders, but the concept includes a large responsibility to several stakeholders, society and the environment. Furthermore, they see that current financial reporting provided largely for outside investors is not sufficient to provide the information necessary to deliver full accountability.

There is much written on corporate governance, accountability and reporting but still there is a lack of empirical evidence on the relations between them. In our study we have linked them together and analysed empirically the lines of accountability and whether existing reporting is able to fulfil the need for accountability. We used a framework that includes the two mainstream approaches of agency and stakeholder theories. We see that agency theory alone would have simplified the issue and emphasized the role of the boards. The two lines of accountability to shareholders and stakeholders are not in conflict (Keay and Loughrey, 2015). Reporting, or giving an account, is a fundamental part of accountability that makes accountability visible (Roberts and Scapens, 1985). This is confirmed by the board members in our study, as they see that reporting should be larger than only reporting to owners. The need for reporting to several stakeholders including on non-numerical and ethical issues has been previously discussed by Bebbington (2004), Orij (2010) and Massner (2009), among others.

Our research has a number of limitations. We focus on Finnish boards, and the results are not generalizable, since the dataset is not very large for the purposes of statistical analysis. The questionnaire method also has some serious drawbacks. A questionnaire only provides answers to the specific questions asked, and offers no clues as to whether the respondent is lying, misinterpreting the question, or has additional knowledge that could be tapped. First of all, the data was collected in 2009. We can assume that the composition of the boards has not changed to a great extent since then. We know that the amount of female members has increased based on a recommendation that there should be both female and male members on the board (<http://kauppakamari.fi/2015/>). However, men and women on boards are similar, and differences have not been found between them (Virtanen, 2012). The legislation and bureaucratic regulations are the same as in 2009. However, the environment for Finnish companies is different from what it was in 2009. Environmental problems are increasing (Niemi, 2009), and requirements for the transparency of company performance in their social and natural environments has grown in recent years. We would expect that the results of a questionnaire if made it today would emphasize accountability to stakeholders even more.

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Appendix A The questionnaire

What are your opinions of the accountability of the corporate board in listed companies		5	4	3	2	1
RQ1.1	The board is accountable to the shareholders	5	4	3	2	1
RQ1.2	The board has to generate profit for the shareholders	5	4	3	2	1
RQ1.3	The board has to take all of the stakeholders into account	5	4	3	2	1
RQ1.4	The board has to balance the interests of both shareholders and other stakeholders	5	4	3	2	1
RQ1.5	The board has to be equal and fair to all stakeholders	5	4	3	2	1
RQ1.6	The board has a wider responsibility to the environment and future generations	5	4	3	2	1
RQ1.7	The board has a responsibility to the shareholders	5	4	3	2	1
RQ1.8	The board has a responsibility to several stakeholders	5	4	3	2	1
RQ1.9	The board has a responsibility for environmental issues	5	4	3	2	1
RQ1.10	The board has to take care of the weak stakeholders	5	4	3	2	1

What are your opinions on the financial external reporting of listed companies						
RQ2.1	Financial and external reporting is only a mandatory task of a company	5	4	3	2	1
RQ2.2	Financial and external reporting is needed for management	5	4	3	2	1
RQ2.3	Financial and external reporting gives a true and fair representation of the company	5	4	3	2	1
RQ2.4	Financial an external reporting tells only a part of the important information	5	4	3	2	1
RQ2.5	There should be a representation of the company's ethical responsibility included in reporting	5	4	3	2	1
RQ2.6	Financial and external reporting does not include all the factors affecting decision making	5	4	3	2	1
RQ2.7	There should be more non-monetary facts included in reporting	5	4	3	2	1
RQ2.8	The board needs financial and external reporting to carry out its work	5	4	3	2	1
RQ2.9	There should be more information on the company's responsibility to society included in reporting	5	4	3	2	1
RQ2.10	Outside investors only need financial and external reporting	5	4	3	2	1

5 = Totally agree; 4 = Agree; 3 = Hard to say; 2 = Disagree; 1 = Totally disagree

Appendix B Correlations for variables linked to RQ1

	RQ1.1	RQ1.2	RQ1.3	RQ1.4	RQ1.5	RQ1.6	RQ1.7	RQ1.8	RQ1.9	RQ1.10
RQ1.1 Pearson Correlation	1	.539**	.097	.050	-.021	.091	.798**	-.041	.392**	.025
Sig. (two-tailed)		.000	.454	.697	.870	.479	.000	.750	.001	.843
N	63	63	62	63	63	63	63	63	63	63
RQ1.2 Pearson Correlation	.539**	1	.066	-.125	-.144	-.012	.554**	-.148	.296*	-.140
Sig. (two-tailed)	.000		.613	.330	.261	.924	.000	.248	.018	.275
N	63	63	62	63	63	63	63	63	63	63
RQ1.3 Pearson Correlation	.097	.066	1	.529**	.453**	.451**	.010	.369**	.321*	.527**
Sig. (two-tailed)	.454	.613		.000	.000	.000	.940	.003	.011	.000
N	62	62	62	62	62	62	62	62	62	62
RQ1.4 Pearson Correlation	.050	-.125	.529**	1	.358**	.416**	.003	.483**	.256*	.521**
Sig. (two-tailed)	.697	.330	.000		.004	.001	.978	.000	.042	.000
N	63	63	62	63	63	63	63	63	63	63
RQ1.5 Pearson Correlation	-.021	-.144	.453**	.358**	1	.425**	-.105	.412**	.151	.546**
Sig. (two-tailed)	.870	.261	.000	.004		.001	.413	.001	.236	.000
N	63	63	62	63	63	63	63	63	63	63
RQ1.6 Pearson Correlation	.091	-.012	.451**	.416**	.425**	1	-.019	.337**	.407**	.443**
Sig. (two-tailed)	.479	.924	.000	.001	.001		.881	.007	.001	.000
N	63	63	62	63	63	63	63	63	63	63
RQ1.7 Pearson Correlation	.798**	.554**	.010	.003	-.105	-.019	1	-.058	.379**	-.035
Sig. (two-tailed)	.000	.000	.940	.978	.413	.881		.654	.002	.783
N	63	63	62	63	63	63	63	63	63	63
RQ1.8 Pearson Correlation	-.041	-.148	.369**	.483**	.412**	.337**	-.058	1	.178	.600**
Sig. (two-tailed)	.750	.248	.003	.000	.001	.007	.654		.163	.000
N	63	63	62	63	63	63	63	63	63	63
RQ1.9 Pearson Correlation	.392**	.296*	.321*	.256*	.151	.407**	.379**	.178	1	.204
Sig. (two-tailed)	.001	.018	.011	.042	.236	.001	.002	.163		.109
N	63	63	62	63	63	63	63	63	63	63
RQ1.10 Pearson Correlation	.025	-.140	.527**	.521**	.546**	.443**	-.035	.600**	.204	1
Sig. (two-tailed)	.843	.275	.000	.000	.000	.000	.783	.000	.109	
N	63	63	62	63	63	63	63	63	63	63

** . Correlation is significant at the 0.01 level (two-tailed).

* . Correlation is significant at the 0.05 level (two-tailed).

Appendix C

Correlations for variables linked to RQ2

		RQ2.1	RQ2.2	RQ2.3	RQ2.4	RQ2.5	RQ2.6	RQ2.7	RQ2.8	RQ2.9	RQ2.10
RQ1.1	Pearson Correlation	1	-.299*	.026	-.164	-.055	-.017	.177	-.123	.084	.304*
	Sig. (two-tailed)		.017	.837	.199	.671	.896	.166	.343	.514	.015
	N	63	63	63	63	62	63	63	62	63	63
RQ1.2	Pearson Correlation	-.299*	1	.131	.075	.176	.177	.110	.363**	.108	-.129
	Sig. (two-tailed)	.017		.307	.557	.172	.166	.392	.004	.398	.315
	N	63	63	63	63	62	63	63	62	63	63
RQ1.3	Pearson Correlation	.026	.131	1	-.506**	-.068	-.261*	-.252*	.123	-.139	.204
	Sig. (two-tailed)	.837	.307		.000	.598	.039	.047	.340	.278	.109
	N	63	63	63	63	62	63	63	62	63	63
RQ1.4	Pearson Correlation	-.164	.075	-.506**	1	-.017	.394**	.045	.166	.024	-.214
	Sig. (two-tailed)	.199	.557	.000		.896	.001	.727	.197	.851	.092
	N	63	63	63	63	62	63	63	62	63	63
RQ1.5	Pearson Correlation	-.055	.176	-.068	-.017	1	.350**	.610**	-.137	.759**	-.098
	Sig. (two-tailed)	.671	.172	.598	.896		.005	.000	.292	.000	.448
	N	62	62	62	62	62	62	62	61	62	62
RQ1.6	Pearson Correlation	-.017	.177	-.261*	.394**	.350**	1	.325**	-.037	.354**	-.071
	Sig. (two-tailed)	.896	.166	.039	.001	.005		.009	.777	.004	.579
	N	63	63	63	63	62	63	63	62	63	63
RQ1.7	Pearson Correlation	.177	.110	-.252*	.045	.610**	.325**	1	-.108	.777**	-.171
	Sig. (two-tailed)	.166	.392	.047	.727	.000	.009		.404	.000	.179
	N	63	63	63	63	62	63	63	62	63	63
RQ1.8	Pearson Correlation	-.123	.363**	.123	.166	-.137	-.037	-.108	1	-.056	-.115
	Sig. (two-tailed)	.343	.004	.340	.197	.292	.777	.404		.666	.374
	N	62	62	62	62	61	62	62	62	62	62
RQ1.9	Pearson Correlation	.084	.108	-.139	.024	.759**	.354**	.777**	-.056	1	-.078
	Sig. (two-tailed)	.514	.398	.278	.851	.000	.004	.000	.666		.545
	N	63	63	63	63	62	63	63	62	63	63
RQ1.10	Pearson Correlation	.304*	-.129	.204	-.214	-.098	-.071	-.171	-.115	-.078	1
	Sig. (two-tailed)	.015	.315	.109	.092	.448	.579	.179	.374	.545	
	N	63	63	63	63	62	63	63	62	63	63

*. Correlation is significant at the 0.05 level (two-tailed).

**. Correlation is significant at the 0.01 level (two-tailed).