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**INTERNAL CONTROL, RISK MANAGEMENT AND
INTERNAL AUDIT IN FINNISH PUBLIC COMPANIES**

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TIIVISTELMÄ

JYVÄSKYLÄN YLIOPISTON KAUPPAKORKEAKOULU

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<p>Tiivistelmä – Abstract</p> <p>Arvopaperimarkkinayhdistyksen vuonna 2010 julkistaman Suomen listayhtiöiden hallinnointikoodin tavoitteena on yhtenäistää yritysten raportointikäytäntöjä, lisätä informaation läpinäkyvyyttä sekä helpottaa tiedonannon vertailukelpoisuutta sijoittajien päätöksentekoa varten. Hallinnointikoodin mukaan sisäinen valvonta, riskienhallinta ja sisäinen tarkastus tukevat yrityksen toiminnan tehostamista, talousinformaation luotettavuutta sekä edistävät yrityksen hallituksen valvontavelvollisuuden täyttymistä.</p> <p>Tutkimuksen tavoitteena on selvittää Suomen listayhtiöiden hallinnointikoodin mukaisien suositusten noudattamista suomalaisten pörssiyhtiöiden raportointikäytänteissä sisäisen valvonnan, riskienhallinnan ja sisäisen tarkastuksen näkökulmasta. Tässä tutkimuksessa selvitetään kuinka yritykset noudattavat 2010 vuoden hallinnointikoodia raportointikäytänteissä ja vertaillaan raportoinnin yhdenmukaisuutta tutkimukseen valittujen yritysten kesken.</p> <p>Tutkimus on luonteeltaan laadullinen case -tutkimus, joka keskittyy vertailemaan kuuden suomalaisen pörssiyhtiön corporate governance -raportointia. Tutkimuksen empiirinen osuus suoritettiin vertailemalla case -yritysten vuosikertomuksia ja tilinpäätöstiä.</p> <p>Tutkielman mukaan yritysten raportointimenetelmissä on eroja. Raportointikäytänteet eroavat niin laajuudessa kuin tarkkuudessa. Lisäksi hallinnointikoodin suosituksia ei aina noudatettu suositusten velvoittamalla tavalla.</p>	
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ABSTRACT

JYVÄSKYLÄ UNIVERSITY SCHOOL OF BUSINESS AND ECONOMICS

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<p>Abstract</p> <p>The Securities Market Association issued The Finnish Corporate Governance Code of 2010 in order to standardize the reporting practices of organizations, improve the transparency of information and facilitate the comparability of information for the investor's decision making purposes. According to the Code internal control, risk management and internal audit support the effectiveness of operations, reliability of financial information and the monitoring responsibility of the Board of Directors.</p> <p>The purpose of the research is to study the application of the Finnish Corporate Governance Code in reporting practices of Finnish publicly listed companies from the perspective of internal control, risk management and internal audit. This study examines how the organizations abide by the Code of 2010 in reporting process. Moreover, the study assesses the consistency of reporting between the case-study companies.</p> <p>The research is a qualitative case-study which compares the corporate governance reporting practices of Finnish public companies. The empirical part of the research was accomplished by comparing the annual reports and financial statements of the companies.</p> <p>According to the research the reporting practices of organizations varied. The reporting differed in terms of scope and accuracy of disclosure. Moreover, the companies did not always adhere to Code in the manner obligated by the recommendations.</p>	
Keywords Corporate governance, internal control, risk management, internal audit	
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1 INTRODUCTION

There is no simple definition for corporate governance. Corporate governance can be characterized as a mechanism that provides methods and approaches for business management and control. To put it simply, essentially corporate governance has to do with the way a company is run.

The aim of corporate governance practices is to provide public and transparent information of organizational practices in order to increase the trust in the management approaches of the company. Lately there has been a growing demand of new and comparable reporting information that effectively assesses the company's productivity and performance. Different stakeholders have an interest in the corporate governance practices and reporting of organizations. Moreover, the recent development of corporate governance codes have aimed to unify the reporting practices globally due to the internationalization of financial markets.

The foremost stakeholders of a company are the shareholders. The company shareholders expect the financial reporting information to convey a fair and true view of the company's current financial situation as well as to provide comprehensive information on management practices. Moreover, corporate governance reporting supports the decision making process of shareholders while also providing value and high regard to the company image in the public eye. The ideology behind the importance of corporate governance is that a well-run company increases the interest of potential investors, both domestic and foreign, in Finnish publicly listed companies. (Kuusela and Ollikainen, 2005: 124-126.)

Financial management plays a great strategic role in steering the market orientation (Järvenpää et al. 2010, 383-386). Stakeholders of companies are demanding for intricate and new corporate governance guidelines and codes to ensure that their investment is managed carefully and according to the laws and regulations.

The need for corporate governance codes has been recognized through several accounting and financial reporting malpractices that were uncovered in the early 2000s. Corporate governance practices received further attention

shortly after financial scandals such as Enron in 2001 or Parmalat in 2003 took place. Moreover, other financial scandals have also influenced the recent awareness in the importance of good corporate governance practices (Mallin 2004: 3).

Due to this awareness of possible malpractices and fraud of company funds and lack of accurate reporting, a demand on stricter corporate governance codes have been gaining steady support. Moreover, these scandals have influenced new, restrictive laws to be put in place. These laws have then gone on to influence many financial management methods throughout the world.

One such law is the Sarbanes-Oxley Act that was a direct result from the collapse of Enron in 2001. Established in 2002 the Sarbanes-Oxley Act enclosed on the issue of management malpractices. One of the concerns that were addressed in Sarbanes-Oxley Act was the establishment of corporate governance guidelines and recommendations in order to avoid any such financial disasters in the future. Sarbanes-Oxley Act had a significant impact on corporate governance practices worldwide.

By itself the society's attention for corporate activities and appropriate reporting standards are growing. Stakeholders are reliant on financial information of organizations and the stakeholders have to be able to trust and verify that the financial reporting is in effect accurate and adequate. As a result the objective of Sarbanes-Oxley Act was to improve transparency, accountability and investor protection.

Corporate governance as a discipline and as a research subject has value to the public, the government officials and numerous stakeholders alike. Moreover, corporate governance as a research subject can provide useful and applicable information for publicly listed companies, policymakers and investors in addition to organizations such as Securities Market Association that are involved in decision making process concerning corporate governance of companies.

Moreover, there is a growing need to study corporate governance reporting practices as the guidelines put in place are still relatively new. Corporate governance as a discipline is also fairly novel and there are vast varieties of different approaches in its everyday application. Since the corporate governance practices are nowadays more thoroughly enforced, many companies now face a challenge of developing good corporate governance and leadership practices to be put in place. Moreover, many companies need to develop reporting in relation to corporate governance.

Furthermore, corporate governance reporting is also highly important to many other company stakeholders. The companies are obligated to report on many matters that have a direct impact on the society at large. Some of these reporting obligations include environmental and ethical issues concerning the company output. (Blumme et al., 2005: 30.) What is more, many of the Finnish publicly listed companies are big employers and as such have a great presence and influence in the society.

In addition, corporate governance practices are an important research subject as the current guidelines and regulations are continually changing and further developed. The latest Finnish corporate governance code issued by the Securities Market Association came into effect in 2010.

1.1 Introduction to theoretical framework

There is no one easy definition of corporate governance to fit all purposes. The difficulty to define corporate governance has to do with the varying interpretations and application of the codes. There is no single, unified classification for the term. There is also a dynamic nature to corporate governance that represents challenges for definition as the mechanisms of application may vary vastly within corporations as well as from country to country (Solomon, 2010: 8).

Lekvall (2014: 15-16) defines corporate governance as the framework that governs a company in order to ensure the company is run in the best interest of its shareholders. OECD defines corporate governance as a relationship network of owners, board of directors, management and other stakeholders that provide the necessary structure and follow-up for the company to achieve its organizational objectives (OECD, 2009: 2).

There are a number of different theoretical frameworks that have evolved from corporate governance studies. Many theories have also originated from different academic fields. Traditionally, corporate governance as a discipline has been divided into two main viewpoints that both provide a distinctive perspective to the subject. Examination of the two corporate governance viewpoints lean towards of following a spectrum of a narrow interpretation in one end and a broader viewpoint at the other end of the spectrum (Solomon, 2010: 5). As a field of study corporate governance is diverse and interdisciplinary. The development of corporate governance has been founded on theories of accounting, economics, finance, law, leadership and organizational management. (Mallin, 2004: 16).

One of the most important theoretical frameworks in corporate governance is the agency theory and stakeholder theory. Both theories evaluate the organizations actions through the stakeholder expectations and perspectives. The theories and the development of corporate governance have been incorporated globally. The development has been influenced by the local legislation, structural ownership and culture.

Therefore, different countries place emphasis on different theories in their application of corporate governance. (Mallin 2004: 3-6). It is also noteworthy that the regulations concerning corporate governance are continually changing. Corporate governance methods were first introduced in Finland in early 2003. The Finnish Corporate Governance Code of 2003 was the first reference of its kind in Finland and it was issued to publicly listed companies. Thereafter the codes have been revised at regular intervals. The first corporate governance codes were replaced by new recommendations in 2008 and later in 2010.

1.2 Research objectives

The thesis aims to research how the Finnish publicly listed companies are using the corporate governance code of 2010 in their financial statements and annual reports. The focus of research is in the reporting practices concerning internal control, risk management and internal audit. Moreover, the thesis will assess the unity of reporting standards among the companies selected for the case study.

Reporting provides substantial information to the stakeholders of listed companies. Management reports on the performance of the company in its financial statements and annual report. Corporate governance reporting plays a great role for many stakeholders in their decision making process. The companies are obligated to report on many matters that have an impact on the society at large. (Blumme et al., 2005: 30.).

Shareholders are one of the most important stakeholder groups that have a direct concern on the company performance and output. As the primary information is built on the expectations of high-quality reporting it is in the best interest of the shareholders to ensure that company management follows the corporate governance principles in their everyday work.

Asymmetric information describes the conflict of interests between the principal and the agent which arise from different interest between the two parties. Problems arise when the principal (in this case the shareholder) cannot ascertain that the agent (the management) is acting on their best interest. Corporate governance calls for self-regulation from listed companies in their management practices in addition to the demands set by the local legislators.

The recommendations concerning corporate governance are continually changing. There is a growing demand to unify corporate governance codes globally which creates a need to study whether the publicly listed companies are following the standards accordingly.

This thesis focuses on practices of corporate governance reporting in Finnish publicly listed companies. One of the reasons for corporate governance is to produce information that is comparable between companies as well as across national borders. The present thesis focuses on evaluating whether the corporate governance information and practices of selected case-study firms are in fact harmonious and in accordance with the current guidelines.

Therefore, the purpose of the research is to determine whether the corporate governance reporting of the case-study companies are unified, comparable and consistent. Moreover, the purpose is to survey how and to what extent the issues of internal control, risk management and internal audit are disclosed and elaborated to the shareholders and public.

The analysis of the present study is categorized under three domains of corporate governance reporting. The examined areas of reporting are internal control, risk management and internal audit. Each of these topics is further addressed in the research design and results paragraph of the thesis.

As said, the focus of the study is to examine how internal control, risk management and internal audit functions are reported in publicly listed companies in Finland. All of these domains are an integral part of corporate governance guidelines and have been the focus of corporate governance debate worldwide (Kuusela and Ollikainen, 2005: 123). The importance of internal control, risk management and internal control in the literature of corporate governance is also the reason why I chose to approach the corporate governance reporting practices from the perspective of these three domains.

The point of the study is to find out how the relevant information is offered to the public and shareholders on the reports and moreover, what exactly is included in the reports and to what extent details are given in regards to the themes. The purpose is to approach the theme of internal control, risk management and internal audit in public companies in Finland in regards to reporting. The present thesis aims to increase the understanding of how these aspects are reflected on financial statements and annual reports of companies and how the recommendations are applied in practice. The three themes of the study are reflected to the Finnish Corporate Governance Code recommendations of 2010.

As a final point, the conclusion of research questions can be summarized into following three questions:

1. In what way are the aspects of internal control, risk management and internal audit arranged in regards to the Code?
2. Is the corporate governance information and reporting unified and comparable between the companies?
3. Are the corporate governance practices harmonious and in accordance with the current guidelines of the Finnish Corporate Governance Code of 2010?

1.3 Central concepts

The Agency theory, stakeholder theory and transaction cost economics; later referred to as transaction cost theory, are the principal theories in corporate governance school of thought (Mallin, 2004: 10).

Agency theory focuses on the relationship between the company's management and the shareholders. It addresses problems and irregularities that might occur in agency relationships within organizations and what kind of effects possible conflicts of interests could cause within an organization. Agency theory is also known as principal-agent problem.

Another core theory, called the 'stakeholder theory', focuses on the relationship of the organization and its many stakeholders, both within and outside the corporation. The stakeholder theory discusses the effects of organizations' actions on the organizations' direct and indirect counterparts and the accountability of the organization with regards to the stakeholders.

Accountability aspect of stakeholder theory has gained support recently as corporations are growing and developing more multinational that their impact on society is becoming ever more prevalent (Solomon, 2010: 14-17). The theory argues that large corporations hold increasingly more influence and weight on the society as well as the local communities alike and should therefore be held accountable for their actions. Accountability is an integral part of the stakeholder theory.

The third common theoretical framework discussed in the thesis is the transaction cost theory, which is somewhat intertwined with the aforementioned agency theory. Both of the theories focus on the issues of monitoring and controlling the actions of management as well as transactions costs due to monitoring.

Another common concept discussed in the thesis is internal control. Accounting function and reporting are a substantial part of internal control of a company. Internal control is part of the mechanism that helps management produce accurate and true financial reports. Internal control is also about the people and the relationships between them and the systems. It is a process that concerns the board, the management and the personnel. The purpose of internal control is to achieve a level of assurance that the company is run effectively and according to the laws and regulations. (Holopainen et al. 2006: 45).

The recommendation number 48 of the Finnish Corporate Governance Code (2010: 22) concerns the operating principles of internal control in business. The recommendation states that the company must define the operating principles of internal control. The code stresses that the company must also monitor its activities on regular intervals in order to ensure the productivity and effectiveness of its operations. In short, the aim of internal control is to improve the company performance and integrity.

Another main concept involves risk management. Risk management is an essential part of any company's control system. According to the Finnish Corporate Governance Code the companies are advised to disclose any major risks and uncertainties that they are aware of. The companies should also disclose the principles by which the risk management is organized. Risk management attempts to ensure that risks related to the business procedures of the company are thoroughly recognized and evaluated. Risk management includes defining, assessing and monitoring the potential risks. (Finnish Corporate Governance Code 2010: 22).

The next common concept is internal audit. Internal audit is an essential part of good corporate governance practices. Internal audit has to do with improvement of business operations and development of better working methods. Internal audit is independent and objective consulting and assessment.

Internal audit has two main functions; it provides material and information for auditors and audit committee and communicates issues that have raised concerns. Moreover, one important role of internal audit is to advise the board on issues of internal controls. (Solomon, 2010: 188-189).

1.4 Research methods

The research material consists of data gathered from Finnish publicly listed companies. Altogether six companies were chosen to take part in the case-study and the data was gathered in in the fall of 2015.

The data consists of six separate analyses of each company and their financial reports and statements. The contributing companies in the study are all part of fifty biggest public companies of Finland. What is more, all the companies operate on an international level and are considerable employers both nationally and globally.

The research material consists of annual reports, financial statements and corporate responsibility reports of 2014 and any relevant information that is disclosed on the internet sites of the companies. Moreover, all companies participating in the case-study are listed under the NASDAQ OMX Helsinki stock exchange. In regards to the companies, the underlying assumption of the present study assumes that all companies abide by Finnish laws and regulations and as public companies, follow the rules of Helsinki stock exchange.

The participant companies for the case-study were selected by the use of sampling. According to the Saunders et al. (2007) sampling is an alternative to a census and sampling is often used when it would be unpractical or too expensive to survey all relevant material of total population. Moreover, sampling process saves time and produces results faster than surveying an entire population. Therefore, considering the restricted time and budget of the present study sampling is a useful method. It would not have been practical or even possible to include all the companies listed under the Helsinki stock exchange into the research material of the thesis.

Altogether six case-study companies were included in the data sample. These companies involved are Fiskars Oyj Abp, KONE Oyj, Fortum Oyj, Wärtsilä Oyj Abp, Metso Oyj and Stora Enso Oyj. I had a few prerequisites for the choice of companies. One requirement was that all companies should originally be Finnish based companies. Moreover, all the companies should belong to the top fifty biggest companies in Finland and they should also be publicly listed companies.

Case-study as a research method is a qualitative, in-depth study. It is used when describing a particular situation, entity or phenomena and as a method it enables the researcher to narrow down the field of research into a more detailed area of inspection. Additionally, cases-study research allows the researcher to develop further descriptions and hypothesis on a subject as well as identify common trends and themes within the data (Saarela-Kinnunen and Eskola, 2007: 185).

A case study is an approach to research that is focused on obtaining a comprehensive and detailed understanding of a particular subject or a theme. It is especially a useful method when investigating trends and specific real-life situations. (Saarela-Kinnunen and Eskola, 2007: 194).

The research material consists of qualitative data. Qualitative data refers to non-numeric data or any data that is non-quantified. In order to produce useful information, the data must be analyzed and the meanings and implications carefully understood. The qualitative data analysis enables the researcher to develop theories and notions from the data. (Saunders et al. 2007: 470-471). The qualitative analysis of the thesis is based on annual reports, financial statements, corporate responsibility reports and websites of the companies.

Qualitative analysis is diverse in nature and there is no standardized approach to the analysis of data. Strategies that can be employed in the process include discovering regularities in the data, comprehending meanings or actions undertaken and the reflection of the data against the theoretical framework involving the subject. Although different approaches have somewhat similar features they still give several analytical strategies that enable the transcription and examination of the data. (Saunders et al. 2007: 478-480).

Qualitative analysis can approach the data from deductive and inductive perspective. Deductive method aims to use existing theory as the foundation for the analysis of the study. Inductive method, however, seeks to build a theory that is based on the research data. (Saunders et al. 2007:487-489).

The present thesis incorporates both approaches to the data analysis. The data is first approached from a theoretical perspective by using the deduction method. Afterwards, through the use of inductive method, the data is analyzed to build a theory in order to answer the objective of the study; whether the corporate governance reporting practices of Finnish companies are consistent and comparable.

1.5 Research structure

The present thesis consists of six chapters. The first chapter will present an introduction to the topic and the necessity of the study in regards to the recent corporate governance dialogue. What is more, the chapter introduces the reader to the objectives of the research, central topics involving corporate governance and the research methods and research questions used in the analysis of the research material.

The next chapter introduces the background of corporate governance and the main theoretical framework of the discipline. The chapter also presents corporate governance literature and it discusses the principal theories of corporate governance; Agency theory, stakeholder theory and transaction cost theory. Moreover, the primary concepts of corporate governance framework are introduced.

The third chapter discusses the history and development of corporate governance practices. The chapter presents both national and international corporate governance codes and recommendations and also discusses different aspects and events that have influenced and lead to the development of corporate governance recommendations. One important law in the development of

latest corporate governance codes is the Sarbanes-Oxley Act of 2002. The Act will be further discussed in the section 3.4 of the thesis.

The Fourth chapter focuses on internal control, risk management and internal audit and it centers on the recommendations and guidelines that involve these three domains.

This is followed by the introduction of research design and results in chapter five. The chapter presents the data of the case-study and the research methods and analysis. Moreover, the results of the case-study analysis are presented and analyzed in relation to the research objectives. Conclusions are presented in the last chapter.

2 THEORETICAL FRAMEWORKS

2.1 Principal theories in corporate governance

The following chapter focuses on theoretical frameworks of corporate governance. This section of the thesis will first discuss the principal theories that are present in the recent corporate governance debate and the main concepts are covered behind each theory. Later each of the three key theories will be addressed separately in greater detail. The theories introduced in this chapter are called agency theory, stakeholder theory and transaction cost theory.

Defining corporate governance is by no means an easy task. The difficulty rests in its many-angled interpretation and there is no single, easy definition for the term. The dynamic nature of corporate governance represents challenges for definition and the mechanisms of application may vary vastly within corporations as well as from country to country (Solomon, 2010: 8). Lekvall (2014: 15-16) defines corporate governance as the framework that governs a company in order to ensure the company is run in the best interest of its shareholders. Similar idea is also brought up by Nordberg (2011: 4-8). In his work Nordberg also supports the idea of corporate governance as a guideline to companies to direct and monitor performance and as a mechanism that enable companies to seek new ways to improve their overall performance and profitability.

Regardless of the many attempts to present theories and frameworks to define corporate governance in itself, it is very difficult to find one good definition to fit all purposes. There are number of different theoretical frameworks and many theories that have originated in different academic fields. In order to narrow down the subject, this chapter will focus on the three of the most recognized theoretical frameworks behind the corporate governance school of thought.

Corporate governance as a discipline has been traditionally divided into two theories; both which provide a unique viewpoint to the subject. The analysis of these two corporate governance theories tend to follow a spectrum of nar-

row interpretation in one end and a broader viewpoint at the other end of the spectrum (Solomon, 2010: 5).

According to Mallin (2004: 10) three principal theories in corporate governance are the Agency theory, shareholder theory and transaction cost economics, later referred to as transaction cost theory.

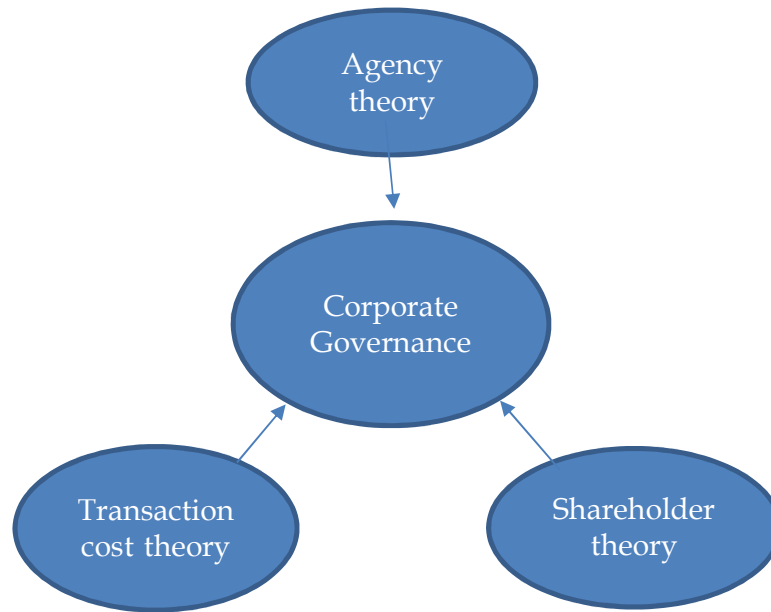


FIGURE 1. Principal theories in corporate governance (Mallin, 2004: 15).

The first theory focuses on the relationship between the company's management and its shareholders. This narrower viewpoint on the spectrum is called the 'agency theory' or more traditionally, the 'principal - agent problem'. The Agency theory is connected to a concept of asymmetrical information and risk. Furthermore, agency theory also addresses a theory of transactional costs in business as well as the theory of incomplete contracts. These aspects of corporate governance will be later discussed in further detail.

Another theory, called the 'stakeholder theory', focuses on the relationship of the company and its many stakeholders, both within and outside the corporation. The stakeholder theory represents the broader view of ideological corporate governance spectrum. It discusses the effects of organizations' actions to both the organizations' direct and indirect counterparts and the accountability of their actions to their stakeholders. Accountability aspect of stakeholder theory has gained support recently as corporations are so large and multinational that their impact on society is becoming ever more prevalent (Solomon, 2010: 14-17). Therefore, the large corporations hold evermore influence and weight on the society as well as the local communities alike.

A third common theoretical framework in corporate governance is the transaction cost theory, which is somewhat intertwined with the aforemen-

tioned agency theory. Both tend to focus on the issue of monitoring and controlling the actions of management. Transaction cost theory has its origins in the fields of organizational theory as well as economics and according to Solomon (2010: 8-15) it shares some commonalities with agency theory in respect to controlling the risk of conflicts of interest as well as transactions costs of such monitoring attempts between the management and the shareholders of the organization.

2.2 Agency theory

Agency theory is an approach where the relationship between the company and its shareholders are on the focus (Solomon, 2010: 5). The development of stock markets and the limited liability of shareholders reside at the very core of the agency theory. Shareholders are residual claimholders. This means that any revenue that is left after the company debts and interest are paid belongs to the shareholders. In case of poor business performance or bankruptcy the shareholders are the last entity to claim any compensation. Therefore the risk for shareholders is considerable as is the potential payoff. (Kinnunen et al. 2009: 159-161).

Limited liability enables the companies to acquire outside investments and financing as the shareholders do not claim any personal responsibility for the company debts. (Solomon, 2010: 8-13). The risk is limited to the initial investment made to the company by the investee and the active management of the everyday business is assigned to professional managers (Nordberg, 2011: 30-31). The shareholders entrust their employees and management to handle the company funds along with their investments in the best interest of the company, the aim of which is to ultimately increase the shareholder revenue and company worth. It is in the investors interests to discourage the management from spending the company assets and money as if it was their own (Nordberg, 2010: 30-31). In comparison to management who typically are salaried employees the risk is reduced. On one hand this might lead the management to make risk adverse decisions or on the other hand to take great risks as there is no personal investment to the company.

Today's companies, especially in case of large corporations, are rarely owned and commanded by the same group of individuals anymore. This separation of ownership and management is at the core of agency theory and can cause disagreements and conflicts of interest between the agents. (Timonen, 2000: 48-52).

The underlying assumption in agency theory is that people will tend to act in their own interest, pursuing whatever goals that fit their needs and objectives at the time. If left unattended, the agents will gravitate towards fulfilling their own personal objectives and interests. In order to align shareholders and man-

agements interests, companies are inclined to implement different types of control mechanisms in use. (Nordberg 2011: 25-26).

Agency theory, also known as the principal – agent theory, addresses problems that can occur in these agency relationships within organizations and how to avoid possible conflicts of interests from arising.

In businesses the shareholders (principals) usually have the legal rights and the ownership of the company. They own company shares but often do not participate in the actual everyday business decision making process. Principals then entrust agents (e.g. the upper management) to manage the company in the best interest of their owners as well as in the interest of the company. Agents are then compensated for the human capital and expertise they have to offer and they take part in the day to day administrative duties. (Nordberg, 2011: 29). However, the interests of the management and the shareholders do not always align and this conflict of interest and the methods to reduce such risk is at the heart of corporate governance theories and debate.

2.2.1 Asymmetrical information

The term asymmetric information is used to describe the conflict of interests between the principal and the agent which arise from different interest between the two parties. Problems arise when the principal cannot ascertain that the agent is acting on their best interest. This type of conflict is often presented in situations where decisions are made between furthering the interest of the shareholders versus the interests and influence of the management (Timonen, 2000: 48-49).

Asymmetric information can contribute to two problems within a company that agency theory addresses. First one has to do with any problems and conflicts that might derive from different desires or goals of the principal and agent. It might be difficult to the principal to verify the actions and the motives of the agent and moreover it could be costly. Secondly, another problem focuses on the different attitudes of principal and agent towards risk, which in turn might motivate each to pursue different actions. Removing any of the information asymmetries will lead to decline of business risk and furthermore, the reduction of costs (Solomon, 2010: 9-13).

In order to prevent abuse in conflict situations the shareholders may wish to implement control mechanism to discourage wrongful behavior. By doing so a company faces an increase in its agency costs.

2.2.2 Agency costs

Agency costs are costs that occur when an agent deviates from the principal's interest. Typically such a conflict of interest such originates from the contradictory aspirations between the management and owners (Kinnunen et al. 2011: 166-169). For example, an agent might favor short-term benefits over that of long-term profits. This type of behavior could be encouraged by a bonus system

that emphasizes immediate profits as the measurement of a manager's achievement. In the long run this could work against the best interest of the company and the principal if the long-term benefits are forsaken in the hopes of a quick bonus for the agent.

Agency costs can also be referred to any expenses which are brought about by differing ambitions of any stakeholder the company is in business with (Kinnunen et al. 2011: 166-169). Agency costs also consist of any costs that derive from monitoring and controlling the agents (Nordberg, 2011: 30-31). Typical agency costs are salaries, bonus systems or any other incentives implemented to guide the performance of the hired agents in exchange for their expertise and intellectual capital.

Agency costs are often unavoidable and any implementation of control mechanisms generates expenditures. In order to receive the intellectual capital of the agent an investment must be made. Agency costs that derive from acquiring intellectual capital are abstract. Such expenses entail the acquirement of useful skills, motivation and expertise. Grönroos (2000: 8-9) defines intellectual capital as all the varying assets and resources of a company which cannot be presented in the company's balance sheet. In other words, these investments and agency costs provide assets and resources that cannot be measured in money but which nonetheless increase the worth and possible revenue of the company in the long run. Together they have a propensity for creating value to a business after initial costs.

2.3 Stakeholder theory

Stakeholder theory was first introduced in the 1970s as theory of firms' integrated accountability to their stakeholders (Solomon, 2010: 14-17). Corporations were seen to have a direct and an indirect effect on their surroundings and the people the businesses came in contact with (Nordberg, 2011: 41-42). According to Solomon (2010: 14-17) many businesses due to their large size withhold such prevalent impact on society that not only should they be held accountable to their immediate, direct stakeholders but to the society at large.

This concept of accountability is the key notion in stakeholder theory. The stakeholder theory is also connected to the concept of corporate social responsibility which is a form of self-regulatory mechanism incorporated into the business model whereby businesses ascertain that they act in a socially responsible manner (Solomon, 2010: 255-257).

The term stakeholder can be defined as any party that has an interest or concern in an organization. Stakeholder theory as a term is a wide concept depending whether a narrow or wide viewpoint is adopted. The theory is also widely discussed throughout many disciplines and takes varying viewpoints in relation to how big of a role a firm's accountability plays.

Organization's strategies, actions and objectives can affect the lives of stakeholders and a modern political viewpoint considers organizations as ac-

countable to its stakeholders (Nordberg, 2011: 41-42). Some examples of primary stakeholders that are directly affected by the organizations actions are e.g. investors, employees, suppliers and customers.

However, recently attention to the role of corporations in society and communities at large has increased (Solomon 2010: 14-17). Thus another, broader view has emerged and some hold that corporations should also be accountable to additional stakeholders that might be affected indirectly by company actions such as the government, trade unions and the community on the whole (Nordberg, 2011: 41-42).

2.3.1 Stakeholder dependence on information

Due to resent social and political climate and awareness of possible consequences of fraud and misuse of company funds on the society at large, the stakeholder theory holds a steady support. Financial scandals like that of Enron in 2001 or Parmalat in 2003 have influenced new, restrictive laws to be put in place. One such law is the Sarbanes-Oxley act that was the direct result of the Enron debacle. Sarbanes-Oxley act, also known as Public Company Accounting Reform and Investor Protection Act of 2002, will be further discussed in chapter three.

As such the society's interest in corporate activities and appropriate reporting are on the rise. Stakeholders are reliant on information given out from organizations and the stakeholders have to be able to trust that the information given from organizations is in fact correct and sufficient. An example of such information is the company's balance sheet and other financial reports and statements which enable stakeholders to determine the business performance. Such information is crucial e.g. for creditors when assessing the company's liquidity and ability to pay their debts. (Blumme et al. 2005: 30.)

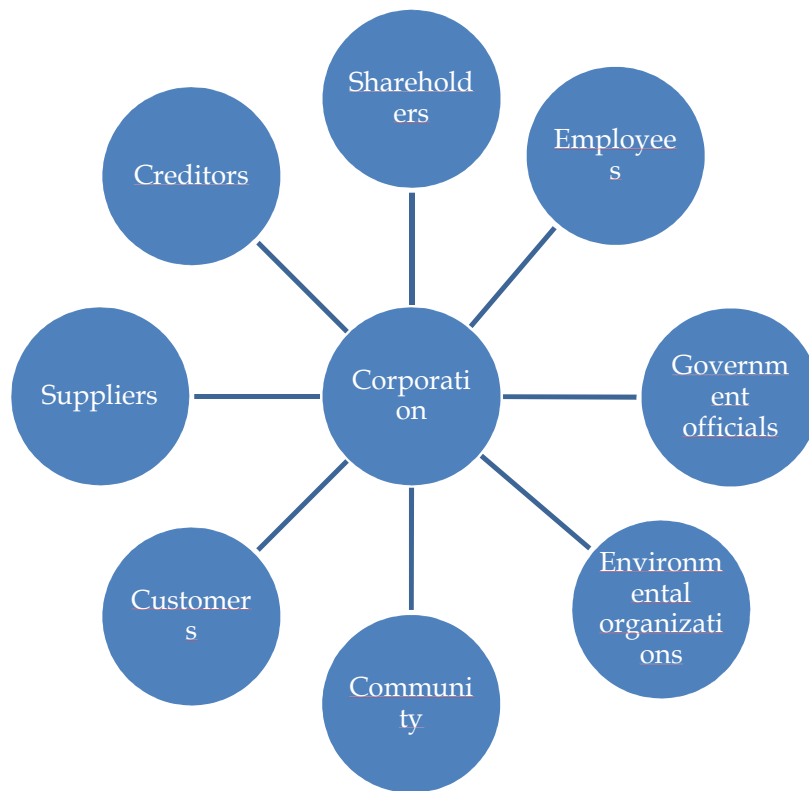


FIGURE 2. Different stakeholders (Mallin, 2004: 44).

2.3.2 The efficient market hypothesis

The efficient market hypothesis is based on universal access to information which enables buyers and sellers to act based on relevant information. Without confidence that the market economy is providing truthful information the capital market will suffer from the effects of asymmetrical information.

Asymmetric information prohibits markets from functioning efficiently. It can also lead to distortion of markets in the form of monopolies. Moreover, inefficiency can lead to market failures and crisis. Market bubbles are examples of market failures and the result of inefficient markets. (Nordberg, 2011: 52-53).

In order to be effective capital markets require information that is accurate and up-to-date. Information on investment subjects' qualities, profits and risks are essential for profitable decision making (Kinnunen et al. 2011: 170-174). Without trust in the accuracy and sufficiency of financial information and reporting markets will not be able to function effectively.

2.4 Transaction cost theory

Transaction cost theory is based on the idea that in market economy businesses attempt to minimize and internalize their transaction costs. In essence the theory of transaction costs entails an idea of a set of limitations that guide corporate actions.

According to Mallin (2004: 14) transaction cost theory is closely linked to the theory of Agency. Furthermore, Solomon (2010: 14-17) states that both theories discuss similar issues using different terminology and each theory in turn tries to disentangle the very same problem: how to discourage management from acting on their self-interest and instead focus on the shareholders' objectives and goals. Moreover, each theory recognizes the board of directors as a potential mechanism for control (Mallin, 2004: 13).

Transaction cost theory along with agency theory places high emphasis on control mechanisms and monitoring. The problematic lies in the high costs of such control mechanisms. Douma and Schreuder (2002: 135) also point out that issues also stem from how and how much should the management be monitored in the first place. Costs of such activities might negate any potential benefits in the long run if at the same time the bureaucratic costs were to increase exponentially.

2.4.1 Internalized transaction costs in risk management

Transaction costs are connected to risk and uncertainties. Internalizing transaction costs has the tendency to reduce the element of business risk (Solomon, 2010: 13-14). As such firms have to make decisions on grounds of what sort of transactions costs they are willing to pay in relation to the risks and perceived benefits.

It is not always wise to avoid risk at all costs as there is no way of predicting all the possible scenarios that could happen. For instance it is hardly possible to put together a perfect contract that would cover all possible circumstances; not only would that be remarkably expensive and time consuming but also impossible. This is the basis of the incomplete contract theory which discusses the inability to write complete contingent contracts. The theory of incomplete contracts is often linked to asymmetric information and transactional costs. It also has links to agency theory.

2.4.2 Contract transaction costs

According to Timonen (2000: 25) transaction costs could be understood to mean any business transaction costs or in case of a single business transaction, as legal transaction costs. Moreover, Timonen further claims that transaction costs comprise of any actions in market trade system and capitalization of its institutions.

Timonen also categorizes transaction costs of contracts into two different groups. (Timonen, 2000: 25-29).

First group consist of preliminary transaction costs. These costs cover search costs that are the result of finding the potential customers and business partners. Contract costs cover the costs of negotiations and drawing up the contracts and they are followed by costs from assuring that the contract goals are achieved and the commitments are met. (Timonen, 2000: 25-29).

The latter group consists of secondary costs that might occur after a contract has been drafted and executed. These costs cover potential maladaptation costs, which arise if the attempted objective of the contract is not met accordingly. Moreover, they comprise haggling costs when contract parties aim to repair and minimize the costs of maladaptation costs. Also system costs and costs of execution are linked to secondary cost group. These costs can be understood as expenses that are the result of using mechanism to solve possible conflicts of interest and any monitoring or control measures that need to be established. (Timonen, 2000).

3 CORPORATE GOVERNANCE

3.1 The development of corporate governance codes

In advanced economies corporations employ a great number of people and provide opportunities for wealth creation. Corporate activity has led to an increase of wealth as well as the improvement of living standards around the world. (Nordberg, 2011: 4-7). Corporate governance as a discipline for business success as well as for social welfare all around is therefore a key component in overall wellbeing.

This chapter will discuss the development of corporate governance rational. The recent financial crises of 2008 and 2010 have also played a role in shaping corporate government systems. The crises have been attributed to corporate governance malfunctions such as lack of internal controls and poor risk management (Solomon, 2010). One of the most renowned examples of corporate governance failures is the collapse of Enron in 2001. The case of Enron will be discussed in later paragraphs.

Historically corporate governance school of thought has its roots in Anglo-American system and much of the research originates from US or UK based framework in capital markets. Despite the different laws, organizational structures and societal infrastructures of individual countries, the driving force of corporate governance expansion comes from the American and British systems whose policies have quickly spread out across the world. Although there is no single, universal system of corporate governance, nonetheless, the most well-known principles of corporate governance codes can still be applied internationally regardless of distinct differences between many countries. (Mallin, 2004: 37).

After the American civil war in the 19th century, the managerially controlled companies grew to be the norm in the US business environment. The separation of ownership and management created a new type of ownership where shareholders had little to no influence over the company's day-to-day business administration. This 'corporate malaise' was first noted in 1932 in the

work of Berle and Means in which the researchers addressed this challenging, new problematic which was generated by the dispersal of ownership. Berle and Means also argued that companies were transforming to prominent social institutions as the influence and power of large companies increased and gained foothold on society. (Solomon, 2010: xv-xvi)

However, the development of corporate governance has not remained steady. On the contrary, it has been characterized by many dramatic changes throughout the recent years. Especially the beginning of 21st century has fundamentally shaped the corporate governance movement. The need to address the failures in corporate governance systems and to improve practices has arisen from the considerable financial collapses of largescale corporations in the start of the century. These collapses have had a far-reaching impact on economic market and many of the new corporate government codes and regulations have been developed as a result of such crisis. The prevention of corporate governance failures is in fact an essential, underlying issue in the desire to improve existing codes (Nordberg 2011: 52-53).

Reforms have been made to implement more precise and stronger corporate governance measures as well as laws since lately. Moreover, the recent financial crisis have also advanced the dialogue in favor of implementing additional internal controls, liability and supervision. (Solomon, 2010). Therefore, many corporate governance codes are the result of efforts to gain transparency and accountability to annual corporate reporting and accounts. The motivation to increase the trust of potential and current investors' in capital markets is dependent on effective and applicable codes. (Mallin, 2004: 19).

Next chapters will discuss the three foremost corporate governance codes and laws that have been introduced in recent times. The presented codes are recommendations of OECD the UK Corporate Governance Code (2014) and the American Sarbanes-Oxley Act (2002).

3.2 The Organization for Economic Co-operation and Development (OECD) recommendations

The organization for Economic Co-operation and Development was founded in 1961 and it now comprises of 34 countries dedicated to stimulate economic growth and the progress of world trade. According to the OECD vision statement of 2011 the organization is committed to upholding policies that increase the economic and social well-being of people (OECD 50th Anniversary Vision Statement, 2011: 2).

The OECD is a forum of 30 nations through which the governments of the countries address the global economic, social and environmental issues together. The OECD also discusses the new developments and challenges such as information economy, ageing population and corporate governance in order to find out appropriate measures to address the concerns. The idea of OECD is to pro-

vide a platform for governments to discuss common problems, compare policies and good practices as well as coordinate both domestic and international policies. (OECD, 2009: 2).

The OECD has developed principles for corporate governance to develop corporate governance recommendations. The Principles were originally developed in 1999 and the last update was released in 2004. The principles introduced standards and guidelines for good corporate governance that could be applied internationally. (Mallin, 2004: 27-28.)

According to the OECD principles in 2004 the principles can be categorized into six units; ensuring the basis for an Effective Corporate Governance Framework, the Rights of Shareholders and Key Ownership Functions, the Equitable Treatment of Shareholders, the Role of Stakeholders in Corporate Governance, Disclosure and Transparency and the Responsibilities of the Board. (OECD, 2004: 17-24).

3.3 The UK Corporate Governance Code

The UK Corporate Governance Code, formerly known as Combined Code is the foundation of good practices that involve effectiveness, remuneration, accountability, and the board leadership and shareholder relations (The UK Corporate Governance Code, 2014: 5). These form the main principles of the Code. The Code is connected to the London stock exchange as a part of the Listing Rules.

The UK Corporate Governance Code is applicable to all companies with a Premium Listing of equity shares in the UK. Yet, the companies are not required to comply with the Code as a requirement for listing (The UK Corporate Government Code, 2014: 27-29). The companies are, however, obligated to report on whether they are following the Code and insofar as the companies have applied it. Moreover, companies must report on how they have applied the Code in their annual reporting and accounts. Companies are also required to report on the aspects of the Code that have not been complied with. (Timonen, 2000: 12-14). The requirement for reporting is part of the Listing Rules of London stock exchange.

The Code covers general principles and detailed requirements. It is mandatory for listed companies to report on how they have applied the main principles of the Code. The companies must confirm that they have complied with the Code's requirements or prepare to provide an explanation for differing from them. Some of the Code's provisions also require disclosures to be made in order to meet the terms (The UK Corporate Governance Code, 2014: 25-26). This is especially the case in provisions concerning transparency in reporting standards.

If a company chooses not apply some aspects of the Code, they are required to provide a precise and meaningful rationale as to why provisions have not been complied with. Meaningful explanations fall under 'Comply or Explain' provision. (The UK Corporate Government Code, 2014: 27-29). The com-

pliance principle of the Code is comparable to the Finnish corporate governance recommendation of 'Comply or Explain' procedure first introduced in 2004.

The UK Corporate Governance Code is one of the first guiding principles that has addressed establishment of internal controls and reporting in an obligatory fashion (Timonen, 2000: 12-14).

3.4 Sarbanes-Oxley act

The Sarbanes-Oxley Act of 2002 also known as the "Public Company Accounting Reform and Investor Protection Act" was launched as a counter reaction when ethical and financial misconduct by the senior management was exposed in Enron Corporation just a year before (Solomon, 2010: 28).

The Sarbanes-Oxley Act was a historic legislation that redefined the roles and responsibilities of corporations as well as those associated with them (Navran & Pittman, 2003: 1). It is a legislation that contains directives for all publicly listed companies in the United States with regard to management, leadership and auditing functions.

Since the collapse, Enron's corporate governance weakness and manipulation of accounting standards were exposed. Fraudulent activity in addition to greed and arrogance of the company's upper management raised many questions and a desire to increase accountability and transparency for businesses that rely on public markets needed to be addressed. It was noted that too much of the power in Enron had resided in the hands of the chief executive officer. Later this discovery has led to the separation of the chairman and chief executive in USA, a practice already successful in many other countries. (Solomon 2010: 28-37).

Conflicts of interest were especially pronounced in Enron. The company's directors waived regulations of Enron's code of ethics. This enabled the CFO of Enron to benefit from company transactions (Navran & Pittman, 2003: 1). The Audit function in Enron was also intertwined with monetarily lucrative consulting contracts and same individuals were responsible for both functions. Moreover, Enron's internal audit committee failed to police their auditors. (Solomon, 2010: 37-39).

After Enron's collapse many changes and improvements were made in audit functions. Overall, the collapse transformed the accounting and auditing professions worldwide (Solomon 2010: 31-35). Audit companies were barred from offering certain non-audit services to their audited clients. A division between auditing and consultancy was created, rotation of auditors emerged to prohibit the creation of special, compromising relationships of auditors and management witnessed in Enron (Solomon, 2010: 31-35).

The Sarbanes-Oxley Act took a strict perspective on the regulation of auditing in an attempt to address creative accounting and fraud. The new Act restricted auditing professionals consulting for their audit clients. CEOs and CFOs were also obligated to testify that a company's financial statements and

reports are true and that no relevant information is omitted. (Solomon, 2010: 31–35). As a consequence the objective of Sarbanes-Oxley Act was to enhance transparency, executive accountability and investor protection.

The Act consists of eleven chapters. The most important amendments among others were the Creation of independent Public Accounting Oversight Board (PCAOB) that supervises public company audit, enhanced auditor independence, called for the CEO and CFO to certify financial reports, the section 404 of the Act also required the management to annually evaluate the effectiveness of internal controls, the validity of financial reporting and auditors to confirm the management's statements. The Act also demanded harsher criminal and civil liability for breaking the law. (Ernst & Young. Sarbanes-Oxley Act at 10, 2012: 12-17).

3.5 Corporate governance in Finland

Corporate governance accentuates measures that board of directors should follow (Suomela 2010: 75). The objective of Finnish corporate governance code is to unify the reporting standards used in Finnish companies. Moreover, the new codes objective is to improve transparency of business actions, enforce accountability of the top management and increase investor protection and efficiency of information for shareholders through standardized reporting practices.

Corporate governance standards in Finland are based on the Finnish corporate governance code by the Securities Market Association that was issued in 2010. The codes are founded on the framework withdrawn from the Finnish limited liability companies Act, the Auditing Act and the Securities Market Act (Hirvonen et al., 2003: 29).

The Chamber of Commerce and the Confederation of Finnish industries issued the very first corporate governance recommendation in the beginning of 1997. It was the first reference of its kind in Finland and it was issued to publicly listed companies as a guideline to uphold self-regulation practices. After the first introduction, the codes have been revised.

In 2003 in cooperation with NASDAQ OMX Helsinki Oy, the Chamber of Commerce and the Confederation of Finnish industries set a working committee to renew the recommendations of 1997. It was a measure encouraged by the increased international focus on the significance of control systems and governance of public companies. In December 2003, the committee gave the first recommendation of the Finnish corporate governance code on governance and required control systems of public companies.

Corporate governance recommendation is monitored by the Securities Market Association. The first corporate governance codes were later replaced by new recommendations in 2008 and again later in 2010. In 2006 the board of Securities Market Association issued a corporate governance working committee to be put into effect in 2007 for the development and regulation of corporate governance recommendations. What is more, the working committee assessed

the need for a united Nordic corporate governance model. The Securities Market Association gave the committee an order to update and develop the corporate governance code and the new code was formed in 2008. The code came into effect in the beginning of January 2009.

In June of 2009 the committee was given yet another order in order to revise and update the code in relation to the reward and incentive system concerning the company management. The revision of the code was a direct result of the financial crisis of 2008 and its effect on changes taking place in capital markets. Consequently, the revised Finnish corporate governance code was issued by the Securities Market Association and it came into effect in October 2010. The code of 2010 is still in use. ("Vanhat koodit". Securities Market Association WWW-site. <<http://cgfinland.fi/corporate-governance/vanhat-koodit/>> 25.10.2015).

Corporate governance recommendations were also issued as a part of Helsinki stock exchange (NASDAQ OMX Helsinki) regulative mandates in the beginning of July 2004. The recommendations are conscripted in accordance to the 'Comply or Explain' principle of the UK corporate governance code. The principle is a key component of the code that the public companies must abide by in its entirety. If a company chooses not apply some aspects of the Code, they are required to provide a precise and meaningful rationale as to why these provisions have not been complied with. This concept of meaningful explanations falls under the 'Comply or Explain' provision. (NASDAQ OMX Helsinki Oy. Pörssin säännöt. 2004: 11-22).

According to the Helsinki stock exchange, the purpose of corporate governance is to ensure that the reported information is reliable and true. Moreover, corporate governance strives to assure the productivity and efficiency of business activity as well as the compliance of regulations and principles. ("Rules and regulations". NASDAQ OMX Helsinki WWW-site. <<http://www.nasdaqomx.com/listing/europe/rulesregulations/#>> 25.10.2015)

4 INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT IN CORPORATE GOVERNANCE

4.1 Internal control

4.1.1 Corporate governance and internal control

The fourth chapter of the thesis aims to define the internal control, risk management and internal audit as part of corporate governance and discuss the essential role they play. Moreover the chapter addresses the ways in which they contribute to corporate governance of organizations.

Operative systems of internal control, internal audit, transparency and risk management are all an essential part of effective corporate governance. They are a part of management and governing mechanisms that provide information on company performance and output. (Solomon, 2010: 151-152).

As such corporate disclosure and financial information to stakeholders are key components in transparency. Moreover, effective internal audit assures quality of financial accounting information and effectiveness of corporate governance in organizations and its functions. (Solomon, 2010: 151-152).

As of late the main point of corporate governance conversation has focused on the significance of internal controls and risk management. Therefore, one of the most fundamental aspects of corporate governance is the internal control as part concerning the reporting standards. Internal control is the responsibility of management. This includes the CEO, board of directors and the top management. In the operational level internal control is considered to involve internal audit and internal control systems and checks. Moreover, risk management as a process is a part of internal control of companies. (Kuusela and Ollikainen, 2004: 123-125)

Internal control is a tool by which the company management effectively runs the inner operations of a corporation. Internal controls are mechanisms that are aimed to unify the interests of the company's management and its shareholders. In addition, internal control systems are working towards im-

proved internal operations and financial controls as well as assurance that legislations and corporate regulations are met. Unexpected setbacks can cause considerable financial losses that can be minimized and managed by effective internal control systems. (Solomon, 2010: 159-161).

Limited Liability Act (OYL 6:2.1) determines that internal control concerning financial aspects, accounting and finance, is the responsibility of companies' board of directors. In addition, the Limited Liability Act also states that the CEO is responsible for ascertaining that the company book keeping is in accordance with the law and financing is established in a reliable manner. (Finlex, 2006: OYL 6:17.1).

The purpose of internal control is to help the board of directors to fulfill their responsibility stated in the Act. Moreover it supports the fulfilment of corporate governance recommendations. The board of directors must define the principles of internal control and address the principles in annual reporting. The board of directors are also obligated to actively monitor and assess the suitability of internal controls. (Savela, 2006: 112-116).

4.1.2 Internal control in corporate governance codes

Accounting function and reporting are not the only issues of internal control. Internal control is also about the people and the relationships between them and the systems. Internal control is part of the mechanism that helps management to produce accurate and true financial reports. It is a system that evolves and changes according to the specific needs of the company and governance. (Dumitrascu and Savulescu, 2012: 4).

The Finnish Corporate Governance Code issued in 2010 by the Securities Market Association addresses the application of internal control in the business operations of organizations. The recommendation number 48 of the code concerns the operating principles of internal control in business. The recommendation states that the company must define the operating principles of internal control. The code stresses that the company must also monitor its activities on regular intervals in order to ensure the profitability and success of its operations.

Moreover, the recommendation also underlines the importance of the board of directors in assuring that the organization has defined the operating principles of internal control and observes the purposefulness of such controls regularly. (Finnish Corporate Governance Code, 2010: 22). However, the phrasing of the recommendation is somewhat ambiguous. It leaves room for interpretation whether the measures of internal control should be reported in annual reports since the recommendation does not explicitly address the need for external reporting. As such it is up to the company's discretion whether they want to disclose to the public any information concerning their internal control mechanisms or not.

4.1.3 Principles of internal control

The extent and complexity of internal control systems is usually determined by the size of the organization. The role of documentation plays a role in internal control. Documentation assists in the evaluation process of the control systems and it helps the personnel to understand the functions of the system. Moreover, documentation helps people to understand their role within the system. (Holopainen et al. 2006: 57).

The establishment of internal controls and maintenance of the system is planned and executed inside the organization. All the members of the organization have a responsibility in the upkeep of internal controls. The management in general is responsible for organizing the internal control and especially the top management has the primary responsibility.

The overall responsibility of the components of internal control falls under the duty of the CEO. The management in the finance department has a role in monitoring the success of the chosen control methods. The main focus of internal auditors is however to assess the functionality of the system and further improve it. (Holopainen et al. 2006: 60-61).

The next two sections of the thesis will introduce two frameworks of internal control and the general principles behind the theories. These frameworks are called the COSO framework and the Turnbull framework for internal control.

4.1.4 The COSO framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) was organized in 1985 to sponsor the National Commission on Fraudulent Financial Reporting. COSO is an independent initiative that intended to research the causal factors leading to falsified financial reporting. (Ahokas, 2010: 24). The guidelines of the committee are typically directed to internal control measures. COSO-model was created in 1992 and later further developed in relation to risk management and assessment. (COSO-ERM) (Ahokas, 2012: 24-25.).

Established in the United States, COSO is a joint private-sector initiative of five private sector organizations. COSO is funded and established by American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), Institute of Management Accountants (IMA) and the Institute of Internal Auditors (IIA).

The aim of COSO is to provide thought leadership to management and governance through the development of extensive frameworks. COSO also offers guidance on internal controls, risk management, business ethic, organizational governance and preemptive fraud detection. The purpose is to improve organizational performance and reduce potential fraud and mismanagement.

One of the frameworks of COSO is the common internal control model. This model offers a collective framework by which the companies and organiza-

tions can weigh their internal control systems. ("History". The Committee of Sponsoring Organizations of the Treadway WWW-site. <<http://www.coso.org/aboutus.htm>> 1.11.2015).

COSO-model is the first commonly known internal control model of its kind. It contains a definition for internal control and its components. COSO-model can be characterized as a process of internal control that is the responsibility of the board, management or other personnel. This enables the purpose and efficiency of the company. Moreover, it ascertains the reliability of financial reporting as well as the legitimacy of corporate actions. (Ahokas, 2010: 24-25).

There are five components in the COSO-model which are the control environment, risk assessment, control measures, information and communication and evaluation. These components are management processes by which the company's function are run. All of the components are an essential part of a functional control system.

The control environment is the very foundation that supports all the other components. This includes the history and the culture of the company. Part of this is also to make the personnel aware of the internal controls. (Ahokas, 2012: 24-27).

The risk assessment forms the basis of risk management and it involves the evaluation and analyzation of internal and external risks against the business objectives. The risk management process involves the definition of organizational goals in order to recognize the potential risks.

Control measures of the model include concrete actions and ways of conducting business that are undertaken in order to achieve the set goals of the organization. Control measures ascertain the steps that are taken to assessment and management of risks on every organizational level. These include actions such as preventative, manual, automatic and management methods. (Ahokas, 2012: 31-34). These aspects determine what actions need to be accomplished to ensure functional control.

Information and communication has a role in an efficient internal control system. These aspects of the model involve the communication flow within the organization which together enables the effective communication between the organizational parties on all organizational levels. All the involved personnel should have all the necessary and relevant information in order to carry out their work task. What is more, the information should be reported on time and in the right form. This affects the ability of the organization to achieve its corporate objectives (Ahokas, 2012: 35-40).

Internal control system also requires monitoring. Monitoring is a part of the COSO-model that is essential in order to understand and assess the proficiency and execution of internal control system. (Ahokas, 2012: 24-31). Monitoring also confirms the quality of commenced measures. Monitoring consist of continuous overall monitoring which involves daily routines carried out by the management. Moreover, monitoring includes also isolated monitoring and check-ups. These include monitoring of separate, important subjects that contain potential risks. (Ahokas, 2012: 40-43).

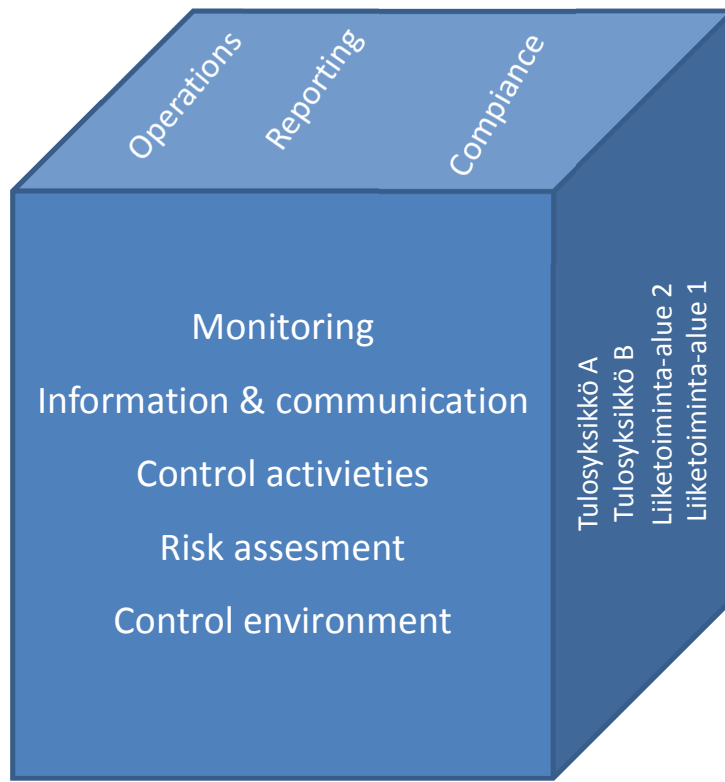


FIGURE 3. Integrated Framework Principles of internal control according to the COSO-model (Ahokas, 2012: 26)

4.1.5 The Turnbull framework for internal control

The Turnbull guidance offers a good theoretical overview of risk management. It discusses the board's role in risk management risk and the effectiveness of internal control (OECD, 2009: 37).

The Turnbull framework for internal control offers a conceptual outline for implicit corporate risk disclosures. According to Turnbolls framework, the internal control system of a company involves many separate stages. The framework is focused on assessing, evaluating, managing and disclosing risk related information. In addition to focusing on financial information, the framework also incorporates non-financial information in internal controls systems. (Solomon, 2010: 162-165)

The first stage of the framework is the identification stage where the company becomes aware of relevant business risks and evaluates them according to their priority. According to Turnbull the board of directors should take the nature of the risk and its extent into consideration. (Solomon, 2010: 162-163).

The second stage is called estimation stage. This stage involves assessment of potential risk and their impact. Moreover, the probability of risk materializing should also be carefully considered. (Solomon, 2010: 163)

The third stage is the developmental stage where the company should develop specific risk strategies to counter the potential risks. Therefore the board should assess the company's capability to lessen the influence and impact of potential risks on the business. Moreover, the board should also consider the costs of the control systems in regards to the benefits they offer in countering potential risks.

The fourth stage of the framework is called the implementation stage. This stage involves the actual application of the selected risk management strategy. The implementation stage is where the actual usage of the risk management strategy is put in work. (Solomon, 2010: 162-165).

The implementation is then followed by the fifth stage, called evaluation stage. Internal control system involves continuous monitoring in order to make sure the accuracy and effectiveness of the chosen strategy.

The next stage, the internal feedback stage, is vital for ensuring the effectiveness of the system. Internal feedback stage gives feedback for management, the board as well as internal auditors in order to evaluate the success of internal risk disclosure. (Solomon, 2010: 163-165).

The seventh stage of the framework is called disclosure stage. In this stage the company makes formal and public disclosure of risk management strategy. The disclosures involve reporting risk related information to the company stakeholders. The company is expected to carefully analyze the effectiveness of its risk management strategy as a going concern. According to Turnbulls framework, the very minimum disclosure should involve at least the identification, evaluation and management process of potential business risks. Moreover, it is advised to disclose further information in order to help the stakeholders to understand the risks management processes and internal control systems of the company. (Solomon, 2010: 162-165).

The second last stage of the framework is interpretation stage. This stage involves the interpretation of the risk management strategy and internal control information by the stakeholders. This stage is closely followed by the last stage; the external feedback stage. An example of external feedback is the feedback process between the company and its shareholders. External feedback should be linked to overall the first stage of the framework; the identifications stage. External feedback should help companies to detect new approaches and outlooks in regards to potential risks through external communication. (Solomon, 2010: 162-165).

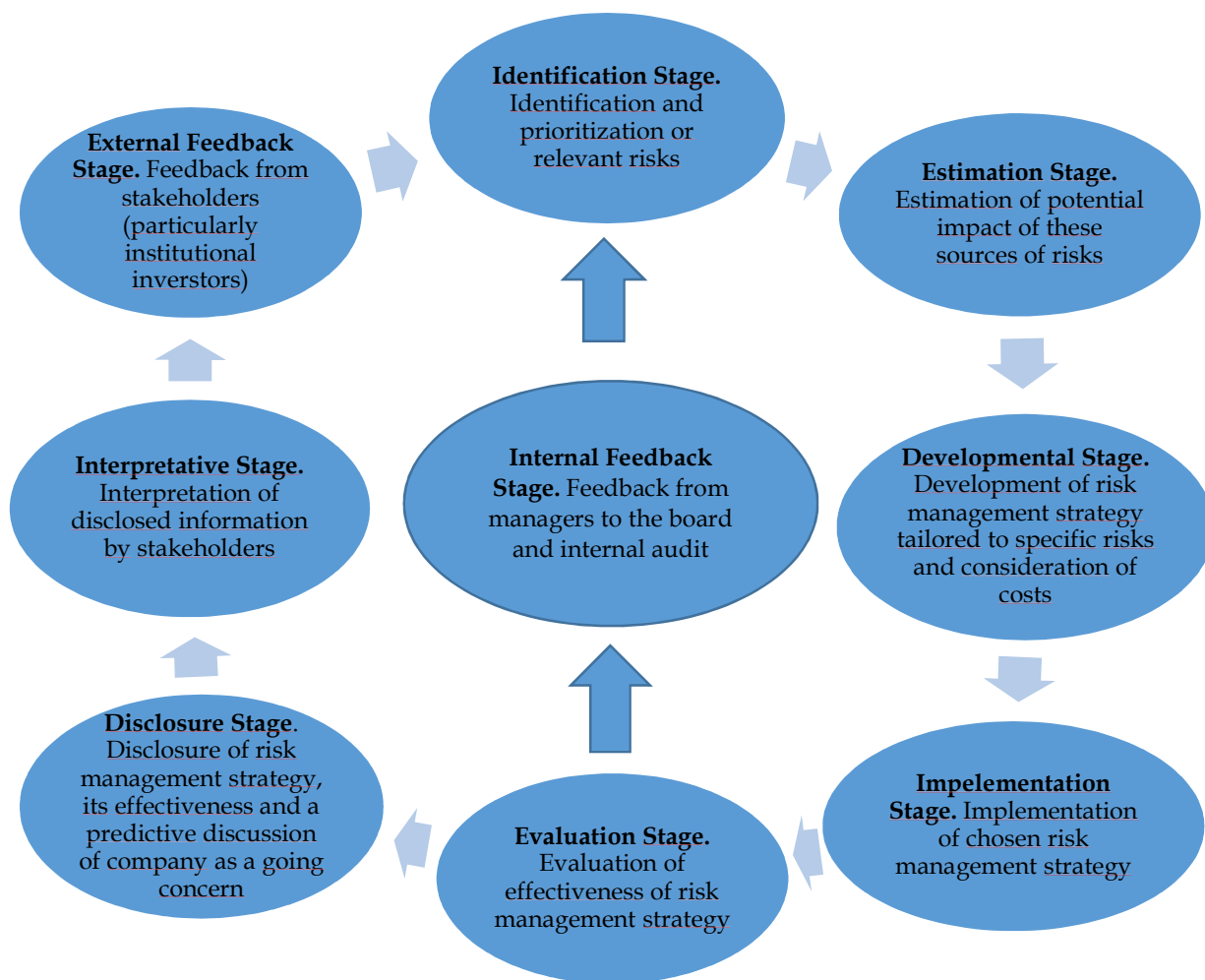


FIGURE 4. The Turnbull framework for internal control (Solomon, 2010: 164).

4.2 Risk management

Risks are a part of business operations. The companies cannot avoid risks and not face any uncertainties along the way. One part of risk management is for the top management to decide and assess which risks are worthwhile to take.

The purpose of risks is to generate revenue and increase the profitability of the company. Both the corporate governance recommendations form a foundation for the development of risk management. However, risk management should not mean risk avoidance. On the contrary, generating profit for the shareholders always entails a possibility of risk. (Kuusela and Ollikainen, 2004: 127).

The purpose of corporate governance is to enhance the fulfilment of those expectations and goals of the investors, management and the stakeholders have. One aspect of this process is to notice any major risk concerning business operations. Moreover, a company should also be able to take the expectations of the stakeholders into consideration in regards to these risks. One of the purposes of risk management is to ensure the existence and profitability of the organization also in the future. Risk management intends to recognize new potential risk and deter the company from involving itself with business operations with too great a risk.

Companies encounter many different types of business risks. Companies are faced with varying financial, environmental, social, competitor and regulatory risks. (Solomon, 2010: 161-162). All decisions involve risks which is why risks are unavoidable. Therefore, it is in the best interest of the companies to learn how to effectively manage and assess risks.

One of the functions of risk management is to ensure that the risks of the business environment are recognized and assessed accordingly. Moreover, a company is to actively follow possible risk scenarios. Top management and board of directors are obligated to inform the shareholders of any major risks within or outside the organization that could potentially materialize. Any neglect to inform the shareholders could lead to potential liability towards the shareholders. Any potential risk as well as the organization of risk management principles must also be entailed in the annual report. (Savela, 2006: 66-72).

4.2.1 Risk definition

A risk stems from uncertainty and unknown. Typically, a risk contains a likelihood or a threat of any setback, damage, injury, liability, loss, or any other negative incident that are produced by external or internal weaknesses in companies and its operations. Moreover, there is always an element of risk and they are pervasive and ubiquitous in business. Risks are also a basic part of any business decision.

However, risks to some extent are manageable. Risks may possibly be avoided through preventative and pro-active actions. What is more, a risk may also contain a chance for an advantage and success and as such provide lucrative business opportunities. A risk usually includes either great potential for achievement or potential for great loss.

4.2.2 Risk management in corporate governance codes

Risk management is relatively loosely defined in the Finnish Corporate Governance code. The recommendation number 49 of the Code concerns the organization of risk management. According to the code the companies are advised to disclose any major risks and uncertainties that the board is aware of as well as all the principles by which the risk management is organized.

Risk management as such is an essential part of any company's control system. Risk management attempts to ensure that risks related to the business procedures of the company are recognized. This includes defining, assessing and monitoring the potential risks.

In order to ensure the functionality of risk management principles there needs to be well-defined evaluation of the principles. The evaluation requires sufficient amount of information on risk management for the evaluation process. Major risks and uncertainties must also be addressed by the board report according to the law. Additionally, the interim reports and financial statements releases of the company must describe any major short-term risks and uncertainties related to the business. (Finnish Corporate Governance Code 2010: 22).

4.2.3 Risk disclosure and reporting in corporate governance

According to Solomon (2010: 172) risk disclosure is an essential and distinct category in disclosure practices of organizations. One of the main purposes of corporate governance acts has been to develop corporate disclosures in order to increase transparency.

According to the Finnish Corporate Governance Code companies must declare the principles by which the risk management is organized. Nevertheless, there is no further clarification on what exactly is meant by the risk management principles. The recommendation does, however, give further information concerning investor information that needs to be accessible on the company website.

The recommendation states that in relation to risk management and control the company must include on the website "a description of the main features of the internal control and risk management systems in relation to the financial reporting process mentioned in Recommendation 54, the principles along which risk management is organized, the major risks and uncertainties that the board is aware of, organization of the internal audit function, essential procedures of the insider administration" (Finnish Corporate Governance Code, 2010: 26).

Moreover, the obligation to report about risks is also addressed in the Finnish Accounting Act. The Act states that those obliged for book-keeping must equally assess any major risks and uncertainties involving the business operations and structure as well as any details that might influence the economic state of the company and its profit and loss.

Solomon et al. (2002) have attempted to create an ideal framework for corporate risk disclosure. The framework involves six separate elements that are interconnected. The first element of the framework discusses whether corporate disclosure environment should be voluntary or made obligatory. The second element concerns the appropriate level of disclosure that companies are expected to share. It should be considered whether the current level is sufficient or should the amount of reporting perhaps be increased. The next part of the framework addresses the investor's attitudes towards corporate disclosure. It

should be noted how the attitude of shareholders are reflected in the corporate disclosure. For instance shareholders might have a distinct preference to specific type of risk disclosures in the expense of other risk types. Moreover, is there possibly a bias towards specific form of risk disclosure and what is the most appropriate location for risk disclosure?

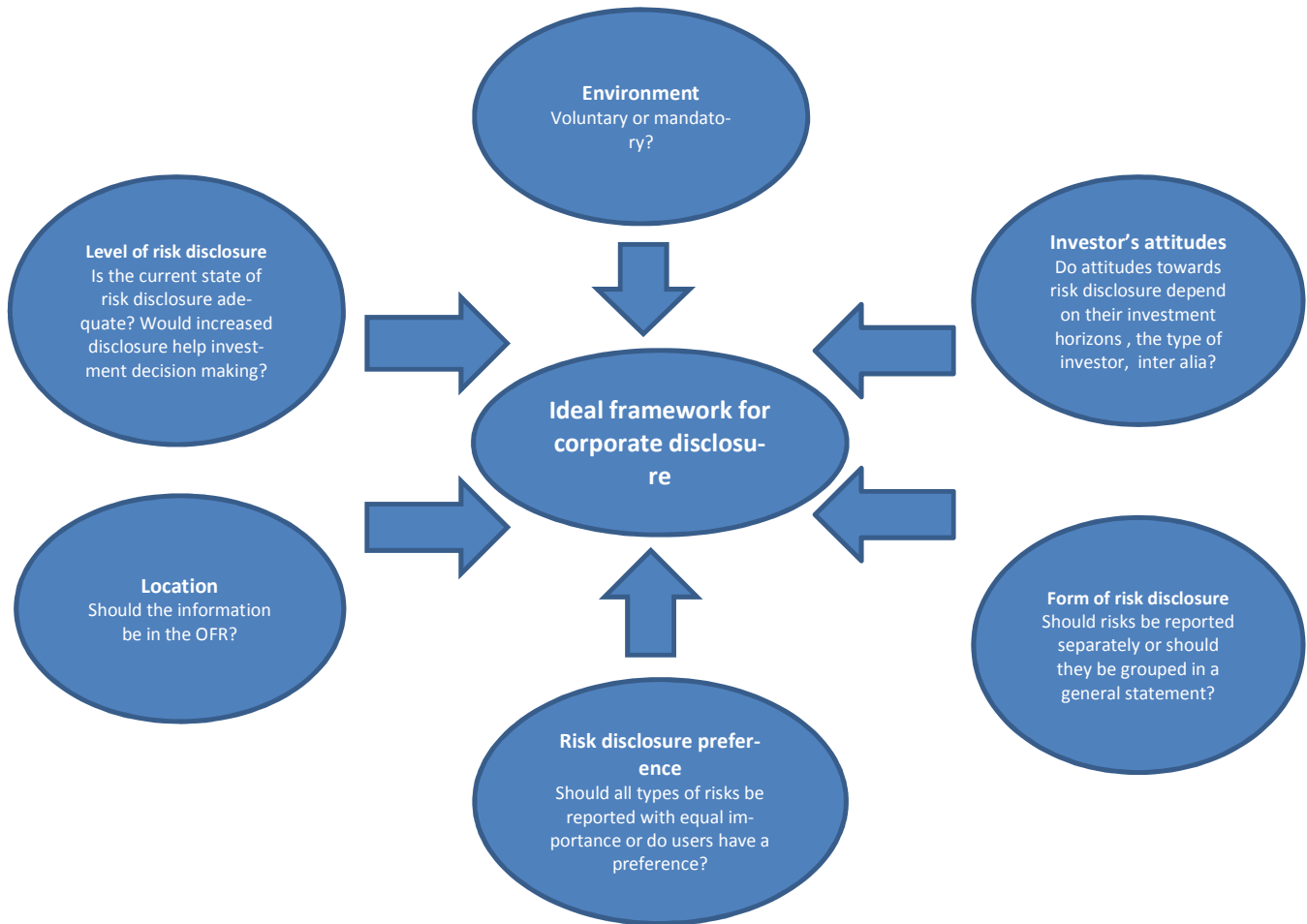


FIGURE 5. Possible ingredients of an ideal corporate risk disclosure framework (Adapted from Solomon et al. (2000b) in Solomon, 2010: 173)

4.3 Internal audit

Internal audit is an essential part of good corporate governance practices. Internal audit has to do with improvement of business operations, development of better working methods and an attempt to give external auditors additional information.

Internal audit has two main functions; it provides material and information for auditors and audit committee and communicates issues that raise concerns through monitoring. Moreover, one important role of internal audit is to advise the board on issues of internal controls. This however is by no means an easy task as internal auditors both revise the work and actions undertaken by management in addition to advising them. (Solomon, 2010: 188-189).

Internal audit is independent and objective consulting and assessment. It attempts to provide the company with added value by improving the performance of the company. Internal audit approaches the issues of risk management, monitoring, management and governance processes systematically in an attempt to achieve better efficiency. The purpose of internal audit is to help the organization to achieve its goals. Holopainen et al., 2006: 15-16).

Internal audit is responsible for the organizations corporate governance systems as well as risk management and control. Internal audit should be independent, external and objective consulting and assessment in regards to the organization and follow the rules of ethical standards and professional standards of internal audit. Internal audit unit answers to the board of directors together with the management.

The assignments of internal audit unit must be carried out in accordance to the standards. One of the functions of the internal audit is to assess the risk management system and methods used to monitoring it. Moreover, internal audit checks that the organization is in compliance with the corporate governance recommendations. Internal audit has a role in developing and support the work of management. (Holopainen et al., 2006: 16 - 18.)

Internal auditors focus on finding new ways to improve business operations in regards to risk management processes and good corporate governance. However, there are no specific, universal tasks for internal auditors and typical routines can vary greatly between organizations. The working methods of internal audit are increasingly dependent on organizational structure, industry and industry regulations, nature and scale of the business operations, ability and the number of the personnel as well as other reasons.

The board should take an active role in the assessment of control systems and ensuring that internal audit is able to maintain an objective and independent status within the organization. It is recommended that organizations form an audit committee. In case an organization does not have one, the duties of the committee fall under the responsibility of the board. However, this does not include the chairman of the board. (Holopainen et al., 2006: 66-67.)

4.3.1 Internal audit in corporate governance codes

The purpose of internal controls, risk management and internal audit is intertwined. The purpose is to ensure that the information produced by the company is reliable and the company is run effectively. Moreover, the aim is to make sure that all the rules and regulations are met and complied with.

The recommendations number 50 of the Finnish Corporate Governance Code concerns the arrangement and the principles of internal audit functions. According to the recommendation the company must disclose how the internal audit function is organized in the organization. Part of this is the disclosure of internal audit functions and the main principles by which the internal audits are carried out. What is more, the company should disclose the principles of the reporting concerning internal audit. (Finnish Corporate Governance Code 2010: 22)

4.3.2 The audit committee

It is the responsibility of internal auditors to assess the internal control of the company and recommend additional improvements for chosen methods. However, the main function of internal audit is not focused on establishing and implementing the internal control. (Holopainen et al., 2006: 60-61)

The recommendation 24 of the Corporate Governance Code declares that a company should establish an audit committee, if the extent of the business requires it and that a group with compact composition then the board itself has to do with matters of financial control and reporting. Especially in case of large firms the composition of the company might require that some directors focus solely on issues of financial reporting and control. (Finnish Corporate Governance Code 2010: 14).

The tasks and duties of an audit committee are defined by the board and the corporate governance code. Main duties focus on issues of internal controls. The Finnish Corporate Governance Code recommends that audit committees should be established in companies of considerable size as the internal auditors have thus a better opportunity to focus on the issues at hand.

The board designs and defines the tasks and duties of the committee according to the company needs. The Code itself assumes that the audit committee consists of members of the board. It is, however, advisable to include outside experts like auditors in the audit committee of the company and give the directions for the outline of the tasks and duties in a written form. (Holopainen et al., 2006: 203).

Organizations are expected to report some of the audit committee's activities in the annual report. The annual report must include the main tasks of the audit committee and the principles of operation. Moreover, companies must report the number of committee meeting held within the year and the names of the members.

The members of the committee must all be independent from the company and at least one member should be independent from the influence of major shareholders. The minimum number of members is three and each must have the necessary qualifications to complete the responsibilities of the position. At least one of the members must have experience in accounting, bookkeeping or auditing. The audit committee itself should also have sufficient knowledge of

accounting, bookkeeping, financial statements, auditing and internal audit functions. (Finnish Corporate Governance Code 2010: 14-15).

5 RESEARCH DESIGN

5.1 Research objectives

The following chapter introduces the research data that was collected as a part of the study. A sample for the case study was gathered by sampling and the sample consists of six Finnish publicly listed companies. When choosing the sample, a non-probability sampling was used as the sampling technique. The second part of the chapter will discuss the methods of analysis used to analyze the research material and data.

The present research focuses on the corporate governance reporting practices of public companies in Finland. The aim of the research is to study whether the reporting practices of the case-study companies are unified and consistent with one another. Moreover, the objective is to observe how Finnish public companies address and report issues of internal control, risk management and internal audit in relation to corporate governance recommendations of the Finnish Corporate Governance Code of 2010.

In other words, the study tries to uncover at what level the corporate governance practices are followed and integrated into the financial statements and reports of the companies. Moreover, the purpose of the study is to discover how the reporting practices differ from another. The focus of the study is to approach the corporate governance reporting practices of firms from the perspective of risk management and assess how the element of potential risks are incorporated and taken into account in corporate governance.

The financial statements, annual reports and any relevant information disclosed in the internet sites of the case-study companies are analyzed and assessed through qualitative analysis. The study is qualitative and empirical in nature and it aims to provide a holistic view of the corporate governance practices and disclosures of the Finnish publicly listed companies.

According to Dufva (2011: 132-133), as the research materials are analyzed, the primary focus of the process is to search for common themes and subjects, which arise from the research data. These common themes are then analyzed

according to their relevance and significance in relation to the subject and further discussed.

To conclude, the research questions can be summarized into following three questions:

1. In what way are the aspects of internal control, risk management and internal audit arranged?
2. Is the corporate governance information and reporting unified and comparable?
3. Are the corporate governance practices harmonious and in accordance with the current guidelines of the Finnish Corporate Governance Code of 2010?

5.2 Data

The data was gathered in in the fall of 2015 and altogether six companies were included in the research. Six Finnish publicly listed companies were chosen to represent the case-study material. Therefore, the research data consists of six separate analysis of each company in the sample and their corporate governance reporting practices disclosed in financial statements and reports. The participant companies of the study are all part of the fifty biggest publicly listed companies in Finland and all of the companies operate in an international business setting.

The research data consists of annual reports, financial statements and corporate responsibility reports of 2014 and any relevant information that is disclosed on the internet sites of the companies. Moreover, all companies of the study are listed under the NASDAQ OMX Helsinki. What is more, it is the study assumes that all companies abide by Finnish laws and regulations and follow the rules of Helsinki stock exchange.

The sample size chosen for the research consists of six different publicly listed organizations. Sampling is typically used when there is no possibility to collect data from an entire population. In this case it would have been unrealistic and impracticable to gather data from all the companies listed in the Helsinki stock exchange.

5.2.1 Non-probability sampling

According to the Saunders et al. (2007) sampling is an alternative to a census and sampling is often used when it would be unpractical or too expensive to survey all relevant material of total population. Moreover, sampling process saves time and gives results quicker than surveying the entire population.

Therefore, sampling is an advantage especially when considering constricted deadlines or budgets of research.

Additionally, there is a lesser need for extra manpower involved in a study as the data collection and preparation is more manageable when using samples. Moreover, sampling does not put a similar strain on research time and budget wise as surveying the entire population would. (Saunders et al. 2007: 206-207). All in all it would have been impracticable to survey the entire companies of Helsinki stock exchange so a sample of six companies was selected as representatives to the study. Therefore a sample of six companies was selected to the case-study.

The sampling technique used in the study is called non-probability sampling. With non-probability sampling the chance or the probability to be chosen from the total population is unknown. This means that it is not easy to pinpoint the probability of each case selected to the sample population. Moreover, the chance of being selected to the study for each case is not equal. However, the possible candidates for the case-study were confined to only include top fifty biggest publicly listed companies in Finland.

Non-probability samples are often used in case-study strategies. For non-probability samples it is hard to make statistical conclusions about the characteristic of the total population. However, it is possible to generalize, hypothesize and draw conclusions from the non-probability samples in regards to the total population. (Saunders et al. 2007: 207-208).

5.2.2 Case-study

Case study as a research approach is fairly new one. A case study is an approach to research that is focused on obtaining a comprehensive and in-depth understanding of a particular subject or event. It is especially a useful method when investigating trends and specific real-life situations. (Saarela-Kinnunen and Eskola, 2007: 194).

Case-studies are used in many scientific fields and the approach has derived from disciplines such as anthropology, social sciences, ecology, economics and psychology. Case-studies are useful especially when testing out theoretical models and research in real world environments.

Case-study is a qualitative in depth study. It studies a particular situation, entity or phenomena and as a method it enables the researcher to narrow down the field of research into a more specific area of inspection. Moreover, case-study research allows the researcher to develop further descriptions and hypothesis on a subject as well as identify common trends and themes within the data (Saarela-Kinnunen and Eskola, 2007: 185).

5.3 The case-study companies

This section of the thesis will introduce the six case-study companies that were selected to the data sample of the current thesis. These companies are called Fiskars Oyj Abp, KONE Oyj, Fortum Oyj, Wärtsilä Oyj Abp, Metso Oyj and Stora Enso Oyj.

The next subsections will provide some additional background information on each company in order to give a better understanding of the industries and the scope of the operations of each company.

I had a few prerequisites for choosing the companies for the case-study research. One requirement component was that all companies should be originally Finnish based companies. Moreover, all the companies should belong to the top fifty biggest companies in Finland and they should all be publicly listed companies.

Therefore, each company in the study is a Finnish publicly listed company listed in the NASDAQ OMX Helsinki. Moreover, all of the companies were founded in Finland and now operate internationally in their specific fields of work. The last prerequisite was that all companies should abide by the Finnish law and follow the rules and regulations of Helsinki Stock exchange.

The only company to include also the rules of Stockholm stock exchange in the governance of the company was Stora Enso Oyj. In the Corporate Governance Statement the company claimed to follow the regulations of Stockholm stock exchange whenever applicable. However, the principal guidelines for the corporate governance of Stora Enso were the Finnish Corporate Governance Code of 2010 and the rules of Helsinki OMX.

The companies operate in different industries. Only one of the six companies, Fortum Oyj, is an energy company while others are focused on product production. One of them, Fiskars Oyj Abp, is purely a company that produces products consumer markets. Fortum Oyj also provides energy services to consumer customers whereas the last four companies in the study are predominantly business to business organizations.

The companies included in the research varied in size. In terms of turnover in 2014 the biggest company was Kone Oyj with a turnover of approximately 7.3 billion euros and average of 47 000 employees (Kone Oyj annual report 2014: 12-15). Fiskars Oyj Abp had the smallest turnover of 767.5 million euros and the company employs about 4 000 personnel at the end of 2014 (Fiskars annual report, 2014: 56-60). The profits of the companies varied from 59.6 million to 1.26 billion euros.

The following subsections contain a short introduction of each firm. In addition, a table combining the key figures of each case-study participant is included at the end of the paragraph (TABLE 1.).

5.3.1 Fiskars Oyj Abp

One of the first companies chosen for the study was Fiskars Oyj Abp. Fiskars Group comprises the parent company, Fiskars Corporation, and its subsidiaries. Fiskars was founded in 1649 and the company produces consumer products which are available in over 100 countries. Fiskars specializes in products marketed for home, gardening and outdoor activities.

The most well-known brands of the company include Fiskars, Iittala, Waterford, Gerber and Royal Copenhagen. Fiskars is also known for product design and the company mission is to produce durable consumer goods in order to ease everyday problems with the functionality, innovativeness and design of the products.

Fiskars is listed in NASDAQ Helsinki and the company employees approximately 4 800 people worldwide. The turnover of the group in 2014 was over 760 million euros.

5.3.2 Fortum Oyj

Fortum Oyj is a Finnish energy company. The purpose and mission of Fortum is to provide energy which supports the lives of present and future generations. The core competence of the company includes CO₂ emission-free and efficient electricity and heat production. The company also offers products and expert services for energy industry.

Fortum business operations are concentrated on Nordic countries, the Baltic countries, Russia and Poland. The company employs about 8 000 people internationally and it is listed in the NASDAQ Helsinki. The turnover in 2014 was approximately 4 088 billion euros.

5.3.3 KONE Oyj

KONE Oyj is one of the leading companies that provide advanced elevator, automatic doors and escalators solutions. KONE also provides diverse solutions for maintenance and modernization of products.

The mission of KONE is to provide the best possible user experience by developing and delivering solutions which enable the movement of people inside buildings safely, smoothly, comfortably and without delays in urban environment. The main customers of KONE are constructors, property maintenance companies, architects and other building owners.

The B-series of KONE stock are listed in NASDAQ OMX Helsinki Oy and the company employs over 47 000 people. The turnover of the company in 2014 was 7.3 billion euros and the company functions in over 60 countries worldwide.

5.3.4 Metso Oyj

Metso is the world's leading industrial company. Metso operates in the mining and aggregates industries as well as in the flow control business. The mission of Metso is to use their knowledge, people and solutions in order to facilitate sustainable improvements in performance, efficiency and profitability in customers' businesses.

Metso offers safe solutions that are delivered and supported by their process knowledge and a range of services supported by over 90 service centers, service experts and a vast logistics network.

Metso employs almost 13 000 industry experts and the company serves its customers in more than 50 countries internationally. Metso's shares are listed on the NASDAQ Helsinki and the head office of the group is located in Helsinki. According to the company's financial statement, the turnover in the year 2014 was approximately 3.7 billion euros.

5.3.5 Stora Enso Oyj

Stora Enso is a leading provider of renewable solutions in packaging, bio-materials, wood and paper on international markets. The purpose of the company is to replace non-renewable materials by innovating and developing new products and services. These products are based on wood and other renewable materials such as pulp, paper and board. The company promotes sustainable forestry.

Most of Stora Enso's sales and operations is concentrated inside Europe. Yet Eastern and Central Europe play an important role for the manufacturing of corrugated packing and wood products.

What is more, Stora Enso group employs almost 27 000 people in over 35 countries and the company is listed in Helsinki and Stockholm stock exchange. The 2014 turnover for the company was approximately 10.2 billion euros.

The following table offers a summary of key figures of each company. The figures are gathered from the consolidated financial statements of the companies. Stora Enso Oyj was the only company in the case-study to claim to follow also the rules of Stockholm stock exchange in addition to rules of Helsinki OMX stock exchange.

5.3.6 Wärtsilä Oyj Abp

Wärtsilä was founded in 1834 and the company is listed in Helsinki stock exchange. The head office of Wärtsilä is also situated in Helsinki. The company employs approximately 3 600 professionals in Finland alone. The overall number of personnel employed by the Wärtsilä group is circa 17 700 people internationally.

Wärtsilä is the world leader in seafaring industry and the provider of power solution in energy markets. Wärtsiläs objective is to maximize the eco-

conomic and environmental efficiency of vessels and power plants with technological innovations in regards to total value.

The company has over 200 place of business in over 70 different countries. The turnover in the year 2014 for the Wärtsilä group was around 4.8 billion euros.

The strategic numbers of each company is presented below:

Year 2014 (million €)	Turnover	Profit/fiscal year	Average personnel
Fiskars Oyj Abp	767,5	59,6	4 000
Fortum Oyj	4 088	1 296	8 000
Kone Oyj	7 334	774	47 000
Metso Oyj	3 658	445	28 500
Stora Enso Oyj	3 255	120	27 000
Wärtsilä Oyj Abp	4 779	522	17 700

TABLE 1. Key figures of case-study companies.

5.4 Methods of analysis

This section of the thesis introduces different aspects of qualitative research. The first part will focus on the characteristic of qualitative data. After that the method of qualitative data analysis is discussed.

Moreover, I will discuss the analysis of the research data involved in the data process of the thesis as well as the positive and negative aspects associated with qualitative research.

5.4.1 Qualitative data

Qualitative data is any data that tries to approximate or characterize the research material. It does not measure the qualities, characteristics or the properties of an entity or a phenomenon. Qualitative data is involved with descriptions of things whereas quantitative data typically tries to define the data through numerical calculations. Quantitative data can be observed but not necessarily measured. (Saunders et al. 2007: 470-471).

Qualitative material is also exploratory and empirical in nature. It is based on non-numerical data which intendeds to provide deeper understanding and insights on the matter. The purpose is to gain a holistic understanding and the researcher to reflect their own experiences over the matters. (Malhotra and Birks, 2007: 152-153).

Therefore, qualitative data refers to non-numeric data or any data that is non-quantified. In order to produce useful information, the data must be ana-

lyzed and the meanings and implications carefully understood. The qualitative data analysis enables the researcher to develop theories and notions from the data. (Dufva et al. 2011: 132-133).

The qualitative data analysis includes both deductive and inductive approaches in the data analysis process. This can include everything from simple categorization to identifying causal relationships between different categories and variables. (Saunders et al. 2007: 470-471).

Qualitative data is based on meanings and their interpretation. It is an approach that is heavily relied context and requires understanding of the research subject from the researcher. Qualitative data is expressed through words and the nature of the data has implication on the analysis itself. However, qualitative data can also be gathered through observation; it is data that is not quantifiable.

Qualitative data that is often complex in nature is therefore usually grouped into different categories in order to narrow the research scale. Especially non-standardized data might require classification into subcategories in order to collect the results efficiently. Categorization is helpful with the interpretation and meaningful analysis as the research material is thus compartmentalized into smaller, more manageable sections.

Moreover, the qualitative data is often analyzed through the conceptual framework associated with the research. The use of conceptualization in the analysis of data is a typical part of qualitative data research. (Saunders et al. 2007: 472-474).

5.4.2 Qualitative analysis

Qualitative analysis is diverse in nature and there is no standardized approach to the analysis of data. Strategies that are employed in the process include understanding the language used in the data, discovering regularities in the data, comprehending meanings in the text or actions undertaken and the reflection of the data against the theoretical framework involving the subject matter. Although different approaches have somewhat similar features they still give several analytical strategies that enable the transcription and examination of the data. (Saunders et al. 2007: 478-480).

Categorization of data is a useful tool when assessing qualitative data. The first step is often to divide the collected data into meaningful categories either based on the data itself or the theoretical framework. These categories can be labelled in order to organize the data and give the analysis a structure that is easier to follow and analyze through grouping. One critique against categorization is that the groups must be meaningful in relation to the data and the research objectives which is by no means always an easy task. (Saunders et al. 2007: 478-480).

After categorization the next step in the analytical process is to attach relevant information from the data into right categories. These units can be separate words or sentences or whole paragraphs taken from the data. This process is

often selective in nature where the researcher is guided by the purpose of the study and tries to conclude and determine the relevant information from the data. This requires the researcher to be well-informed on the research topic in order to find the relevant information from the data and it might involve rearrangement and reduction of data into a more comprehensible form. (Saunders et al. 2007: 480).

The process of data analysis involves generating categories and reorganizing data into a more comprehensible and manageable form. One of the important factors in the process is to recognize relationships between categories. Moreover, it is important to be able to find patterns and key themes within the data. This process helps to determine the meaning and causal relationships in the data. In addition, the interpretations of meaning might lead to new categorization process as the key themes and relationships are uncovered from the data. The initial categories might not wholly support the uncovered meanings and thus new categorization might be required. Subdividing or integrating categories might be possible in order to redefine or refocus the analysis. (Saunders et al. 2007: 482).

Developing hypothesis from the data material is one aspect of qualitative research. Hypotheses are used to test patterns and relationships that might occur between the categories of the data. It is important to set out to test these hypotheses in order to find out whether an alternative explanation or interpretation could emerge from the context. Testing the hypothesis enables the researcher to discover possible alternative explanations or associations within the data.

On the whole, the process of qualitative analysis is interactive and empirical in nature. The data collection, analysis and the development and recognition of patterns, themes and relationships from the data are correlated and interactive. The analysis of the data takes place both before and after the data has been collected. (Saunders et al. 2007: 484).

5.4.3 Arguments for and against the qualitative research

The nature of qualitative research is exploratory and empirical. Qualitative research is founded on smaller samples of the total population which are intended to provide a detailed understanding and insight into the subject. Moreover, qualitative data is any data that tries to approximate or characterize the given research material. As such, it does not measure the qualities, characteristics or the properties of an entity or a phenomenon. Qualitative data deals with descriptions of things and it focuses on aspects that can be observed but not necessarily measured.

Qualitative research has its foundation on psychology and social disciplines. It is based on disciplines like linguistics, semiology, sociology and social anthropology. The purpose of qualitative research is to gain a holistic understanding of the matter. (Malhotra & Birks, 2007: 152-153).

There are also some disadvantages in doing qualitative research, however, which can also hinder and make the results susceptible to distortion. First of all qualitative data is susceptible to the interpretation of the researcher. The data analysis is affected by the personality, prior knowledge and current expertise of the researcher. As such personal opinions, preconceptions and unfamiliarity with the subject might play a role in the data analysis. Therefore, there is a possibility that the data is interpreted in light of previous experiences of the researcher.

One principal argument against the use of qualitative research is that it lacks the representative sampling. As such qualitative research is focused solely on a few isolated cases and cannot give comprehensive answers and measurable material by itself. As there is a lack of representative sampling qualitative research is prone to the influence of circumstances and other unpredictable conditions that might distort and misrepresent the study.

However, a considering the small size of the current thesis and the capacity of one person in the research process it would have been rather challenging and strenuous to produce a larger sample for the study. A larger sample would have required substantially bigger time frame, a larger budget and other resources to carry out.

The current thesis incorporates six companies in the sample that were analyzed for the data. The companies operate in different industries and vary somewhat in size and organizational structure. In this respect, it is possible to interpret an objectively comprehensive and holistic interpretation and analysis from the data. Moreover, six case-study companies are enough to give the research a greater heterogenic data for the analysis. It also gives the opportunity to focus more on the separate financial material of each organization as a larger sample would, especially considering the restricted nature of the thesis time wise.

5.4.4 The analysis of the data

Qualitative analysis can approach the subject from deductive or inductive perspective. Deductive method aims to use existing theory as the foundation for approaching the data. Inductive method, however, seeks to build a theory that is based on the research data. (Saunders et al. 2007:487-489).

This thesis incorporates both approaches to the data analysis. The first approach is from theoretical perspective by using deduction method. The thesis is based on the theoretical framework and the research material is then analyzed and reflected against the theory.

In order to use deductive method I identified the main themes and issues in the research project and tried to predict relationships between them. In regards to corporate governance reporting I identified three principal themes which were internal control, risk management and internal audit reporting. Moreover, I predicted that there is an interrelated relationship between the

three main themes. Deduction method is advantageous approach to start with as it enables the researcher to use an existing body of knowledge to provide guidance with analyzing the data.

However, in order to distinguish whether the corporate governance reporting practices of publicly listed companies in Finland are in fact unified and cohesive in nature I will use the inductive approach. The inductive approach will try to uncover a pattern, a theme or causal relationship in order to formulate a theory that can be applied between the companies in the case-study. By using both the deductive and inductive approach I can generate more conclusive responses to the research objectives and question.

The material used in the analysis part of the thesis included the financial statements, annual reports and corporate responsibility reports of the year 2014 as well as any corporate governance material found on the companies' websites. This formed the basis of my analysis.

According the Limited Liability Companies Act (OYL 21.7.2006/624) the company must evaluate any relevant risks facing the business. For this reason I decided to include information on risk management from the sections in annual reports concerning the board of directors.

Moreover, according to the IFRS standard 7 the risks involving financial instruments must be disclosed in the notes to the accounts (Haaramo et al. 2005: chapter 6). Therefore, the notes to the accounts have also been used as data material concerning risk management reporting. As a result the information on risk management is scattered and it cannot be assumed that all of the relevant data can be found exclusively in one separate paragraph. Moreover, some companies might choose to present risk management information in the annual report of the board.

I developed a restricted set of categories for research purposes in order to evaluate the data. These categories were formed from the Finnish Corporate Governance Code recommendations and they essentially focused on the recommendations 48-50 and 54-55.

Thereafter I formed a table with each category to help with the data analysis (TABLE 2). I used the table to support the evaluation of the data in reflection to the research objectives and research questions. I read the Corporate Governance Statements of the companies and the relevant parts of the financial statements. I compared the texts to one another and made notes of what I had read. What is more, I used the table of categories as the foundation to help review the data and to determine whether all the relevant information disclosures in relation to the categories were present in the material of each company. While reading the materials I assessed the contents of the texts.

In regards to content, the data from the companies' financial statements and reports were read and analyzed according to content analysis method. The purpose of the content analysis method was to discover whether any commonalities such as similar themes or trends would come up from the data, if any (Dufva et al. 2011:132-133).

Content analysis was conducted in reflection with the categories. The research data was first reduced to smaller sections according each category (TABLE 2). I examined the material to find the relevant information from the companies to fit each category and examined the research data in order to find similarities and differences in reporting. Moreover, I searched the data further to find the relevant information in relation to the recommendations of the Code reviewed in the study. I also gathered the information from each company under the same category in excel spreadsheet included with page numbers in order to ease the comparison process of the study and the workload. The excel spreadsheet was a convenient method for keeping a journal on the critical findings. Moreover, I was able to find the appropriate pages rather effortlessly even though there were substantial amount of material to research.

Thereafter I formed a description of each category and reflected the contents of the categories to the recommendation of the Finnish Corporate Governance Code of 2010. The purpose was to draw conclusions from the contents of the reports to find out whether the disclosure practices of the companies were harmonized and abiding to the Code.

Later on, the chapter 6 will present the results of the analysis according to each category. What is more, the last chapter of the thesis will address the conclusions derived from the result.

Finnish Corporate Governance Code 2010	Fiskars Oyj Abp	Fortum Oyj	KONE Oyj	Metso Oyj	Stora Enso Oy	Wärtsilä Oyj Abp
Internal control, risk management and internal audit						
Comply or explain - Full adherence to the Finnish Corporate Governance Code	x	x	26,29 & 32 excluded	x	x	x
Recommendation 48 - The company shall define the operating principles of internal control	unclear	Adequate	Adequate	x	x	x
Recommendation 49 - The company shall disclose the major risks and uncertainties that the board is aware of and the principles along which risk management is organised	x	x	x	x	Focus on financial risks alone	x
Recommendation 50 - The company shall disclose the manner in which the internal audit function of the company is organised	Adequate	Adequate	Passable	Insufficient	Adequate	Insufficient
Corporate Governance Statement						
Recommendation 54 - the company shall issue a separate Corporate Governance Statement	x	x	x	x	x	x
Investor information on the company website						
Recommendation 55 - Investor information on the company website	x	x	x	x	x	x

TABLE 2. Categories of research data

6 RESEARCH RESULTS

6.1 Overview

This section of the thesis will contend with the results of the data and the data analysis process. The results are based on the research material that was gathered and analyzed from the financial information and annual reports of the case-study companies. The purpose of the analysis was to uncover whether the corporate governance reporting of the sample companies are unified, comparable and consistent, if at all.

Moreover, the purpose is to examine how and to what extent are the issues of internal control, risk management and internal audit disclosed and elaborated to the shareholders and public.

The research questions were summarized into the three following questions:

1. In what way are the aspects internal control, risk management and internal audit arranged in regards to the Code?
2. Is the corporate governance information and reporting unified and comparable between the companies?
3. Are the corporate governance practices harmonious and in accordance with the current guidelines of the Finnish Corporate Governance Code of 2010?

The findings of the present study are categorized under the three domains of corporate governance reporting. These areas of governance reporting are internal control, risk management and internal audit and each of the topics are addressed separately in the following paragraphs. The recommendations concerning these three domains fall under recommendations 48-50 of the Finnish Corporate Governance Code of 2010.

Additionally, I will assess the corporate governance reporting in relation to 'Comply or Explain' principle and the recommendations 54 and 55 that con-

cern the issuing of separate Corporate Governance Statement and investor information. Each recommendation and the compliance with them are discussed in greater detail in the following chapters.

The Finnish corporate governance code of 2010 does not mandate at which section of annual reports or financial statements a company should disclose the information about internal control, risk management and internal audit. It is only stated that the matters concerning the corporate governance of the company should be easily accessible and visible to the reader.

Nonetheless, according to the corporate governance recommendation a company ought to present the required information in the annual report and also disclose the information on the company website. However, this is not an obligatory practice for the companies. Nonetheless, in the event a company does not publish an annual report the necessary information about the company governance must be presented in the financial statements.

In regards to this research, all but one company included in the case-study had selected to compose an annual report containing corporate governance information, which was then further published on their websites. Metso Oyj was the only company to produce corporate governance information solely on the website of the company and not as part of either the annual report or the financial statements; a method that is not entirely in compliance with the recommendations of the Code. In this respect, Metso deviated from the Code but did not issue a separate explanation for the fact.

Almost all of the case-study companies presented their corporate governance information in either the annual reports or financial statements of the 2014, Metso Oyj excluded. What is more, the matters of corporate governance were presented most frequently in a completely separate unit, labelled as 'Corporate Governance Statement' or 'Governance' in the annual report or the financial statement. This practice was in accordance to the recommendation 54 of the Code that requests the companies to issue a separate paragraph of Corporate Governance Statement.

Stora Enso Oyj was the only company that composed a totally separate corporate governance report for the year 2014 instead of presenting the information alongside the annual report or financial statement. What is more, Stora Ensa Oyj had already drafted an early corporate governance guideline and report for the current year of 2015. In general, the reporting of Stora Enso Oyj provided the most sufficient and accurate information in comparison to all the other companies.

Nonetheless, it was not the purpose of the study to determine where exactly the corporate governance reporting is presented on the reports and statements. The point of the study was to find out how the relevant information is displayed to the public and shareholders on the reports and moreover, what exactly is included in the reports and to what extent are these issues elaborated. In addition, the purpose of the research was to investigate whether the reporting practices are united, comparable and in accordance with the Finnish Corporate Governance Code of 2010.

It is also noteworthy, that in relation to data material, according to the law the publicly listed companies are by no means obligated to compose an annual report. Additionally, corporate responsibility reports are also discretionary. However, it is mandated by law that all companies must compose financial statements.

6.2 Comply or explain

The annual reports of Fiskars Oyj Abp, Fortum Oyj, Metos Oyj, KONE Oyj and Wärtsilä Oyj Abp, stated that they are members of the Finnish Securities Market Association and as such comply, without any exceptions, with the Finnish Corporate Governance Code of 2010. What is more, all of the companies in the study had a separate Corporate Governance Statement as the recommendation 54 of the Corporate Governance Code requests. Overall, almost all of the companies were in compliance with the Code for the most part but the extensiveness and detail to following the recommendations varied.

As mentioned before, all of the companies had followed the recommendation 54 by issuing a separate Corporate Governance Statement report. This Statement should include information on compliance with the Code; whether the company has departed from an individual recommendation, information on this as well as the reasons for not complying with the recommendations.

Most of the companies were following recommendations concerning information disclosures of recommendation 54 in its's entirety. What is more, none of the companies claimed to follow any other international corporate governance code other than the Finnish Corporate Governance Code.

Five of the case-study companies stated to comply fully with the Finnish Corporate Governance Code of 2010. However, Metso Oyj was the only company to produce corporate governance information solely on the website of the company and not as part of the annual report or financial statement which as such is not entirely in accordance with the Finnish Corporate Governance Code of 2010. To conclude, the company had disclosed the required information but the domain where the required information was published was not adhering to the Code.

In respect to following the Code fully, KONE Oyj was the only company to deviate from the recommendations of the Code. However, in accordance to the 'Comply or Explain' principle, Kone Oyj had issued a separate explanation to communicate which of the recommendations in the Code were not complied with. Furthermore, the company also disclosed the reasons for deviating from the Code as mandated by the recommendation 54.

In the Statement, KONE Oyj specified to comply with the Finnish Corporate Governance Code, with the exception of recommendations 26 (Independence of the members of the audit committee), 29 (Members of the nomination committee) and 32 (Members of the remuneration committee). Other recommendations of the Code were adhered to.

The exceptions to the adherence of the Code were due to the KONE's differing ownership structure. The largest shareholder of the company, Antti Herlin, has control of over 60 percent of the company's voting rights as well as 22 percent of its shares alone. Due to the significant entrepreneurial risk associated with the large ownership, the company explains as the reason for the departure from the Code. The main shareholder serves as the Chairman or Member of the Board of Directors and as a member of its Committees and, in this capacity, is able to oversee the shareholders' interests.

All things considered, each company had adhered to the 'Comply or Explain' principle in corporate governance and reported clearly and precisely which of the recommendations are complied with. Moreover, deviations from the code were openly publicized. In regards to the 'Comply or Explain' principle, the reporting was comparable, harmonious and in accordance with the Finnish Corporate Governance Code of 2010.

6.3 Internal control, risk management and internal audit in the case-study companies

The purpose of internal control, risk management and internal audit functions is ensure that the accounting information and financial reports produced by the organization are reliable and accurate. Moreover, these functions are put in place to make sure that the company is managed effectively and according to the current laws and regulations and that any possible business risks are also recognized, evaluated and disclosed in the reports.

The recommendations 48-50 of the Finnish Corporate Governance Code provide the foundation for the organization of internal control, risk management and internal audit. The recommendation 48 asserts that a company must define the operating principles of internal control. The code also stresses that the company must also monitor its activities on regular intervals with the intention of warranting productivity and effectiveness of its operations.

What is more, the companies are recommended to disclose any key risks and uncertainties that are acknowledged (recommendation 49). The recommendation also requires the companies to disclose the operating principles for risk management and assessment. Risk management includes defining, assessing and monitoring the potential risks. (Finnish Corporate Governance Code, 2010: 22).

As discussed in the previous section, the recommendation 54 of the Code also necessitates the companies should issue a separate Corporate Governance Statement in connection with the report by the board of directors. The Statement should include information on compliance with the Code; whether the company has departed from an individual recommendation, information on this as well as an explanation for the departure.

The companies shall also provide a description of the main features of the internal control and the risk management system in relation to the financial reporting process and risks. What is more, the statement should also include a description of the composition and tasks of the board and board committees, also a description of the body that is responsible for the duties of the audit committee and information on the tasks of the CEO. (Finnish Corporate Governance Code, 2010: 25).

The recommendation 55 states that companies shall disclose investor information on the company website. The recommendation 55 presents a summary of the information that “shall be made available on the company website in accordance with the different recommendations of this Code, information required by law or other regulation as well as other information that promotes the investors’ ability to obtain information about the company” (Finnish Corporate Governance Code, 2010: 26).

According to the Finnish Corporate Governance Code, the disclosure of information and reports should be reliable, accessible and up-to-date. The information should also be available for the minimum of five years in the company websites.

In accordance to the recommendation 54, all of the case-study companies complied with the code concerning information disclosure on a separate Corporate Governance Statement. All the case-study companies also provided information on internal control, risk management and internal audit procedures. However, there were substantial differences between the companies in regards to the extent and comprehensiveness of the information concerning them.

All things considered, Wärtsilä Oyj Abp and Stora Enso Oyj had the most detailed and comprehensive reporting in terms of quality. Correspondingly, also Fortum Oyj’s reports were extensive and of high-quality.

The most unsatisfactory reporting was released by Metso Oyj. Although the information on governance was sufficient enough, the layout and the scattered structure of the website however, made it hard to find the relevant information with ease. Therefore I must conclude that in relation to recommendation 54, the governance information provided by Metso Oyj was not easily accessible for the public.

6.3.1 Recommendation 48 – the definition of operating principles of internal control

The recommendation 48 of the Code note, that a company shall define the operating principles of internal control. What is more, the company must also monitor its activities on regular intervals with the intention of warranting productivity and effectiveness of its operations.

The reporting on internal controls varied substantially in terms of extent and detail. Wärtsilä Oyj Abp and Metso Oyj provided the most comprehensive and precise information on the organization of internal control, the main principles and the monitoring activities that were performed. What is more, both of

the companies also stated to define the internal control in accordance with the COSO framework of the Committee of Sponsoring Organizations that was discussed in the section 4.1.3.

According to the Wärtsilä Oyj Abp annual report, the company has defined its objectives for internal control according to the international COSO framework. In addition, the company had a diagram of the internal controls that covered the policies, processes, procedures and organizational structure within the company in order to ensure that Wärtsilä is able to achieve its operational objectives. Moreover, according to the diagram the system of internal control operates at all levels of the company. Additionally, it was mentioned that Wärtsilä Oyj Abp maintains and develops its internal control system at regular intervals.

Key principles of internal control by Wärtsilä Oyj Abp were stated clearly and precisely. It was disclosed, that legal and compliance management acts as a key component in internal control of the company. As such, the Legal Affairs team supports the President and the CEO in analyzing and making decisions on company matters. The matters involve contract policy, risk management and regulatory concerns of internal control. Another key activity is to lead compliance management and to strengthen the culture of appropriate conduct and behavior, both in internal and external business operations. Control mechanisms and processes are a part of the overall internal control system and they are applied company-wide. However, the information on internal controls monitoring the financial reporting was very limited in the Corporate Governance Statement.

Metso had also extensive information available on internal control. Metso declared that one of the main principles of internal controls in regards to financial statements was the generally accepted accounting principles, the IFRS standards. Moreover, the company disclosed that the control standards are regularly updated to be in line with the Committee of Sponsoring Organizations (COSO) framework and the Metso's business control environment.

In regards to internal control all companies in the study stated that the board of Directors bear the overall responsibility for the internal control over financial reporting. The companies were also all of the same opinion on the matter of monitoring the results of internal controls. Each company declared that the main obligation of monitoring the effectiveness of internal control is the responsibility of the Board. What is more, all the companies disclosed that the president and CEO are responsible for retaining an effective control environment and the ongoing effort on internal control regarding financial reporting, which is mandated by the Limited Liability Act.

Metso Oyj reported to have a written formal working order with the purpose of clarify the main responsibilities of the Board in regards to internal controls. Moreover, Metso has an established internal Compliance Program to ensure the correctness and credibility of financial reporting and compliance with governance principles of the Code.

Metso also provided extensive information on monitoring its activities. The company stated that monitoring includes the follow up of monthly financial reports and reviews of rolling estimates and plans. Also reports from Internal Audit and quarterly reports by independent auditors are a part of monitoring process.

The Metso Corporation also has an Internal Audit Department, which is detached from the operational management of the company. It is the responsibility of the Internal Audit Department to audit the internal control system and processes as well as the management of business risks. The department reports its findings to the Audit Committee. All in all, in comparison to others, Metso Oyj delivered the most thorough and precise information on internal controls.

The reports of Fortum Oyj, Kone Oyj and Fiskars did not cover the issues of internal control in such detail as Wärtsilä and Metso. In fact, the reporting of the companies was quite disappointing as the information disclosed was short and lacking in detail. The principles of internal control were not clearly stated and there was hardly any description of the procedures involved in internal controls of the companies.

Fortum Oyj stated that the aim of internal control framework is to support the execution of strategy and to make sure that regulations are complied with and moreover, that the financial reporting is dependable and accurate. It was stated, that the assurance of the financial performance controls was the responsibility of the Corporate Accounting and based on Group instructions and guidelines. Furthermore, all that was said is that the internal control structure consists of Group policies and processes in addition to business and support procedure controls.

It was established that Fortum's control governance follows the acknowledged Fortum Oyj's Control Governance "Three lines of defense" -model. However, the company provided no additional detail on how the control and monitoring measures that the company are performed. What is more, there was very little description of the framework itself on which the internal control of the company is based on.

KONE Oyj did not provide much information in regards to internal controls within the company. What is more, the main principles of internal control were not clearly or openly articulated as the recommendation 48 requests.

KONE Oyj stated that the purpose of the internal control system is to ensure that the Group's operations are efficient and profitable and that business risk management is adequate and financial reporting reliable. The control system also oversees that operating principles and given instructions are followed accordingly. In regards to monitoring, Kone Oyj stated that the Board's Audit Committee is responsible for monitoring the functioning of the internal control processes.

In regards to Fiskars Oyj, the information on internal control was scattered and incoherent. Additionally, the information disclosure was short and vague. The company disclosed that the board approves the principles of internal control and risk management. The Statement provided no further information on

the principles of internal control and what they were. It was only declared that the purpose of internal control was to ensure that the management has the necessary and accurate information in order to lead the company. Moreover, internal control played a strategic part in ensuring the reliability and accuracy of published financial reports (Fiskars annual report, 2014: 36).

The recommendation concerning internal control does not explicitly demand the companies to report on principles of operations. The companies are only advised to define the principles. The vagueness of the recommendation leaves room for interpretation as to what exactly should be reported concerning the principles of internal control. However, the majority of the companies did report the principles of operation concerning internal control. Nevertheless, Metso Oyj excluded, the reporting on the principles of internal controls was neither comprehensive nor precise.

Nevertheless, it is to be noted that the term and definition of internal control is extensive in its own right. The recommendation also does not define what is to be considered as internal control measures. What is more, many aspects of internal control are included in the risk management processes of companies and are thus combined with the recommendation 49. The control measures of internal controls are often annexed with internal audit (recommendation 50).

Therefore, the risk management procedures and internal audit functions are also a part of the internal control processes enclosed in the recommendation 48. As a consequence, the corporate governance reporting in regards to risk management and internal audit are in fact a part of the key principles in the governance of internal controls. Internal audit on the other hand, has an important role in monitoring.

As such, the research into internal controls of companies is not straightforward; the subject is multi-faceted and intertwined between the recommendations 48-50.

6.3.2 Recommendation 49 - disclosure of risks and risk management

According to the recommendation number 49, a company shall disclose the major risks and uncertainties that the board is aware of and the principles along which risk management is organized.

In relation to risk management, the reports of Fiskars Oyj were exceptional in the detail and in-depth of the risk management protocol. In comparison to other case-study companies, Fiskars had the most extensive and thorough information on principal risks and uncertainties. Moreover, when compared to internal control reporting of Fiskars in the last chapter, the risk management of the company was covered in substantial detail.

On the Corporate Governance Statement of Fiskars, the company had divided the principal risks into three main categories; strategic risks, operative risk and financial risks. Within the each category there were disclosed approximately 3 to 8 examples of principal risks facing the company. Each of the risks

had a separate description of them, evaluation of their possible effects on the company and specifically detailed information on how the risks are anticipated and managed.

What is more, Fiskars Oyj had included a detailed process flowchart of the risk management processes within the company. None of the other case-study companies had included charts or figures in their corporate governance information of risk management.

Fortum Oyj, on the other hand, had the most thorough description of the principles by which the risk management was organized with. One such principle was the formation of an independent Risk Committee. The principles of risk management were then combined with the tasks of the Risk Committee in supervision of risk management processes. In addition to Fiskars, Fortum also had a specific plan for the reviewing and anticipation of main risks. The main responsibility for providing instructions and orders concerning the risks, however, was assigned to the Board of Directors.

The separate Risk Committee of Fortum was in charge of supervising and assessing potential business risks. Together with the Audit Committee, the Risk Committee oversees the financial reporting processes and monitors the efficiency of the internal controls and risk management within the Group.

The Committee has a written agreement in which its duties have been defined. Moreover, the company issued, that in regards to the Finnish Corporate Governance Code 2010, the members of the Risk Committee shall have the necessary qualifications to perform the responsibilities assigned to them. The members shall have knowledge especially in accounting, bookkeeping or auditing. The members were also stated to be independent of the company influence and at least one the members must be independent of the significant shareholders. (Fortum annual report 2014: 256-257).

The Risk Committee of Fortum reports directly to the Board of Directors on a regular basis and the committee addresses the board after each board meeting. Moreover, it is determined that the Risk Committee shall review its charter yearly and it also carries out independent self-assessment of its own work and progress.

The duties of the Risk Committee include monitoring the financial position of the company and overseeing the financial reporting processes. Moreover, the Committee monitors the reporting process of financial statements and the efficiency of the company's internal control, internal audit, and risk management systems. This involves reviewing the description of the main aspects of internal control and risk management systems. The committee is also responsible for annual reviewing of the Group Risk Policy and risk exposures and any legal disputes and proceedings that company is involved in. (Fortum Oyj Governance, 2014: 7-8).

Stora Enso Oyj, on the other hand, had the most insufficient and shortest risk management reporting of the case-study group. The company did not provide much information on principles involved in risk management nor was there any description of the main risks concerning the company. However, the

company declared that internal control was based on COSO framework and as such entailed risk assessment as part of the risk management process. All that was revealed about the risk management process of Stora Enso was that risk assessment involves the identification and analysis of relevant risks in order to achieve the company objectives.

Therefore, the analysis of risks was said to form the basis for determining how the risks should be managed. Later it was stated that the major risks affecting internal control over financial reporting have been identified, but the company offered no clarification as to how the risks were determined or what those risks might have been. The company did however discuss the possible risk scenarios in a short paragraph regarding risk assessment of the financial instruments of the Group.

The risk assessment of Fortum had been evaluated at different levels, such as Group, division, units and processes. The risk assessment includes risks related to fraud and misconducts, as well as the risk of loss or embezzlement of funds. Stora Enso had also assigned the risk assessment of essential risk areas to be communicated to the Financial and Audit Committees.

Moreover, the efficiency of the risk assessment and the implementation of control activities are monitored constantly at various levels within Stora Enso. Monitoring involves assessments of results that are then compared with budgets and plans, analytical processes, and strategic performance indicators among other things.

Taking everything into account, Stora Enso's risk management disclosure concerned primarily the assessment of financial risks and the monitoring of risk regarding financial instruments. The reporting of potential risks of other kind and their prevalence was insufficient and vague at best.

For their part, Metso Oyj declared that risk management is set up to support the achievement of its strategic goals and business objectives. Moreover, risk management functions as well to guarantee the stability of its business operations regardless of market fluctuations. Metso states that risk management is an essential element in the shareholder value creation process and as such demand great attention.

Of all the companies of the study, Metso was the only company to view risks also in positive light. Metso had defined risks as uncertainties, which can either impact the company positively or negatively in regards to achieving its goals, if materialized. Risks were regarded as either opportunities or threats or a combination of the two.

Furthermore, Metso had assessed the consequence of risks as a combination of both likelihood as well as impact of the occurrence. As such Metso's risk management approach and reporting in regards to recommendation 49 was exceedingly comprehensive when compared with the other companies in the case-study. Risk management report highlighted not only the anticipation of risks but also proactive actions taken against them.

Metso also had a systematic approach to monitoring the risk management. Risk management was ingrained in the daily operations through the ISO 31000

standard. The company's risk management was established in accordance to the requirements of the ISO standard, which formed the basis of the risk management procedures. Consequently, Metso was the only company to disclose the use of any ISO standard in regards to risk management.

What is more, Metso also disclosed the potential nature of risks extensively. The risks were categorized as operational, financial, strategic, and hazard risks. The risks were thereafter assessed in terms of positive or negative impact in a scale of impact. The levels on the scale were low, medium or high impact. The risk reporting of Metso Oyj was as substantial and detailed as Fortums. Both of the companies stood out from the rest of the companies in regards to the quality and detail of information.

As far as KONE Oyj was concerned, the risk reporting did not follow the recommendation accordingly. The company reported that Risk Management and Strategy Development functions coordinate together in order to develop a regular assessment of potential risks in primary business planning and decision-making processes. In regards to risk assessment of the recommendation 49, the company reported to evaluate the risks related to its business environment, operations and financial performance continually with the purpose of restrict unnecessary or unwarranted risks. In addition, the identification and evaluation of risks is included as part of the strategic planning and budgeting processes.

Moreover, KONE Oyj stated that key risks are reported to the Risk Management function which in turn communicates the risk information to the Executive Board. Moreover, the Board of Directors is responsible for reviewing the risk portfolio regularly. However, KONE did not disclose as to what the key risks of the company are neither in the annual report nor in the financial statement. This is in violation of the recommendation 54 of the Code, as no disclosure of the potentially major risks is given in the Corporate Governance Statement. Nevertheless, I was able to find the related information on KONE's website.

On the website, the risks were elaborately discussed under the heading 'Risk Management'. As such, it is in accordance with recommendation 55 that requires companies to disclose relevant information for the investors on the website but in violation of recommendation 54. In recommendation 55 concerning investor information, one of the issues mentioned was the disclosure of risk management and major risks on the company website, just as KONE Oyj had done. To conclude, in the case of KONE the company had disclosed the required information but the domain where the information was published was not entirely adhering to the recommendation 54.

The risk management of the Code also involves evaluating potential financial risks. All in all, in regards to financial risks, the reporting was highly consistent. In general, the reporting and information concerning financial risks was unified and comparable between the companies. The risk assessments relating to financial instruments and financial reporting were harmonious and also extensive.

However, this consistency in financial risk reporting might be due to the IFRS standards that regulate the reporting in regards to financial instruments. The IFRS standard 7 obligates the companies to disclose financial risks concerning financial instruments (Haaramo et al. 2005: chapter 6). Therefore, it cannot be concluded that the harmony of reporting practices regarding financial risks could necessarily be caused by attentiveness to corporate governance recommendation 49 but rather due to diligence to International Financial Reporting Standards in the consolidated financial statement.

In regards to risk management reporting, the recommendation 49 does give ample flexibility to companies to decide which areas of risk management they should disclose. Moreover, it does not address what precisely is meant by the principles of risk management that the companies are requested to disclose. Right now, the understanding and interpretation of principles are left to the discretion of the companies. In this sense, the risk management reporting of companies can turn out to develop disconnected and inconsistent by nature as witnessed in the assessment of the research material in this study.

6.3.3 Recommendation 50 – Disclosure of internal audit function

According to the recommendation 50 the company shall disclose the manner in which the internal audit function of the company is organized. According to the Code “The disclosure must include the organization of the internal audit function and the central principles applied to internal audits, such as the reporting principles. The organization and working methods of the internal audit function depend on, e.g. the nature and scope of the company’s operations, the number of personnel and other corresponding factors.” (Finnish Corporate Governance Code, 2010: 22).

In regards to internal audit the information disclosure was not entirely in accordance with the recommendations of the Code. None of the companies failed to disclose the reporting principles of internal audit that the recommendation highlights. What is more, there was hardly any information on the evaluation of the scope and nature of internal audit with regards to the size of the company and its operations.

The reporting of Fiskars on internal audit, for one, was very brief. It contained hardly any detailed information on how the internal audit was organized inside the company. Fiskars also did not disclose any principles that the internal audit followed in accordance to monitoring the financial reporting. All that was mentioned in the Statement was that the internal audit committee was in charge of monitoring the reliability of financial statements but no further information was given to how the committee monitored the reliability of reports. All that was really said was that a committee had been established and a manager of internal audit answered to the board of directors.

Nonetheless, the Statement of Fiskars briefly declared that the purpose of the Internal Audit was to review how well the internal control systems function.

Moreover, the aim of internal audit also monitored the appropriateness and efficiency of tasks and duties.

The report mentioned that an internal committee, with an independent role, had been established within the company and it was in charge of the internal audit functions of the company. The manager of the internal audit unit reported to the Board's Audit Committee. All the members of the Audit Committee were said to be independent of the Company and the most members were independent from company's significant shareholders, which is fully in compliance with the recommendation 50 of the Code.

According to the Committee Charter of Fiskars, the Audit Committee is responsible for monitoring and supervising the financial statement reporting process, monitoring the effectiveness of the internal controls, internal auditing, and risk management. Also reviewing and monitoring legal issues that Fiskars is involved in as well as reviewing the Corporate Governance Statement of the company was tasked to the Committees main responsibilities among other things.

However, the information on the Corporate Governance Statement of the company did not offer any other description as to how and when the duties of the committee or the internal audit were performed and how often the measures were undertaken.

Similar to Fiskars, Stora Enso Oyj reported very little about the internal audit of the company and according to the Governance Statement, Stora Enso had also implemented a separate internal auditing body. The role of Internal Audit was defined as providing independent and objective assurance services for the improvement of the Group's activities. Moreover, it was reported that internal Audit evaluates and improves the effectiveness of internal control, risk management and governance processes.

In regards to monitoring the reliability of financial reporting, the internal Audit department's personnel report directly to the head of Internal Audit, who reports functionally to the Financial and Audit Committee and to the CFO. The tasks of the internal Audit unit of Stora Enso consisted of regular audits at mills, subsidiaries and other Company units. Moreover, the Committee was responsible for implementing an annual audit plan approved by the Financial and Audit Committee and the Financial and Audit Committee.

What was evident in Stora Enso's Corporate Governance Statement was that the disclosure concerning internal audit did not include the central principles applied to internal audits. What is more, the company disclosed very little over the organization of the internal audit function; only the chain of command of the internal audit unit was clearly expressed.

Another notable aspect in the deviation from the Code was the lack of disclosure concerning the competence and qualifications of the members in the internal audit unit. The only thing in regards to qualification was that the report mentioned one of the members of the Financial and Audit Committee had to be an expert in the field of accounting and finance. However, no such requirements were put in place for the internal audit committee that reports to Finan-

cial and Audit Committee as a whole. In fact, there was no mention of any qualifications for the members of internal audit in general.

Like the others, the Metso Corporation also has an Internal Audit Department, which is detached from the operational management of the company. It is the responsibility of the Internal Audit Department to audit the internal control system and processes as well as the management of business risks. The department reports its findings to the Audit Committee.

In case of Wärtsilä, the company necessitates that the internal audit members of the company shall have the qualifications necessary to perform their responsibilities. The Board has issued a separate charter to define the duties of the Audit Committee. The Audit Committee's responsibility is to monitor the reporting process of financial statements and financial reporting. Moreover, the Committee monitors the efficiency of the internal control and risk management systems. Furthermore, the Committee is involved in reviewing the main features of the internal control and risk management in regards to the financial reporting process. The focus of Wärtsilä's internal audit functions supported the financial processes and risk management concerning financial reports.

The purpose of the Group's Internal Audit unit was declared to analyze the effectiveness of the company's operations and processes. The Internal Audit function is organized at all organizational levels and subsidiaries and initiated annually in the main subsidiaries and it is executed according to the annual plan.

The recommendation of the Code concerning internal audit is precise and clear-cut. Regardless of the fact, almost all of the companies deviated from the code and failed to disclose how the internal audit function was organized within the companies. What is more, the main principles of internal control were not disclosed by all companies.

Probably due to the straightforwardness of the recommendation 50, however, the internal audit reporting of case-study companies does not differ from one another as much as the reporting concerning internal control and risk management. Internal audit reporting of the companies was found to be the most harmonious and consistent between the companies, albeit lacking of extensive information.

All companies reported the internal Audit Committee to be independent from the company. Moreover, each company mentioned at least a few things of the functions of the Committee; some more and some less. The scope and complexity of the disclosure varied but overall, the disclosure of recommendation 50 provided the least amount of material. Moreover, internal audit sections also provided the least amount of information in terms of length of the texts. Additionally, the lack of details and in-depth descriptions was evident in the reporting material of the companies.

Although some companies provided more detail on the scope of internal audit, however, the report material was found to be lacking of information concerning the organization of internal audit and the tasks it was assigned to perform within the companies. However, the chain of command inside the Internal

Audit Committee and within the companies was reported by each company in a clear-cut and precise manner. In respect to the chain of command in internal audit, the companies provided the most united and consistent reporting material in the study. Nevertheless, the depiction of internal audit was in most cases brief and unclear.

6.3.4 Recommendation 54 - Corporate Governance Statement

As discussed in the section 6.1 concerning 'Comply or Explain' rule, all of the companies in the study had followed the recommendation 54 and issued a separate Corporate Governance Statement. According to the Statement, companies should disclose information on compliance with the Code; whether the company has departed from any individual recommendation. Moreover, the company should give additional information on the deviation as well as the reasons for not complying with the recommendations. With regards to recommendation 54, most of the companies reported to follow the recommendations of the Code in full.

The recommendation 54 of the Code also necessitates that the companies shall also provide a description of the main features of the internal control and the risk management system in relation to the financial reporting process. What is more, the statement should also include a description of the composition and tasks of the board and board committees, also a description of the body that is responsible for the duties of the audit committee and information on the tasks of the CEO. (Finnish Corporate Governance Code, 2010: 25).

With regards to the description of composition and tasks of the board the reporting of the companies was in accordance with the Code. What is more, all of the companies provided a detailed description of the structure, members and main responsibilities of the Board of Directors.

Correspondingly in accordance to the recommendation 54, all of the case-study companies complied with the code concerning information disclosure on a separate Corporate Governance Statement relating to information on internal control, risk management and internal audit procedures. However, the reporting of these elements differed substantially between the companies in regards to the extent and comprehensiveness of the disclosed information.

Overall, the companies adhered to the recommendation 54 in full. The information provided was united and precise and seemed to follow a similar logic and structure.

6.3.5 Recommendation 55 - Disclosure of investor information

The recommendation 55 of the Code states that all companies shall disclose investor information on the company website. What is more, the recommendation 55 presents a summary of the information that "shall be made available on the company website in accordance with the different recommendations of this Code, information required by law or other regulation as well as other infor-

mation that promotes the investors' ability to obtain information about the company" (Finnish Corporate Governance Code, 2010: 26).

The list of requirements consists of any information that might have relevance to the investor. The list of requirements include disclosure of information concerning compliance with the code, statements, general meeting, board and its committees, managing director and other executives, risk management and control as well as audit.

The recommendation requires that the company shall present the aforementioned information on its website that is relevant from the perspective of an investor. Some of the information includes, inter alia, the information mentioned in recommendation 54, Remuneration Statement, notice of the general meeting, the names of managing director and other executives and their biographical details and duties. Moreover, essential contents of the charter of the board and its committees, shares as well as organization and composition of the management should be given. Also information on the Auditor of the company, auditor's fees and fees paid to the auditor for non-audit services among other things. (Finnish Corporate Governance Code, 2010: 26-27).

The practice, by which the relevant information in relation to the recommendation should be disclosed, is not addressed in the Code. However, according to the recommendation 55, the nature of information and governance reports on the website should be reliable, easily accessible and up-to-date. The information should also be made available for the investors for the minimum of five years.

All companies were in accordance with the five year -mandate. For instance, the website of Stora Enso included reports dating back as far as 1998. Fiskars, on the other hand had maintained the information only for the minimum requirement of five years, dating back to 2010. In relation to other companies the age of retained information on the website varied between the minimum requirements of five years to anything short of ten years.

Moreover, the reporting in regard to general meeting and Remuneration Statement as well as the information disclosed of the managing director and other executives were in line with one another. The reporting was harmonized and comparable in regards to each other. Also information in relation to the board and its committees, shares and composition of management was disclosed accordingly. All of the companies had also disclosed the information on audit functions.

Overall, the comparability of recommendation 55 was good. However, the relevant information was spread out throughout the entire Corporate Governance Statements and annual reports which made the process of comparing the information both time-consuming and hard.

7 CONCLUSION

One aspect of investment decision making and shareholder interest is to consider the governance practices by which a company is run. A well-governed company is likely to be more effective, reliable and legitimate.

The purpose of corporate governance recommendations is to enhance the practices that support the legality and effectiveness of company's business operations at all levels. These practices involve procedures in three relevant domains; internal control, risk management and internal audit by which a company makes certain that any malpractices or mismanagement possibilities are recognized, evaluated and made redundant.

The main channels for information on corporate governance are the annual reports and financial statements of the company. According to the recommendation 54 of the Finnish Corporate Governance Code, the information concerning the governance practices of the company should include disclosure of a description of the main features of the internal control and the risk management system in relation to the financial reporting process. Moreover, the information should be reliable, up-to-date and easily accessible for shareholders and investors. The information should also be issued in a separate Corporate Governance Statement.

The Corporate Governance Statement should include information on compliance with the Code; whether the company has departed from an individual recommendation, information on this as well as the explanation for the departure. Moreover, the statement should include a description of the composition and tasks of the board and board committees, also a description of the body that is responsible for the duties of the audit committee and information on the tasks of the CEO. (Finnish Corporate Governance Code, 2010: 25).

The research found that the annual reports and financial statements are not always accurate and comprehensive information sources in regards to corporate governance. Moreover, the recommendations were not always followed thoroughly and the corporate governance reporting was found sometimes to be lacking of relevant information. Especially information disclosure in regards to internal audit and the principles of internal control were not in line with the

recommendation 50 and 48 of the Finnish Corporate Governance Code. What is more, one company deviated from the code completely by not issuing a separate Corporate Governance Statement within either the annual report or the financial statement. Instead, the relevant information was published only on the company website.

According to the 'Comply or Explain' principle the companies are obligated to inform in the Corporate Governance Statement whether they are in compliance with the Code. In this research, all of the case-study companies had followed the recommendation 54 by issuing a separate Corporate Governance Statement. The Statement should include information on compliance with the Code; whether the company has departed from an individual recommendation, information on this, as well as the reasons for not complying with the recommendations should be disclosed.

According to the Statements of the companies almost, for the most part, all of the case-study participants were in compliance with the Code. What is more, five of the companies were following recommendations concerning information disclosures fully in compliance with the Code. One of the companies, Metso Oyj, deviated from the recommendations. However, the company had issued an explanation to communicate which parts of the recommendations were not adhered to and the reasons why.

All things considered, each company had adhered to the 'Comply or Explain' principle of corporate governance code and reported clearly and precisely which of the recommendations are complied with. Moreover, deviations from the code were openly publicized. In regards to the 'Comply or Explain' principle, the reporting was comparable, harmonious and in accordance with the Finnish Corporate Governance Code of 2010.

In regards to internal control, risk management and internal audit, the practices in reporting were wide-ranging in each domain among the companies. On the whole, the corporate governance reports were not straightforwardly comparable or harmonized.

In respect to internal control, the study found that, one company excluded, the reporting on the principles of internal controls were neither comprehensive nor precise. This finding could suggest that term and definition of internal control in the recommendation is too vague. Moreover, the recommendation also does not accurately define what is considered as internal control measures. In addition, many aspects of internal control are included in the risk management and internal audit processes of companies and are thus combined with other recommendations, which could help explain the paucity of internal control reporting and the disproportionality in reporting between the three domains.

The risk management reporting of the companies also produced varying results. As the recommendation 49 does not address what specifically is meant by the principles of risk management so therefore the interpretation of the recommendation is left to the discretion of the companies. In regards to the study, the risk management reporting of companies turned out to be disconnected and inconsistent.

All but one company had identified the key risks and reported them accordingly in the Corporate Governance Statement. KONE Oyj was the only company to deviate from the recommendation by using a wrong domain for information disclosure as the company had published the information on risks only on the company website. The monitoring measures of risks were reported by all and recognized as an important part of the risk management protocol in each company but very little was disclosed in regards to main principles of risk management. Moreover, the information provided tended to be brief and imprecise.

The risk management of the Code also involves evaluating potential financial risks. In respect to assessing and determining financial risks, the reporting and disclosed information of companies was comprehensive and highly consistent. What is more, the information was exceedingly comparable. The companies had provided information on risks facing financial instruments in their financial statements, Corporate Governance Statements and in the notes to the accounts. Some discussed the financial risks also in many sections of the annual reports. Moreover, risk reporting of financial instruments was indeed extensive. All things considered, the risk assessments relating to financial instruments and financial reporting was of high-quality and thorough.

All in all, in regards to financial risks, the reporting was consistent and precise. In comparison to other reporting concerning internal control, risk management or internal audit, the reporting on financial risks was the most comparable and harmonious between the case-study companies. All things considered, in regards to reporting risks concerning financial instruments the reporting was the most unified and cohesive.

It is to be noted that IFRS standards regulate the reporting on financial risk in great detail. IFRS also obligates the companies to disclose financial risks in the notes to the accounts. This leads to the conclusion that the consistency in financial risk reporting might be due to the IFRS standards in regards to financial instruments. The IFRS standard 7 obligates the companies to disclose financial risks concerning financial instruments. Consequently, it could be argued that the harmony of reporting practices regarding financial risks could possibly be caused by diligence to following the international reporting standards in the consolidated financial statements than to attentiveness to corporate governance recommendations. In this respect, it would appear that IFRS provides better results in steering the companies to produce more consistent reporting and disclosure.

What was surprising was that the reporting practices of even a small sample of six companies could provide as many differing reports in terms of style, comprehensiveness of information and accuracy by which the recommendations of the Code were followed. This leads to the conclusion that if given a larger sample to study, the nature of reporting could possibly turn out to be very inconsistent and incomparable.

All in all, the extensiveness and the quality of corporate governance reporting varied. Moreover, there were differences in style and depth of the re-

porting. Stora Enso and Fortum Oyj's provided the most sufficient, accurate and high-quality reporting in regards to adherence to the recommendations of the Finnish Corporate Governance Code of 2010 on the whole. What is more, the reports and statements of KONE Oyj and Wärtsilä Oyj Abp were of better quality than the overall reporting from Fiskars Oyj Abp. They were also superior in terms of adequacy and the logical structure of the reports when compared to Fiskars' annual report.

The most unsatisfactory reporting in terms of presentation was that of Metso Oyj. The company had provided extensive information that was in accordance with the Code for the most part, but the layout of the website and reports were difficult to follow and revise. The necessary information was scattered and dispersed into small sections in many separate paragraphs. There seemed to be no cohesiveness to the reporting and the information was just gathered and put to the web page without further thought to how it would appear for the person reading the information. It took time and effort to find the relevant information for the analysis.

The purpose of the corporate governance code is to unify the practices of reporting, improve the transparency of disclosure practices and information availability. The transparency and informative nature of reporting are somewhat similar and cohesive. However, in regards to internal control, risk management and internal audit the practices of reporting varied among the companies. Perhaps the recommendations are not enough to help standardize the reporting principles of companies and instead of recommendations the Code should consist of mandates.

As stated earlier, the purpose of Corporate Governance Code is to standardize the reporting practices of companies in order to produce reliable and comparable governance reporting to ease the investors' decision making process. In this respect the Finnish Corporate Governance Code of 2010 does not necessarily provide instructions that are clear and concise enough in regards to reporting. Perhaps the recommendations should be revised to give detailed instructions in order to avoid wide-ranging interpretations and thus prevent the production of diversified reporting.

There is still a lot of work to be done if the corporate governance reporting is to be improved. The style and unity of governance reporting has its limitations and is not yet all-around comparable and cohesive.

One way to improve the consistency of reporting could be to compose a distinct formula for corporate governance reporting purposes. A formula that would have a united structure and design, like that of income statement, could harmonize the presentation and disclosure of information between companies.

Moreover, a distinct formula would disclose the relevant information in an exact and comparable way. Consistent formula would help to compare the corporate governance practices of organizations and it would obligate companies to disclose the information in the same way. From an investors perspective this would be a major improvement to facilitate the decision making process. Right now, the choice of scope, presentation order and style is up to the compa-

ny's discretion. Therefore the reports vary in style and the required information is introduced in an unpredictable order. Moreover, the amount of information varies, as some companies disclose extensive information whereas others divulge very little. All things considered, a distinct formula for corporate governance reporting could facilitate the standardization process of reporting.

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