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The Role of Financial Reporting in Corporate Governance

The roots of corporate governance can betraced in agency theory. When owners were no longer the managers of their own firms the design and implementation of management performance control systems became a critical issue. The governance of the management in a firm had to be reorganised. The problem area has two key elements: monitoring and supervising management performance, and on the other hand, its accountability. The former can be organised using systems with lower or higher involvement by the shareholders. The latter is often conducted by third parties, i.e. auditors or audit committees.

In this paper the contents of the report of the Cadbury Committee, published in London in December 1992, are shortly discussed. The Committee was set up because of the general lack of confidence in UK on the financial reporting and the auditing systems. As a result "The Code of Best Practice" was published including several recommendations concerning both accounting and auditing in UK.

Even though in Finland reseach focused on the relationship between corporate governance and financial reporting is still in its infancy, the practical problem is obvious. During the 1990s, in some Finnish firms neither the financial statements nor the auditors' reports did not give any precaution of failure or other financial distress. Nevertheless, the firms run into severe problems only some months later.

In our article the background and the framework of the corporate governance is presented. After that, the governance models in UK, German, Japan, and Finland are considered. Third, the structure of the Finnish corporate governance system in state owned companies as well as in listed companies is studied empirically. Finally, some suggestions for important future research topics are made.
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