Risk reporting: A comparative analysis of risk reporting of four Finnish retail companies

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Introduction

During the last few years, we have seen unpredictable and ground-breaking occurrences, such as Covid-19 or Russia's attack on Ukraine. The occurrences previously mentioned are severe examples of external risks, specific types of risks, which have realized and caused huge issues for many companies and even for many industries. As we have faced such risks, the importance of risk management has grown, and companies should at latest now begin to pay attention to their risk management. As a result of such occurrences, it is reasonable to assume that investors require more thorough risk reporting.

According to existing accounting literature, non-financial risk management information is found to be a key matter in achieving high quality corporate reporting (Beattie et al., 2004). In light of the recent occurrences, the rather old finding can surely be agreed by many. Similar results were provided as it was found out that investors generally agree that the existence of risk management disclosures help them to make their investment decisions (Solomon et al, 2000). We believe that considering the recent occurrences and previous academic literature, it is fair to say that risk disclosures are significant for many stakeholders of a firm, and besides that, rather current topic.

Principal-agent problem plays a central role in corporate governance and agency costs are a result of the problem. Risk asymmetry and adverse selection are sources of such costs, and hence risk disclosure, which decreases risk asymmetry, is an essential part of corporate governance. Risk asymmetry is a phenomenon in which stakeholders do not have as good knowledge and access to information as managers do. Furthermore, risk sharing problems, which arise from different preferences of risk taking by stakeholders and managers, increase agency costs. As a result, it is fair to argue that risk disclosure is crucial to decrease agency costs in a modern business setting.

In this report we analyze risk disclosures of four case companies which operate in the retail industry. The case companies include Kesko, Stockmann, Verkkokauppa.com and Puuilo. Our case companies represent companies in different stages of their life cycle, different ownership structures and sizes. However, all of our companies are listed in Nasdaq Helsinki. As it can be seen in the later report, the risk disclosure practices significantly differ from each other, and hence the analysis of risk disclosures was rather reasonable to conduct in comparison to other risk related topics as it would have been hard to conduct analysis of some risk management topics based on the information provided by some of our case companies.

The report is structured as follows. First, the concepts of risk management and risk reporting are defined, and important legislation regarding risk reporting is presented. Second, relevant prior literature regarding risk reporting is presented and necessary frameworks are considered. Third, the analysis of the case companies is conducted. Last, the findings of the analysis are shown in the summary and conclusion section.

Risks and risk management

Risk is usually recognized as something negative and unexpected that may happen and in the business world these kinds of situations have occurred many times and will happen in the future. Businesses should prepare and manage these risks, because something bad will always happen eventually and by managing risks the negative outcomes can be decreased.

There are several ways of classifying risks, and for example, in a study (Mikes et al., 2013) risk types are categorized into three different categories. Category I risks are called preventable risks and these risks come from normal operational procedures such as employees' unethical or illegal actions, to name a few. Organizations won't gain anything from taking these risks and these risks should be reduced to zero. (Mikes et al., 2013). Category II risks are called Strategy execution risks which occur when the organization executes its strategy and its business model. In contrast with the Category I risks, these ones are mandatory to take for the organization to achieve its strategic goals. Lastly, Category III risks are called External risks which are considered uncontrollable since organizations cannot prevent them from happening. However, these types of risks require a more reactive way of responding to them and proper risk management strategies can help dealing these risks if they end up happening. Nevertheless, we will be using a different and a more specific classification of risks in this report because we are drawing upon a different study which relates to risk reporting rather than risk management. In addition, these categories are narrower and could be divided into the categories described above.

Furthermore, there is a more specific definition for Enterprise Risk Management which will be shortly discussed here because it is important to understand in order to further get a deeper understanding of risk reporting as a corporate governance tool. COSO (The Committee of Sponsoring Organizations of the Treadway Commission) determines Enterprise Risk Management as a process that is designed to identify potential events that may have effects on the organization and to manage these risks to provide reasonable assurance of achieving the entity objectives. Naturally, risks are inevitable and always out there, which creates the need for professional risk management which in turn must constantly identify and prioritize risks (Mikes et al., 2013).

Moreover, there are multiple different ways and tools for an organization to implement risk management such as having meetings, hosting workshops and using risk maps, to name a few. Determining the risk type is also a factor that influences risk management because different risks should be managed in different ways and as described above, there are usually considered to be three broadly defined types of risks, for each of which should be a unique way to address and manage. There are many studies that have created ways to implement Enterprise Risk Management, however, we are briefly going to describe one process created by Nocco et al., 2005 which aims to create a step-by-step process on how to implement enterprise risk management in an organization's everyday operations. First, the organization should identify any risks that are threatening it and focus mainly on the market and credit risks and only later add the operational risk. In the recent past organizations have also tried to measure, for example, liquidity or reputational risks. Second, after an organization has identified all remarkable risks, people in charge should find a way to measure its exposure to all these risks. Without a way to measure these exposures, the same risk may affect the company's performance differently (Nocco et al., 2005).

Risk reporting legislation

Regulations about risk management reporting can be divided into hard law and soft law (Aguilera et al., 2008). Hard laws are, for example, traditional laws and other standards that must be followed. Regarding risk management reporting in Finland, the relevant hard laws are for example The Finnish Accounting act, The Standard of the Finnish Accounting practice and The Finnish Securities Markets act. The Finnish Accounting act requires that a company must report its biggest risk regarding its business in its annual report. In the end how and how widely a company wants to report its risk and risk management are up to them. The Finnish Securities Market Act also states that publicly traded companies need to enforce Corporate Governance Code.

Soft laws are guidelines and other rules given by the public servants and they are more like recommendations instead of laws and they are based on comply-or-explain principle (Aguilera et al., 2008). One of the guidelines in Finland is The Corporate Governance Code. Finnish Securities Market Association releases it once in the five years. The first code was published in 1997. The document consists of 28 different recommendations about corporate governance of these publicly traded companies. This document must be followed by the Finnish publicly traded companies. If a company wants to differ from these rules, they must mention in their annual report what rule they differ and why. The board of directors is responsible for risk management systems for the company. Audit committees also have responsibilities regarding arranging risk management. Recommendation 25 talks about how risk management should be reported. It says that risk management principles shall be reported in the company's Corporate Governance Statement. The company should tell the overviews of its risk management systems. The document also recommends that a company evaluates material risks and uncertainties in its web pages. (Securities Market Association, 2020).

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	Information that assures a true and fair view of a firm's history and prospects must be provided.	The released information has to be extensive enough to make it possible to assess its impact on the value of the firm.	A fair and extensive description of significant risks must be provided in the operating and financial review.	Significant risks must be disclosed in the interim report. A risk review must be provided in the IPO prospectus.	Information on internal control, risk management and internal auditing must be provided for reliable governance arranged	A balanced description of a firm's risks (strategic, operations, financial, damage and risk management) must be provided in the operating and financial review.
The Finnish Accounting Act (1997, revised 2004)	X		X			
The Standard of the Finnish Accounting Practice Board (2006)						X
The Finnish Securities Markets Act (1989, revised 2007)	X			X	X	
The Rules of the OMX Helsinki (1989, revised several times)	X	X				
Corporate Governance Code (2003, revised 2009)					X	
Financial Advisory Authority (2007)					X	

sources: the documents published by the respective authorities

Fig. 1. Risk disclosure regulation in Finland since 1989.

Figure 1

The legislation on risk management reporting has developed during the last decades as can be seen from the graph. Nowadays, there are several laws and regulations to guide risk disclosure and it is due to the increased importance of risk management and disclosure as a corporate governance tool (Amral et al., 2009).

There are also differences in risk disclosure between countries. For example, in US hard laws, such as U.S. Sarbanes-Oxley Act, are the main regulations regarding risk disclosure as in UK soft laws, such as the U.K. Combined Code, are in higher importance (Aguilera et al., 2008). As seen from the graph above, Finland tends to rely on both soft and hard law with an emphasis on soft laws.

Literature review on risk disclosure – why does it matter

Reporting about different risks and risk management policies requires efforts, and hence cause some additional costs to companies. Companies are not willing to spend money without getting something back and hence a question arises: what do companies achieve by risk reporting?

Firstly, as previously mentioned, there exist legislation regarding to risk reporting. It is obvious that firms need to fulfill requirements set by hard law or they will face legal problems. Furthermore, if companies do not fulfill requirements by soft law, they have to explain why they do not follow the rules. In addition to direct legal problems, companies may face indirect issues if they do not follow risk reporting guidelines, such as reputation issues. However, following guidelines is clearly not the only function of companies reporting risks.

Secondly, according to the agent theory, an information asymmetry exists between management of a company and shareholders of a company as the management has better knowledge and access to information than the shareholders do. The same principle of information asymmetry applies also regarding to risk management information. According to the accounting literature, risk information asymmetry can cause several issues in capital markets such as high transaction costs, thin markets, low liquidity, and unprofitable investments for defenseless minority investors (Lev, 1988). Risk disclosure is an effective way to reduce the information asymmetry and costs relating to it.

Literature review on risk disclosure – things affecting risk disclosure

In addition to the requirements of soft law and hard law discussed earlier, firms can disclose risks voluntarily. In general, firms are expected to benefit from risk disclosure (Bozzolan & Miihkinen, 2021). However, empirical evidence has found several firm-level factors, such as size (e.g., Campbell et al., 2014), profitability (Miihkinen, 2012) corporate governance (Martikainen et al., 2015), investment efficiency (Al-Hadi et al., 2017), and ownership (Al-Hadi et al., 2016), which have a significant effect on the risk disclosure of a company. Furthermore, it has been found that firm's age has a positive impact on risk disclosure (Rujiin & Sukirman, 2020).

In our analysis of our case companies, we will include an analysis of some of the previously mentioned firm-level factors which are reasonable considering the information available. The factors include firm size, profitability, ownership, and firm age. We will look at the companies from these perspectives and analyze whether some key factors for the quality of risk disclosure can be found.

Methodology

Miihkinen (2013) analyzed risk disclosures of Finnish companies by manually collecting risk disclosure data from annual reports: operating and financial review, separate risk disclosure section, notes to the financial statements, and corporate governance section. We have used similar data from our case companies. According to Finnish Accounting Act and the 2006 standard of the Finnish Accounting Practice Board (Kirjanpitolautakunta), every Finnish listed company must include their risk disclosure in their operating and financial reviews. However, we also include risk disclosure provided elsewhere in annual reports, as it does not affect the usefulness of the information for investors (Al Jifri & Citron, 2009).

The following framework can be used to evaluate the quality of risk disclosure of different companies (Miihkinen, 2013). The risk information is divided into 1. Strategic risks, 2. Operations risks, 3. Financial risks, 4. Damage risks and, 5. Risk Management.

The previously mentioned five topics can be further divided into subtopics as follows (Linsley and Shrives, 2006):

1. Strategic risks: Market competition, Market areas, Position in the production chain, Dependence on customers, Dependence on suppliers, Changes in customer preferences, Technological development (e.g. threat of competing commodities), Regulatory changes, Political changes, Mergers and acquisitions, Economic changes, Pricing, Industry specific changes, Launch of new products, Business portfolio, Life cycle, Management, Research and development

2. Operations risks: Dependence on the know-how of the personnel, uncommon business fluctuations in demand, Interruptions in the delivery chain, Price fluctuations of the factors of production (e.g., raw materials), Patents and other industrial property rights, Information technology risks, Customer satisfaction, Reputation and brand name development, Stock obsolescence and shrinkage, Product and service failure, Environmental, Health and safety, Project deliveries, Quality controls

3. Financial risks: Interest rate, Exchange rate, Liquidity, Credit, Commodity

4. Damage risks: Insurances, Significant legal actions

5. Risk Management: Risk management policy, risk management organization

It is challenging to evaluate the quality of risk disclosure information in a complete, valid and reliable way (Miihkinen, 2012). However, there exists some useful approximations of some important dimensions of quality of risk disclosure in the existing literature (Beretta & Bozzolan, 2004). The main dimensions include Quantity and Coverage (Miihkinen, 2012). The number of risk disclosure words provided by a company is a proxy for quantity, as coverage is determined by assessing how balanced the risk reporting is, as it is important for investors to be able to see a balanced description of major risks of a firm.

To sum up, information regarding risk information is evaluated by determining "*Disclosure Score - Quantity*" and "*Disclosure Score - Coverage*". The former one is determined as a natural logarithm of number of words regarding the risk information, and the latter by dividing 1 by Herfindahl index (H) and by the number of main risk topics.

Disclosure Score – Quantity: ln (number of all words relating to risk information)
Disclosure Score – Coverage: [(1/*H*)/number of main risk topics]
where *H:* (words relating to risk topic 1/number of all words relating to risk information) ^2+... (words relating to risk topic N/number of all words relating to risk information) ^2

Quantity can be anything from 0 upwards as LN (1) = 0, and higher number represents a better result. Coverage can get values between 0,2 and 1, and the higher the value the better the result. Number 1 represents perfectly distributed risk disclosures as value 0,2 means that all words regard the same risk category.

As a result, we are able to determine both levels of two main dimensions, Quantity and Coverage, which increases the quality of analysis of risk disclosure, as risk disclosure should be assessed from several different dimensions (Beretta & Bozzolan, 2004).

Results

	Number of risk-related words	Disclosure score Quantity	Coverage
Kesko	5555	8,62	0,60
Puuilo	3097	8,04	0,78
Stockmann	3938	8,28	0,63
Verkkokauppa.com	2412	7,79	0,54
Average	**3751**	**8,18**	**0,64**

Figure 2

As seen in Figure 2, Kesko has the highest number of risk-related words and therefore places highest in Quantity with score 8.62 whereas Verkkokauppa.com has the lowest Quantity with score of 7.79. Puuilo has the highest Coverage score 0,78, which means that the risk-related words are divided most evenly between the different categories.

	Number of related words Strategic	Operations	Financial	Damage	Risk-management
Kesko	855	271	1997	102	2330
Puuilo	741	547	1022	36	751
Stockmann	541	450	1991	496	460
Verkkokauppa.com	403	202	1310	0	497
Average	**635**	**368**	**1580**	**159**	**1010**

Figure 3

The exact number of words in different risk-categories is presented in Figure 3. We can see that financial risks are seen as most relevant risks by the case companies as the average number for them is significantly higher than for other risk categories. Risk management policies is also central in the companies' risk reporting which is no surprise because investors usually want to know how well the firm can respond to shocks within the operating environment and business. Damage risks seem to get the least amount of attention, Stockmann being an exception. This could be because of Stockmann's reporting on their ongoing corporate restructuring which we classified as a damage risk due to its legal form.

	Disclosure score		Profitability (ROA)	Size (Ln(net sales))
	Quantity	Coverage		
Kesko	8.62	0.60	8.08%	9.33
Puuilo	8.04	0.78	15.83%	5.60
Stockmann	8.28	0.63	3.37%	6.80
Verkkokauppa.com	7.79	0.54	8.72%	6.35
Average	**8.18**	**0.64**	**9.00%**	**7.02**

Figure 4

Next, the previously recognized factors affecting risk disclosure are analyzed. As seen in the Figure 4, the first two are profitability and size. Profitability is according to Miihkinen (2012) measured as the company's return on assets whereas size is calculated as the natural logarithm of net sales. Puuilo has the highest profitability and also the highest score on Coverage and the third highest in Quantity. Stockmann has the lowest profitability and the second highest Coverage and Quantity.

The biggest companies in terms of net sales, Kesko and Stockmann, have the highest Quantity scores. For Coverage, the smallest company has the highest score but as the second smallest, Verkkokauppa.com, has the overall smallest score in Coverage, there seems to be no observable connection between the two variables.

	Disclosure score		Age (years)	Independence from company	Independence from significant shareholders
	Quantity	Coverage			
Kesko	8.62	0.60	82	57%	86%
Puuilo	8.04	0.78	40	100%	67%
Stockmann	8.28	0.63	160	100%	86%
Verkkokauppa.com	7.79	0.54	30	100%	86%
Average	**8.18**	**0.64**	**78**	**89%**	**81%**

Figure 5

The other variables are company age, independence from the owners and ownership. The age is calculated as the difference of the current year 2022 and the year that the company is founded in. The independence means the ratio of board members that are independent from the company, meaning that they are not employed by the company or by the significant shareholders. Regarding Coverage, the youngest company Verkkokauppa.com has the lowest Coverage score but the second youngest Puuilo has the highest Coverage.

The independency from the company is 100 % for all case companies excluding Kesko. Three members of the board, Esa Kiiskinen, Jussi Perälä and Toni Pokela each control a company that has a chain agreement with Kesko. It is interesting that not one of the case companies' boards is fully independent from significant shareholders. Toni Pokela is also the chairman of the board of Kesko's significant shareholder K-Retailer's Association (Kesko, 2021) whereas two board members Rasmus Molander and Gustav Bard of Puuilo are also involved with significant shareholders (Puuilo, 2021). Samuli Seppälä, the founder of Verkkokauppa.com is in fact personally the biggest shareholder of the company (Verkkokauppa.com). Stefan Björkman works is employed by Föreningen Konstsamfundet rf, one of the significant shareholders of Stockmann (Stockmann, 2021).

When it comes to relationship of independence and disclosure score, Kesko has the highest Quantity and is the only one that doesn't have fully independent board. Still, as the independency ratio is same for all the other case companies, it is hard to draw any conclusions from that as it might be just a coincidence. The same can be said about the independency from shareholders as Puuilo is the only one that is different from others and also has the highest Coverage score.

	Disclosure score Quantity	Coverage	**Age** (years)	**Fraction of the biggest shareholder**
Kesko	8,62	0,60	82	5,10 %
Puuilo	8,04	0,78	40	5,79 %
Stockmann	8,28	0,63	160	10,50 %
Verkkokauppa.com	7,79	0,54	30	35,41 %
Average	**8,18**	**0,64**	**78**	**14,20 %**

Figure 6

The ownership can be evaluated based on the ownership structure, which is in our case measured as the fraction of the shares owned by the biggest shareholder. Verkkokauppa.com has the most concentrated ownership and the worst Quantity and Coverage. At the same time, Kesko has the most dispersed ownership and the highest Quantity. It seems that based on our sample, there is a negative relationship between ownership concentration and risk disclosure quality, meaning that the more concentrated the company is the less likely they are going to communicate extensively about their risks.

Analysis of key findings

Based on the above-described results, we have come up with three main findings. Many aspects could have been brought up from the results, however, our intention is to take a closer look at three main points and analyze them thoroughly. The main findings that are going to be discussed in greater detail are the observation regarding Verkkokauppa's inferior quality in risk disclosure, Puuilo's exceptionally high score in terms of the coverage dimension and lastly Kesko’s and Stockmann’s great scores in quantity.

Verkkokauppa’s inferior quality risk disclosure

First, as can be seen Verkkokauppa has the poorest risk disclosure both in terms of quantity and coverage meaning that it has the least risk related words as well as they are not distributed in a balanced way between the five risk categories described earlier.

The most important thing to point out here is that Verkkokauppa is the youngest company of our case companies. In this case, the explanatory factor for Verkkokauppa’s risk disclosure score being the poorest one in both dimensions might be explained through company’s age especially since it has been found that firm age has a positive effect on risk disclosure (Rujiin & Sukirman, 2020). In addition, the company is quite small, at least compared to Kesko and Stockmann. There has been found a positive relationship between size and risk disclosure quality in every dimension.

However, a point worth mentioning is that regardless of the poorest risk disclosure in comparison with the other case companies, the case company’s risk disclosure is in fact, not poor compared to the companies that were analyzed by Miihkinen 2012, at least in terms of quantity. It seems that the mean of scores in terms of quantity was 5,441 in 2005 and 6,037 in 2006 whereas Verkkokauppa’s score in quantity was 7,788 in 2021. From this perspective the company is performing quite well. On the other hand, that data was collected over ten years ago, meaning that there might have been quite a lot of changes in terms of regulations and soft laws regarding risk reporting, for example. In addition, the means of coverage were 0,493 in 2005 and 0,610 in 2006 whereas Verkkokauppa’s score was 0,537 in 2021. This is rather interesting, since Verkkokauppa seems to be performing well in terms of quantity but not in terms of coverage which is why we are going to analyze the possible reasons behind this observation more closely.

The factor that weakens Verkkokauppa’s score in terms of coverage is the amount of disclosure provided about financial risks since the number of financial risks related words is over double compared to other categories. This seems to be the case in other companies as well. However, the extent to what the fracture of financial risks varies across the companies. Regardless of Verkkokauppa’s profitability being quite good there is still a lot of disclosure provided on financial risks meaning that this phenomenon cannot be explained by the possibility of the company being in financial trouble. However, financial risks are emphasized in other companies as well and it may be a pure coincidence that Verkkokauppa has disclosed about these risks to a broader extent in relation to other risk categories than the other companies have.

Furthermore, an explanatory factor for Verkkokauppa's risk disclosure being the poorest one of the chosen case companies, is the ownership structure of the firm. As already mentioned, the biggest owner of the company alone owns over 35% of the company which means that the ownership structure is quite concentrated. Over 10% ownership can be considered concentrated, and it can come in many different forms (Aguilera, R. v., & Crespi-Cladera, R. 2016). It has been found that concentrated ownership in a form of institutional ownership increases the information asymmetry between the management and the owners. This is said to further increase the need for thorough risk disclosure in both dimensions. However, Verkkokauppa's concentrated ownership does not come in the form of institutional ownership since the majority owner is a person. Furthermore, the owner is the former CEO and the founder of Verkkokauppa who is also on the board of directors of Verkkokauppa, and hence has a good knowledge of the company. We argue that this majority shareholder decreases information asymmetry between the management and the owners which further decreases the need for more thorough risk disclosure and results in a poorer risk reporting performance.

Puuilo's high coverage

The second significant finding that we have decided to point out is Puuilo's score in terms of coverage dimension. As can be seen, Puuilo's coverage score is the highest one in comparison with other case companies. However, this is rather peculiar since Puuilo is the smallest company and quite a young and it also has the best profitability measured by return on assets.

It has been found that more profitable companies tend to be outperformed by the companies that are less profitable in terms of risk disclosure quality. These poorly performing companies provide a lot of information about the actions that are taken as well as reporting about planned programs that are designed to face the risks that are identified. Especially firms with higher risks and with low profitability might face pressures to provide high-quality risk disclosure (cf., Cahan et al., 2005; Jorgensen & Kirschenheiter, 2003). In our opinion, this sounds quite logical because of the decreased trust of the shareholders in the company making it reasonable to demand thorough risk disclosure. Based on the above-described information, it would be reasonable to assume that the company with poor profitability such as Stockmann would do better than Puuilo in both risk disclosure dimensions. However, there are a few factors that must be taken into consideration.

First, Puuilo's disclosure score in terms of quantity is not the highest due to its size since as already found, there is a positive association between firm size and risk disclosure dimensions. This means that Kesko and Stockmann are in fact outperforming Puuilo in terms of the quantity dimension yet, are performing significantly worse in coverage. Second, the best score in coverage is the result from reporting evenly between the five categories which Puuilo has managed to do quite well. The other three firms have certain categories that they have reported significantly more about. These categories are financial risks and risk management, for example. Likewise others, Puuilo has reported the most about financial risks, however, the fracture of the financial risks related words to all risk related words is significantly lower than with other companies. We argue that this might be due to the high profitability of Puuilo which might decrease the need for disclosure regarding financial risks.

Lastly, Puuilo is quite largely owned by institutions such as pension funds. However, the ownership is not concentrated because there is no institution, a person or a family owning at least ten percent of the firm which would lead to the possibility to consider the company's ownership as concentrated (Aguilera & Crespi-Cladera 2016). As already discussed in the analysis regarding Verkkokauppa, information asymmetry which is due to institutional owners can be the explanatory variable regarding risk disclosure practices. We did not find any prior research on whether there is an association between this type of ownership structure and risk disclosure quality in terms of quantity and coverage. Nevertheless, we believe that in this case, there might be more information asymmetry between the management and the owners than in e.g., Verkkokauppa which in turn leads to better risk disclosure quality. On the other hand, there is evidence that at least when it comes to concentrated ownership structure in a form of institutional ownership, information asymmetry increases which results in better risk disclosure quality (Miihkinen 2012).

Kesko's and Stockmann's good quantities

Finally, we found that Kesko and Stockmann have the best scores in terms of quantities but not in coverage. There are a few possible explanatory factors for this observation that we discovered. First, both companies are old, which results in more thorough risk disclosure in terms of quantity since, as already stated, there is a positive connection between firm age and risk disclosure quality. Second, these companies are significantly larger than Puuilo and Verkkokauppa and thus have better scores in quantity. Regardless of Stockmann having second best score in quantity, it is still not significantly higher than e.g., Puuilo's which is 120 years younger and about three times smaller than Stockmann. This appears to be a rather odd observation because it would be more logical for such an old, large and troubled company to have an even higher score. However, there is no commonly recognized threshold for what kinds of scores could be expected from companies that are certain age, certain size or that fulfill similar firm level factors in a certain way. Thus, we cannot merely just state that Stockmann is performing poorly, but rather we can analyze the reasons behind these findings and see whether there are some explanatory factors that relate to the context in which Stockmann operates in.

Furthermore, when looking at Stockmann's coverage, it is, in fact, second best from the four companies analyzed. There is one reason that stands out from the results that has a weakening effect on the coverage which is the amount of risk disclosure regarding financial risks since over 50% of risk reporting focuses on financial risks. As a conclusion, we argue that even though Stockmann has a significantly lower score in coverage than Puuilo for example, it might even be a positive thing that the company focuses on providing more information on the area that needs the most attention. In our opinion it would be more questionable if the company would not provide as much information on such an important category. It could almost be stated that Stockmann is performing quite well in terms of risk disclosure practices since it focuses on the most material category but at the same time risk disclosure is quite evenly balanced between the rest of the categories.

In addition, when taking a closer look at the distribution of Stockmann's risk related words in comparison to other companies, one interesting point that can be observed is that the company has significantly more risk disclosure on damage risks. This is quite logical and corroborates with the company's reputation as a crisis company and the amount of financial risk disclosures. Even though the amount of damage risks related words is not a factor that weakens the coverage of the company but rather improves it, we argue that this is a point worth mentioning since it differentiates Stockmann from other companies and overall supports the argument of Stockmann facing trouble.

The key factor that weakens Kesko's score in the coverage dimension is the extent to which it reports about risk management. Over 40% of Kesko's risk disclosures relate to reporting about risk management practices which naturally lowers the coverage score. Kesko reports on risk assessments, risk policies and actions that are taken to manage risks in a highly thorough way. In addition, it seems that part of the information is repeated in slightly different words in different reports. On the contrary to Stockmann being a crisis company with financial trouble explaining the low coverage, we did not find a similar clear explanatory factors for Kesko reporting on risk management in a highly extensive way. A possible reason could be Kesko's organization structure as stores are operated by individual merchants which are separate companies. As a result, the organization structure of the whole group is more distributed and requires more thorough risk management policies. Another reason for extensive risk management policies could be Kesko's presence in several different countries. Kesko has operations in Finland, Sweden, Norway, Poland and Baltic, and hence the risks management policies are more in-detail and include more variation.

Conclusions

As has been found in studies related to various corporate governance studies, organizational context matters in most of the situations. We viewed risk reporting as a corporate governance tool to reduce costs caused by information asymmetry, analysed the chosen case companies from the same industry in terms of risk reporting and pointed out three main findings with an attempt to understand the relationship between various firm level factors and risk reporting quality.

As can be seen from the analysis of main findings, the explanations for the observations pointed out were all related to context each organization is operating in. The firm-level factors that were recognised by previous literature explained observations to some extent but were not able to completely explain findings. However, all our observations were logical and made sense after observing the companies more in detail. For some of the parts, we were not able to use prior research and already developed theories to explain certain observations, however, we were able to make an analysis on our own from which we concluded that risk reporting quality is highly dependent on the contextual factors.

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