



**OECD Working Group on Privatisation and Corporate
Governance of State-Owned Assets**

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STATE'S OWNERSHIP STEERING PRACTICES AND CORPORATE GOVERNANCE: CASE FINLAND

State of Finland has positions in over 50 companies which we classify as "significant". State owns mainly companies operating in a competitive environment but there are some companies with special political or governmental tasks.

The management of the corporate assets at general level aims at an optimum economic and societal aggregate result (some exemptions exist in companies which do not aim at profit maximising but are there for special political tasks). The assets are managed in a professional and active manner with the primary goal to improve the profitability of companies and to increase the shareholder value in the long term. The administration of the corporate assets is shared by several ministries, with the Ministry of Trade and Industry, the Ministry of Finance and the Ministry of Transport and Communications leading the way. The Ministry of Trade and Industry (MTI) plays the role of coordinating the State's ownership policy and corporate governance practices.

This situation with several governing ministries and somewhat differentiated practises is generally recognised to be problematic. Work to create central ownership unit is currently on its way and the target is to get new solutions from 1.1.2005.

The most important elements of the State's ownership steering are an open and consistent shareholder's behaviour, proposing of responsible and skilled members for the Boards of Directors of companies, the shareholder's inputs into the management resources of companies and into the commitment of the management, as well as considerations of the interests of all the shareholders and other interest groups.

Openness and Consistency

The State's objective as a shareholder is to reach consistent and predictable solutions and to act as openly as possible. The central tools of the ownership policy are Government Decisions-in-Principle, statements of the Cabinet Committee on Economic Policy and recommendations and statements of the Ministry of Trade and Industry. All of these are public and thereby available to all market actors.

Decisions or statements have been issued on the State's ownership policy in general, on the role and tasks of the Supervisory Boards, the bases of the salaries and emoluments of the management and administrative bodies, incentive schemes, issues of corporate governance, and lastly, in the spring of 2002, on the State's target to shift over to entirely external Boards of Directors in which the Managing Directors of the companies are no longer members. It is characteristic of the activities of the State as a shareholder that the decisions and guidelines are implemented in a well-considered manner and timetable that are tailored to the needs of a particular company so that the characteristics of the companies and the opinions of the other owners are taken into account.

An open ownership policy also means that the State seeks to contribute to the promotion of the major shareholders' cooperation and to the active contribution of all shareholders in the company's decision-making process. The State is engaged in a dialogue with the other major shareholders and aims to ensure that the views on the common interest of the shareholders are converging.

The State also deploys its influence as an owner as laid down in the Companies Act, i.e. by participating in shareholders' meetings and influencing the compositions of the Boards of Directors at these meetings. At the same time, the stringent policy is based on a kind of a non-intervention principle: the State does not require nor take any exemptions, and the ministries do not intervene in the decision-making of the Boards of Directors and executives of the companies. If a position of the owner is needed or it is necessary to declare this position, the State discusses with the corporate management and Chairman of the Board of Directors, as do the other important owners in corresponding situations.

Boards of Directors and Supervisory Boards

A Board of Directors composed of members acting in a responsible manner and representing versatile expertise is the best way of promoting the common interests of the company and of all its shareholders. The State as a shareholder has aimed at Boards of Directors that are external as far as possible, and not composed of the company's executives.

The practice of the Ministry of Trade and Industry is to look for experienced and qualified top executives for vacancies on Boards of Directors, so that the other owners and the market can rely on the know-how and extensive expertise of the Boards. Another main rule of the Ministry has been that the State is to have direct representation in the Boards of Directors of the companies in which the State is a major shareholder.

Supervisory Boards have gradually been wound up, but four listed companies and eleven other companies still have them. At the same time, the duties of the Supervisory Boards have been cut down by reducing the number of the actual issues requiring decision-making and stressing their role when discussing the most important issues. This will level out the suspicions often connected with the Supervisory Boards according to which the boundaries of decision-making and issues of responsibility have blurred.

One condition of obtaining good Board members is that the bonuses paid for working on a Board of Directors are comparable with those of other companies. In this respect, the MTI is continuously monitoring the development of the level and forms of Board remuneration both in

Finland and on the international scale. This will ensure a justified level of the bonuses in relation to the responsibility and general level of the duties.

Management Resources and Remuneration

Remuneration and commitment of the corporate management have been the factors of corporate governance that have received most attention in recent years. From the owner's standpoint it is imperative that the Managing Director and the other key personnel of the company are highly qualified and committed to the company and that they promote the interests of the company and the shareholders. A precondition for this is that the benefits offered by the company are comparable with those of other companies. The State as an owner seeks to contribute to competitive compensation and to such incentives of the management and key personnel that is based on raising the shareholder value.

The MTI has already earlier drafted various models of incentive schemes that take the shareholder value into account better than the so-called formal option schemes. This basis has been considered successful in a study on incentives as well, so that the Ministry is currently working on a proposal for a new incentive scheme that would enhance, better than the previous models, sustained activity and the management's commitment to the company.

Considering the Owner's interest and the Shareholder value

The development of the share value and the dividend policy are essential elements of the shareholder value. The State promotes a consistent dividend policy, which takes the shareholders into account and which adapts the shareholders' interests to the companies' needs to develop their business. In view of development of the share value, sustained activity is important for the State, not only because the State is by far a long-term owner: the State's corporate assets are always reduced under parliamentary powers, and on the Finnish market, the State cannot in general relinquish all of its holdings at once, except in the case of corporate restructuring arrangements.

The MTI monitors the development of the value of the State's corporate assets and the dividend policy. The value development of the companies is monitored through the development of the share value. In addition, companies are evaluated on the basis of how they bring economic value added.

The economic value added, EVA, is the after-tax cash flow generated by a business minus the cost of the capital it has deployed to generate that cash flow. Both the costs of equities and liabilities are considered capital costs. Therefore the requirement of returns on equities is a special feature of EVA.

In 2000, the average value added, weighed by the listed state-owned companies and associated companies within the MTI's administrative branch, amounted to over 2% in relation to the companies' net sales. In 2001 the slackening economic development resulted in a situation where the accrual of the value added remained slightly negative.

The MTI monitors the dividend policy of the companies in the State's portfolio branch by branch. The dividends paid by the companies are compared to the way in which the competing

companies operating in the same branch pay dividends. The aim is to collect for the reference group domestic and foreign competitors that are as similar as possible.

Taking Account of the Other Interest Groups

One principle underlying the State's ownership policy is that a company's profitability also gives the possibility of promoting the interests of stakeholders other than the owners. Thus it is not a question of juxtaposition of the shareholders and of the other interest groups or of the management and the personnel, but what is at the issue here is that sustained raising of the shareholder value is best achieved when the owner takes account of all the stakeholders that are important for the value increase.

The MTI's initiative for revising the Personnel Fund Act is contributing to the situation in which the Finnish personnel funds will be opened up for the personnel of the foreign subsidiaries as well. This again will offer the possibility of considerably promoting the remuneration of the whole personnel through personnel funds.

The international and national development of the societal responsibility of companies will also lead to the companies' observing objectives other than direct economic ones. Carrying out the societal responsibility does not belong to the owner but to the top executives of the company, because this involves the options of and grounds for business decisions. However, it is important for the owner to notice that the societal responsibility does not have to be in contradiction with the sustained accrual of the shareholder value, but it can rather enhance it because the company's conditions of developing its operations and its public image improve.

Additional information:

We strongly encourage openness and transparency in all matters connected with state ownership. English and Swedish version / editions of our regulations, principles, practices, publications and other relevant information are normally available at very short notice, see:

<http://www.ktm.fi/stateownership/>

ANNEX

Table 11. Former and current state enterprises

Name	Period of operation	Years	Administrative branch
1. State Printing Office	1.1.1989—31.12.1992	4	MoF
2. State Nutrition Centre	1.1.1989—31.12.1992	4	MoF
3. Government Computer Centre	1.1.1989—31.12.1992	4	MoF
4. Post and Telecommunications of Finland	1.1.1990—31.12.1993	4	MinTC
5. State Railways	1.1.1990—30.6.1995	5 yrs 6 mo	MinTC
6. Map Centre	1.1.1990—31.12.1993	4	MAF
7. Civil Aviation Administration	01.01.91 - onwards	(11)	MinTC
8. Central Motor Vehicle Register	1.1.1993—31.12.1995	3	MinTC
9. State Repair Centre	1.7.1994—31.12.1998	4 yrs 6 mo	MinTC
10. Forest and Park Service	01.01.94 - onwards	(8)	MAF (MoE)
11. Finnish Institute of Public Management	1.1.1995—30.8.2002	7 yrs 8 mo	MoF
12. Technical Inspectorate	1.11.1995—31.12.1997	2 yrs 2 mo	MTI
13. State Real-Estate Services, present Senate Properties	01.01.99 - onwards	(3)	MoF
14. Road Administration	01.01.01 - onwards	(1)	MinTC

The government's presence in commercial activities is mainly reflected in state-owned companies (table 12).

Table 12. Main state-owned companies operating in a competitive market*

Company	Sector	Persons employed in 2001 (thousands)	31 st December 2002 (% of share)		Previous minimum	
			Ownership	Minimum	Ownership (% of share)	Year of change
Altia	Production and wholesale of alcoholic beverages	0.7	100	50.1	66.7	2001
Edita	Printing and publishing	1.6	100	100	..	..
Finnair	Airline	10.8	58.4	50.1	66.7	1994
Fortum	Energy	14.8	60.8	50.1	66.7	1998
Kemijoki	Energy	0.4	67.0	51.0	66.7	1997
Kemira	Chemicals	10.2	56.2	15.0	33.4	2001
Kone	Lifts and escalators	23.0	4.7	0	..	..
Metso	Metal engineering	25.6	11.5	0	..	..
Outokumpu	Metals and technology	19.0	39.7	10.0	33.4	2001
Patria	Defence	2.3	73.2	50.1	100	1999
Posti	Postal services	23.3	100	100	..	..
Rautaruukki	Metals	13.7	40.1	20.0	33.4	2001
Sampo	Banking and insurance	10.2	40.3	0	20.0	2001
Stora Enso	Forest products	44.3	10.8 ¹	0	..	..
Suomen Siilot Holding	Grain handling and storage	0.4	100	0	100	2001
TeliaSonera ²	Telecommunications	10.5	19.0	0	33.4	2000
Vapo	Peat and timber	0.3	66.7	50.1	66.7	2001

* Taken from the OECD Review of Regulatory Reform in Finland, "Main state-owned companies operating in a competitive market", table 12, page 95

1. Government share in votes is 23.4%.

2. In December 2002 Sonera has undergone a merger with Telia, the incumbent Swedish telephone company.

Source: Ministry of Trade and Industry, Ministry of Transport and Communication, Ministry of Finance.