



# Strengthening the Legal and Institutional Framework for SOE Governance

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## Lessons from Finland

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# WHY IS THE STATE OF FINLAND OWNER IN COMPANIES ?



- **No** nationalized industries
  - **No** “investor portfolio”
1. The State has made investments to support industrialization of the country or specific regions
    - heavy industry
  2. Parts of the State organization have been turned into State enterprises, then incorporated, then listed
    - utilities
  3. The State has organized certain specific tasks in corporate form
    - Often 100 % owned, sometimes State monopolies
  4. State ownership as a consequence of the banking crisis in late -90´ s
    - financing, real estate



# STATE CORPORATE OWNERSHIP IN FINLAND TODAY

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- The State of Finland is a significant Shareholder in **60 Companies**
- All these Companies have the same corporate form as privately owned enterprises, limited liability companies under the Companies' Act
- Former State Enterprises have been incorporated into LLC's



# STATE CORPORATE OWNERSHIP IN FINLAND TODAY

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- **37 Companies** operate under market terms in a competitive business environment
  - under the administration of the Ownership Steering Department
  - **15 Companies** of these 37 are stocklisted
    - 12 of these 15 are delegated to a Holding Company, “Solidium Oy”
  - value of the listed portfolio appr. 18 800 million Euros
  - this corresponds to appr. 10 % of the market value of all companies listed at the Helsinki Exchanges
  - total of annual dividends € 800 – 1 000 mio
  - privatization revenues appr. € 16 000 mio since 1994



# STATE CORPORATE OWNERSHIP IN FINLAND TODAY

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- **23 Companies** perform special “societal” tasks of the State, often with a monopoly position
- Under the administration of several Ministries



# LAWS AND DIRECTIONS CONCERNING STATE-OWNED COMPANIES

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- Companies' Act
- Securities Market Act
- Act on State Shareholdings
- Specific laws on Companies with special tasks
- Decision in Principle of the Council of State concerning State Shareholdings
- Statements by the Cabinet Committee on Economic Policy
- OECD Guidelines on Corporate Governance of SOE's
- The Finnish Corporate Governance Code for Listed Companies



# ACT ON STATE SHAREHOLDINGS 2007

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- The Act defines the competence of the Government and the Parliament when the State either acquires or sells shares
- The Act clarifies the competence of the Government plenary session (Council of Ministers) and the Ministry responsible for ownership steering.
- The Act specifies provisions concerning the sale of shares and reorganisation of business activities.



# ”LESSON 1”

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- It is advantageous and practical to incorporate the SOE’s under the common Companies’ Law to have the same corporate form as privately held enterprises. The Companies’ Law and related statutes (accounting, bookkeeping, audit etc.) provide a solid infrastructure for the governance of SOE’s. Common legal foundation forms a basis for ”level playingfield” with private industries.





# STATE OWNERSHIP POLICY

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- Promulgated in the Decision in Principle by the Council of State, no specific regulation
- Ownership and management strictly separated
- No political involvement, no political recruitments, no politicians in Boards
- Ownership steering of Companies operating on market terms centralised
- Active and pragmatic, market-oriented policy
- As transparent as possible
- Corporate social responsibility of SOE's emphasized



# POLICY TARGETS

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- Companies operating on market terms
  - Good dividend yield and increase of value
  - Expected to be profitable
- Companies with special tasks
  - Good overall social and economic result
  - Expected to take care of certain policy tasks (gambling monopoly, alcohol retail monopoly)
  - Self-sustaining, cost effective



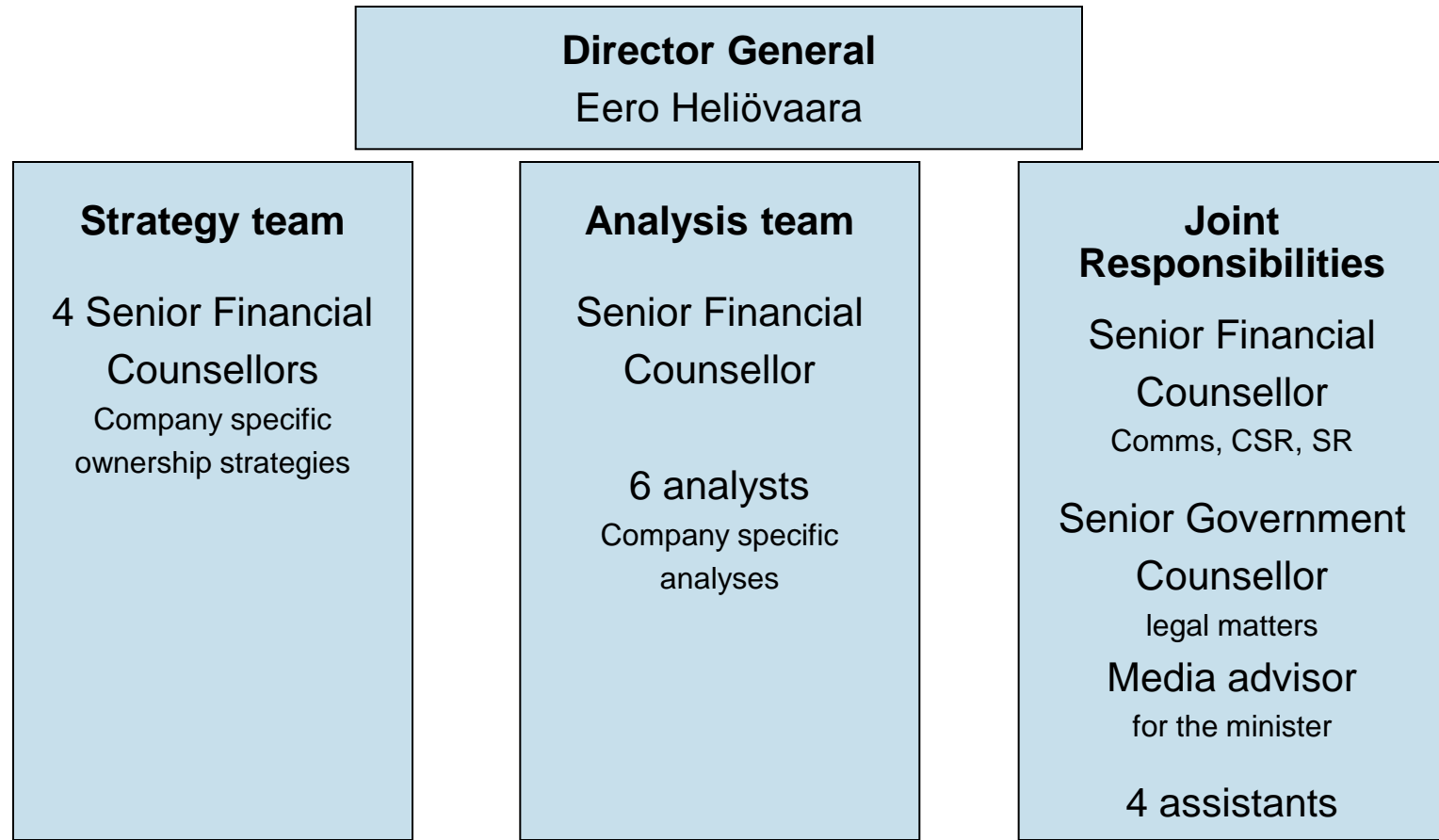
# ”LESSON 2”

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- The State ownership policy should, from time to time, be completely opened up and redrafted. Just overhaul and maintenance, albeit regular, leads to complications and dilution thus reducing practical usability.



# ORGANISATION OF THE OWNERSHIP STEERING DEPARTMENT ("OSD")



# OWNERSHIP STEERING DEPARTMENT PRINCIPAL TASKS

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- Established through reorganisation in 2007
- Ownership steering of 36 market oriented Companies and 3 Companies with special tasks
  - 12 listed Companies delegated to Solidium Oy
  - creation and continuous update of ownership strategies
  - continuous follow-up and analysis of the performance
  - execution of all transactions affecting the ownership
  - representation at AGM's
  - selected Board memberships
- Semi-annual reporting to the Council of Ministers
- Annual reporting to the Parliament
- Assisting other Ministries in ownership steering of Companies with special tasks



# WHY PRIME MINISTER'S OFFICE?

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- Primary concern: separation of Ownership Steering and regulation
  - OECD Guidelines I.A!
- Ministry of Trade and Industry used to have a central role but it was responsible for
  - general industrial policy
  - energy policy
  - competition policy
  - industrial innovations policy
  - etc.
- Ministry of Transport and Telecommunication is the regulator of telecoms, railways, postal services etc.
- Ministry of Finance is responsible for a.o. taxation
- The Prime Minister's Office is a “neutral” Ministry, with no regulatory tasks



# HOWEVER

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- The Prime Minister is not, himself, responsible for Ownership Steering
- Another Minister, with no conflicting regulatory tasks, is appointed to the Prime Minister's Office with responsibility for Ownership Steering
- The first Minister “with two hats” was the Minister of Defence, now it is the Minister for International Development



# WHAT HAVE WE ACCOMPLISHED

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- Separation from regulation
- One single implementation of the State's ownership policy
- One single line of decision-making
- Independence from other State organisations
- Coherent ways of everyday work
- Improved grip in strategy planning
- Much improved corporate analysis
- Improved contact with top management of the Companies
- Improved credibility on the financial market as responsible owner
- Regular and coherent reporting





# ”LESSON 3”

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- Centralization of the ownership function to an entity in the State administration with no conflicting regulatory tasks brings many advantages.
- In Finland we will proceed with the centralization by enhancing the OSD’s cooperation with and assistance to Ministries responsible for the ownership steering of SOE’s with special tasks. Later on some of these Companies will be moved under the administration of the OSD.



# ESTABLISHMENT OF SOLIDIUM OY

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- A holding company established in late 2008, operative in spring 2009
- Wholly state-owned Company with special tasks
- Ownership steering with the OSD
- At the outset State shares in eight non-strategic listed Companies were transferred to Solidium
- Now owns shares in twelve listed Companies



# RATIONALE FOR SOLIDIUM

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- Opening way to strengthen and to stabilise domestic ownership in Companies with national interest
- An independent market-based operator, not an instrument of industrial policy
- A vehicle that can operate quickly and in a flexible manner
- Outside of the State budget economy
- Increase the value of its holdings
- Enhance co-operation with other large shareholders
- Distribute its net earnings as dividend to the State



# ”LESSON 4”

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- A separate, independent holding company incorporated under the common Companies’ Law is a very practical tool for the ownership function
  - Ability to operate outside the budget economy
  - Cannot provide escape or even reduce political responsibility



# STATE OWNERSHIP AND COMPANY BOARDS (1/4)

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- State exercises its shareholder rights at the AGM in the appointment of Board members and external auditors. Does not interfere in the Board decision making
- The Companies' Act imposes on the Board
  - duty of care
  - duty of loyalty
  - personal liability
- The Board is responsible for
  - strategic guidance of the Company
  - monitoring the management
  - appointment and dismissal of the CEO



# STATE OWNERSHIP AND COMPANY BOARDS (2/4)

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- The Board shall be
  - accountable to the owners
  - act in the best interest of the Company
  - treat all Shareholders equally
- Board members shall have the necessary authority and competences
  - experience
  - expertise
  - diversified skills
  - ability to work as a team



# STATE OWNERSHIP AND COMPANY BOARDS (3/4)

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- In Companies with many Shareholders (particularly listed Companies) Shareholders' Nomination Committees make proposals to the AGM
- No political appointments
- Normally one State official
  - not in listed Companies
  - no top-ranking officials
- Preferably no employee representation
- No executive directors
- Target: at least 40 % both genders
- Remuneration of Board members shall be sufficient to attract good candidates



# STATE OWNERSHIP AND COMPANY BOARDS (4/4)

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- OSD sources independent Board candidates with the help of a "Directors' Pool"
- Pool maintained by an external recruitment consultant
  - three years' contract
  - procurement by competitive bidding
  - search for foreign candidates by special appointment





# ”LESSON 5”

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- Shareholders’ Nomination Committees are practical in companies with many shareholders, listed and non-listed
  - Provide well-founded proposals to the AGM
  - Maintain power with the shareholders
  - Transfer argument out from AGM
  - Find better candidates for Board positions
- Maintaining a ”Directors’ pool” with the help of an external recruitment consultant is practical
  - Gives better access to more candidates
  - Provides professional evaluation methods
  - Reduces risk of political, personal etc. interference



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For further information please visit our website

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