



Corporate Governance and Board Practise in Finland and Scandinavia

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Chambers of Commerce in Finland

- Finland Chamber of Commerce (est. 1918), www.chamber.fi – national chamber
- 19 local chambers
- 17 000 companies are members - voluntary membership
- Operations based on law (Act on Chambers of Commerce)
- Promotes the interests of business
- Public duties
 - Auditors
 - Foreign trade documents (ATA carnet, certificates of origin)
 - Real estate agents
 - Property valuers
 - Arbitration according to Companies Act
 - Company take-over panel
- Self-regulation
 - Arbitration Institute, Goods inspection, Council for Ethics in Advertising, Corporate Governance (Securities Market Association www.cgfinland.fi)

Role of Chambers of Commerce of Finland in CG

- Active role in promoting good CG
 - Listed companies (1997, 2003, 2008, 2010)
 - Securities Market Association since 2006, www.cgfinland.fi
 - Unlisted companies (2006)
 - Codes and recommendations
 - Surveys
 - Press releases, articles and interviews
 - Trainings
 - Board candidate listings
 - Practical tools for companies

Benefits of Good CG

- Efficient governance puts main emphasis on business
- Adequate exchange of information between company organs and with shareholders
 - Adds trust
- Well-governed company
 - Credibility
 - Access to financing (financial crisis emphasises CG)
 - More interest for share ownership and board membership

CG – current trends

- Board composition
- Evaluation of board work
- Risk management
- Remuneration
- Role of shareholders
 - Institutional investors
- Role of audit
- CSR

- ***Risk of over-regulation! – EU interest (EC and EP)***

CG in Nordic countries

– common principles

- Common features of company law
 - Strong GM powers
 - Strong minority protection
 - Multiple-vote shares allowed
 - Effective individual shareholder rights
- Non-executive boards
- Many companies with significant owners
 - Some with dispersed ownership
- Auditors Appointed by and Accountable to the Shareholders
- Transparency

CG in Nordic countries - differencies

- Finland: listed companies have much foreign ownership
- Sweden: employee representation on board
- Sweden: AGM vote of remuneration report
- Nomination committees differ

Principle of equal treatment

AGM, board or CEO/MD shall not make decisions or take other measures that are conducive to conferring an undue benefit to a shareholder or another person at the expense of the company or another shareholder.

- Principle is valid in all Nordic countries.
- Directors don't represent the owners who nominated them but must promote the interests of all shareholders.

CG in State-owned companies

- Finnish government has significant ownership
- Divided into different categories
 - Companies operating on market terms / special assignment companies
- Companies with special State assignments: the State has primarily social objectives although the general goal of profitable operations applies
- Listed state-owned companies follow CG Code for Listed Companies
- Guidelines for remuneration and pension benefits
- Nomination committee consists of owners
- Gender representation – 40 per cent
- Ownership Steering Department in the Prime Minister's Office
- Solidium (Ltd, minority owner in 11 listed companies)
- Challenges related to politics

Finland Chamber of Commerce

Recommendation Jan 2006 for unlisted companies

- Major unlisted companies should implement the CG code for listed companies
 - Large ownership
 - State and community owned companies
 - Banks, insurance companies
- Publication for promoting good governance of unlisted companies
 - Voluntary "check list" of questions

Finland Chamber of Commerce

January 2006

PUBLICATION FOR PROMOTING GOOD GOVERNANCE OF UNLISTED COMPANIES

Publication for promoting good governance of unlisted companies

- Includes questions – a check list
 - Companies to wake up and find out about improving their governance themselves
- Non-binding
- No Comply or Explain Principle
- Companies to decide how and if to proceed

- Ca 25 000 copies distributed in Finland
- Excellent feedback

Contents of the Publication: Improving CG of Unlisted Companies

- General Meeting of Shareholders
- The Board of Directors
- The Managing Director
- Compensation Systems
- Internal Control and Risk Management
- Audit
- The Articles of Association
- Shareholders Agreements
- Redemption and Approval Clauses
- Communication and Information
- Change-of-generation in Family Enterprises

The Board of Directors

- Appropriate administration and management of the company
- Promoting the interest of the company and all shareholders

Efficiency of board work

- Board composition
- Sufficient information given to the board
- Organisation of board work
 - Charter for board work
 - Chairperson's role
 - Organisation and documentation of meetings
 - Board members using enough time for board work
 - Board work evaluation
 - Board members awareness of their duties and liabilities

Efficiency of Board Work - Results

- Number of non-executive board members has increased
 - More diverse board composition
- Board evaluation has become common

Managing Director / CEO

- Manages day-to-day business
- Gives information to the board
- Contract in writing?
- Division of task between MD and Board
- Succession planning
- Board monitors MD
- Dialogue with the board
- MD and Chairperson's dialogue
- Executive management team to support MD

Remuneration

- Unlisted companies – different possibilities
 - Bonuses
 - Share-related
 - Pension-schemes...
- Promoting good performance
- Current interest!

Audit

- Provide shareholders with an independent report
- How is auditors' independent position secured?

Internal Control and Risk Management

- To ensure that company operates efficiently
- Is financial reporting reliable?
- Regular controls?
- Are there "dangerous work combinations"?

Communication and information

- Sufficient information to the shareholders
- Annual report
- Interim reports?
- Website?
- Meetings with shareholders?

CG issues under current discussion

BOARD COMPOSITION
REMUNERATION

Board composition

- Versatility
- How many parallel board positions?
- Do directors have sufficient time for board work?
- Gender

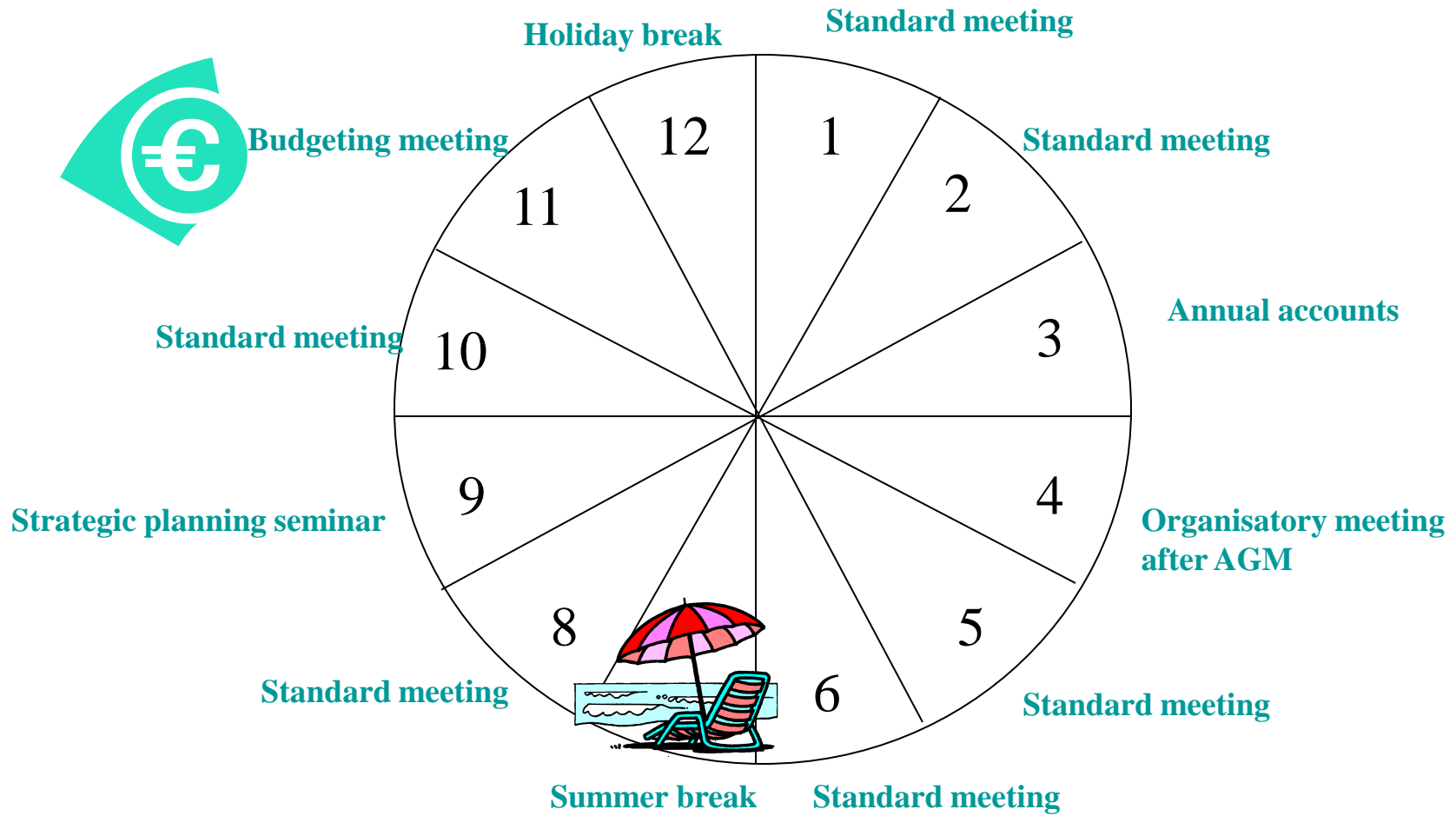
Gender – quotas or targets?

- Quota legislation in Norway, France, Belgium, Netherlands, Iceland, Spain, Italy...
- Finland: CG Code Recommendation 9
 - *Both genders shall be represented on the board.*
 - *Comply or Explain*
 - Major impact, recognised by EP
- EC – plans for European quota legislation
 - Companies can show their own initiatives until spring 2012

Board duties in practise

- Strategy and development of the company
- Business plan
- Defining company values
- Product planning – main features and follow-up
- Production – monitoring
- Defining marketing goals
- HR and remuneration policy
- IT strategy
- Safeguarding company assets
- Budget
- Monitoring of reporting
- Annual accounts
- Dividend policy
- Risk management
- Important: day-to-day business is the responsibility of the CEO, not the board

Example of board meetings annual clock



Efficient board work

- Documentation delivered to board members in advance
- Members study the issues on agenda before the meeting
- Constructive, critical discussion
- Listening and understanding of others
- Chair person supports discussion
- Day-to-day business not to be dealt with
- Monitoring the past does not take majority of time
- Concentrating on the future
 - Is the board ahead of trends?

Good practises of Chair of the board

- Making sure that board work is efficient
- Preparation of board meetings in cooperation with CEO
- Issues are dealt with proper care
- Making sure that board is informed of relevant company issues
- *Chairperson does not lead the company but the board*

Cooperation of board and CEO

- Basis of efficient governance
- CEO prepares board meetings according to instructions given by the chair person
 - Good preparation essential for successful board work
- Contacts and communication between the chair and CEO between meetings

Board committees

- In large companies
- Ensuring efficiency of board work
- Preparatory organs
- Members chosen among the board
- The whole board responsible for decision-making

- Audit committee
- Nomination committee
- Remuneration committee

Remuneration

- Emphasis: long-term viability of the company
- In addition to financial criteria, non-financial criteria to be used
- Predetermined and measurable performance criteria
- Listed company: transparency of remuneration
 - Board and CEO: full transparency of all kinds of remuneration (incl. pension schemes)
- Sweden: AGM vote of remuneration report
 - EC recommends AGM vote (even advisory)

Approved Board Member Training Programme



- 2007 World Chambers Competition
 - Best Skills Development Programme
 - 2nd
 - Tampere Chamber of Commerce
 - www.tampere.chamber.fi

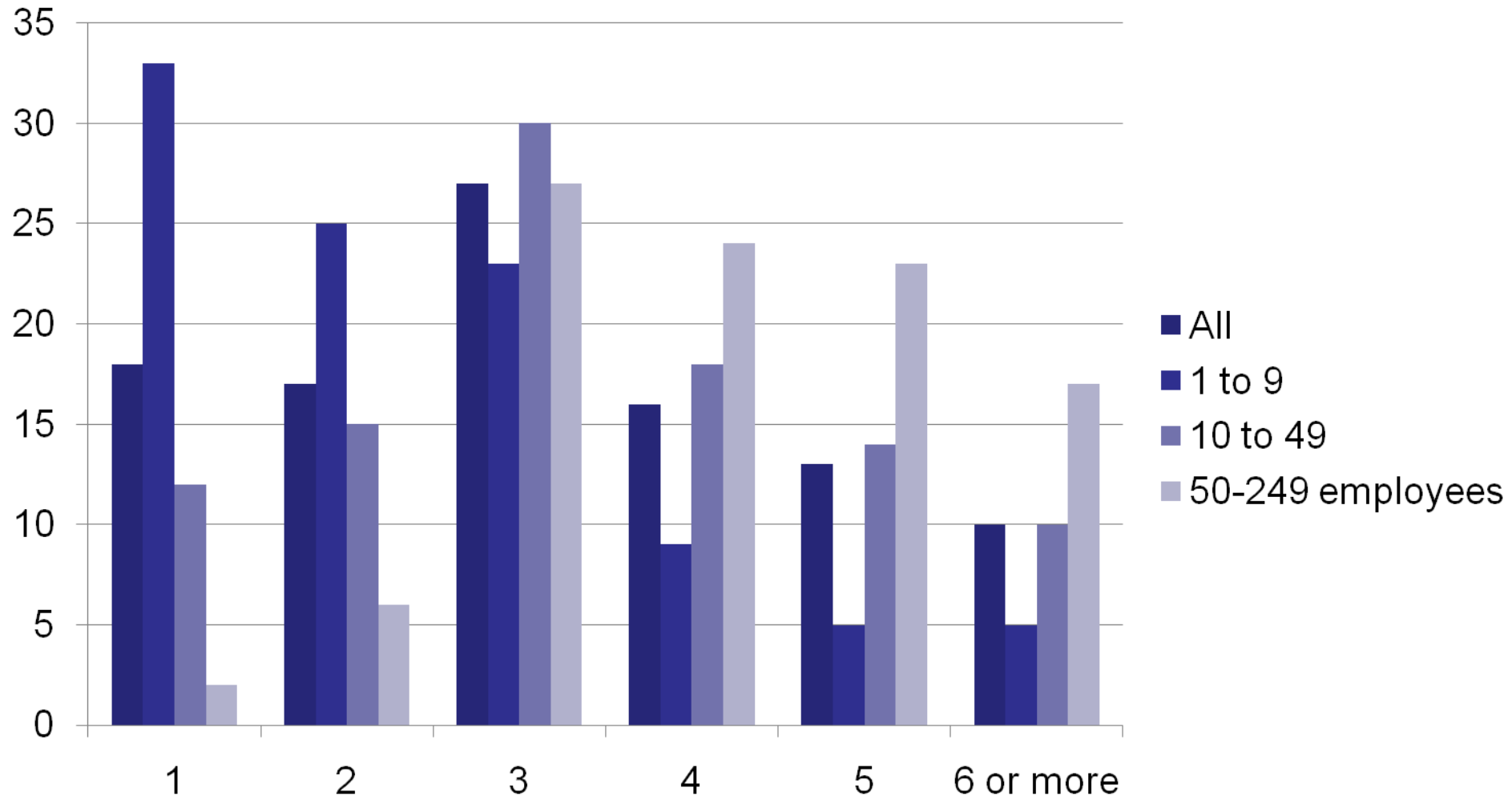
Approved Board Member Training Programme

- Chambers of commerce organise
 - 4 afternoons of lectures, 1 group work session
- **Contents**
 - **1. Good Corporate Governnance**
 - **2. Organisation of board and board work**
 - **3. Strategic work of the board**
 - **4. Monitoring the finances of a company**
- Handouts and literature
- The ABM exam
- The ABM pool

SME Board Barometer 2009

- Conducted every two years
- 17 Chambers around Finland participated
 - 2nd in the whole country, 4th in Tampere Chamber
- 1823 respondents
- Questionnaire sent to 7658 (23.8 % answered)
- 2011 survey currently being conducted

Number of board members

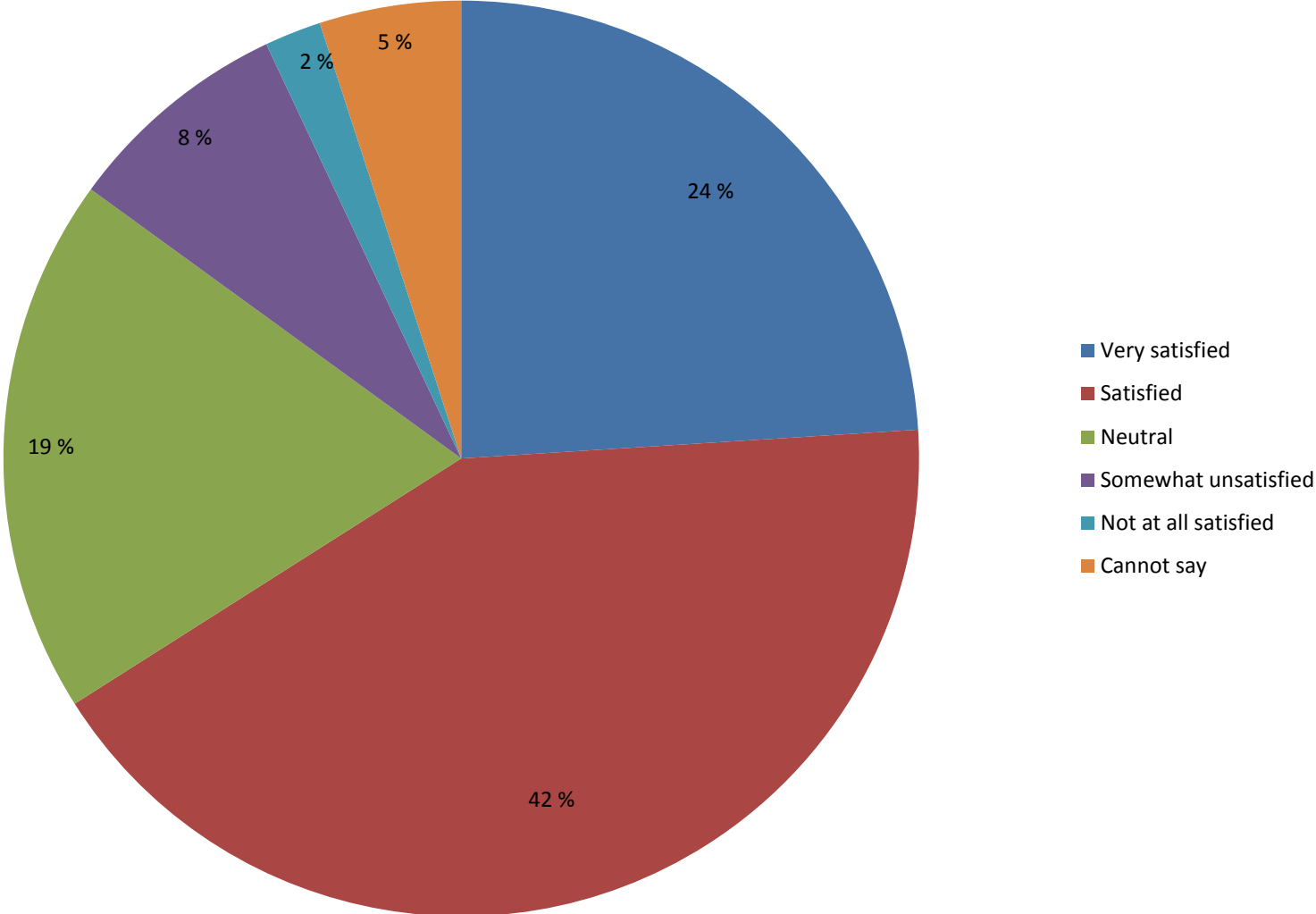


Non-executive board members

- None, and not under consideration 42 (19) %
- None, but under consideration 14 (24) %
- One 15 (16) %
- Two 11 (18) %
- Three 6 (9) %
- 4 or more 11 (15)%

- All respondents (companies with ABM-training) %

Satisfaction with non-executive board members



Board work organisation

- Meeting materials are sent before the meeting (49, 85 %)*
- Board has an annual work plan (22, 29 %)
- Special responsibilities agreed among the board members (19, 8 %)
- There is a recommendation for a limit of board terms (3, 15 %)
- Annual strategic planning day (24, 48 %)
- Chair and Managing director meet regularly outside board meetings (58, 77 %)
- Executive management participate in meetings when their area of responsibility is handled (27, 48 %)

- **(% all respondents, respondents with at least 6 Board members)*

Board work evaluation

- Listed companies annually
 - Internal or external
- SME 2009 Board Barometer: 34 % evaluate
 - 23 % annual evaluation
 - 11 % evaluate, but not annually
 - 15 % consider starting evaluations
 - 52 % do not evaluate

Expertise of board members in order of importance

- Financial (4.46)
 - SME operations (4.26)
 - Strategic work experience (4.18)
 - Corporate Governance (3.92)
 - Something else (3.87)
 - Business branch knowledge
 - Visionary
 - Change and crisis management
 - Contacts
 - Marketing (3.81)
 - Corporate law (3.66)
 - Experienced SME entrepreneur (3.65)
 - HR management (3.6)
 - Company acquisitions (3.32)
 - Internationalisation (3.3)
- Survey scale: 1 to 5

Board fees in companies with 50-249 employees

Basis for fee	Average €	Median €	Largest fee €	Smallest fee €
Annual, chair	9668	5000	50000	1000
Annual, members	6425	5000	25000	500
Monthly, chair	1880	1000	24000	70
Monthly, members	655	500	2000	50
Per meeting, chair	447	300	2000	55
Per meeting, members	429	300	2000	40

Board work survey Sept 2009

- Internet-based survey
- Survey conducted by the FCC of Finland
- Ca 170 respondents

Survey background: financial crisis

- Financial crisis has emphasised good CG in majority of companies
 - Financing
 - board work
 - board composition
 - Shareholders
 - Auditor

Financial crisis: Board work impact

- More meetings
- Longer meetings
- Meeting topics, more than before the crisis:
 - financial reporting
 - risk management
 - adjustment of company functions
- Strategy has been updated
- More board work evaluations
- External experts used

Financial crisis: Board composition impact

- 15 % of respondents
 - More board members or
 - Expert on financial issues of risk management or
 - Emphasis on business (industry) expertise added in view of adjustment of company functions or
 - Changes were planned
- 85 % - no impact

The future of CG

- Over-regulation?
- Continued interest to be expected
 - Board composition
 - Importance of internal control and risk management
 - Shareholders' role
 - CSR issues