

Reporting of State-Owned Enterprises for Parliamentary Supervision

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ABSTRACT

The purpose of our study was to evaluate the Finnish state ownership policy and steering from the perspective of parliamentary supervision. The Finnish state's share portfolio is very heterogeneous, consisting of listed and non-listed companies in which the state has commercial ownership interests and, to some extent, strategic ownership interests. There are also special state enterprises in which the state has special societal interests that the other ownership interests must not violate. In our study, we interviewed key persons involved in state ownership steering and reporting and made an international comparison of best practices. Our reporting model was based on grouping state owned enterprises (SOEs) into categories according to how much the state as an owner stresses the social service assignment principle or how much it stresses pure shareholder value interests. Based on our interviews, international comparisons, and SOE groupings, we created an efficient model for steering SOEs and reporting on them to the Finnish Parliament. This creates good preconditions for successful ownership policy in terms of decision making and steering, which will ultimately improve the outcomes of the Finnish state ownership policy and steering.

Key words: ownership steering, parliamentary monitoring, reporting, state-owned enterprises (SOEs)

INTRODUCTION

The well-known New Public Management (NPM) movement has transformed public sectors in many ways with the introduction of new governance models inspired by competitive markets, business models and performance management. The aim has been to get rid of bureaucratic rules and regulations hampering efficiency, and to change over from a rowing government to a steering government. This movement has led, to varying degrees and amongst other things, to contracting out, corporatisation and the privatization of public sector activities previously governed by the traditional hierarchical administration. This predominant trend has not avoided problems and criticism, for instance because market-like organisational arrangements may lead to the neglect of the social and democratic aspects of governance (Farazmand 2013). When governments incorporate their activities, one crucial problem is fitting diverse goals into a consistent and effective ownership policy. State owned enterprises (SOEs) are expected to be cost efficient, to rationalise their activities and to intensify usage of their production factors, but at the same time governments often set up not only commercial goals but also strategic, industrial and public policy goals. The government faces a challenge related to its capacity to steer and govern the SOEs in such a way that fulfils both public governance and corporate governance

goals in a coordinated way (Martinez et al. 2013, 827).

The aim of this article is to analyse the steering of SOEs from a governance perspective, in which the reporting of the ownership policy implementation by the government to the principal, the Parliament and citizens is essential. Transparent reporting of SOEs based on comprehensive follow-ups is important for the principal's ability to decide on its ownership policy, and also to its ability to assess the agent's performance in implementing the ownership steering and reporting. The Nordic countries function well regarding their overall ownership policy when considered from an international perspective (Frederic 2011, 12–13). However, Nordic countries have special challenges regarding steering and reporting, which stem from the wide variety of SOEs with different ownership motivations and goals. The heterogeneous composition of Finnish SOEs means that the accountable government faces a demanding task of reporting the fulfilment of its steering responsibilities to the Parliament, the principal of the ownership policy.

In Finland, the main responsibility for implementing the steering of SOEs and reporting lies with the State Ownership Steering Department (OSD) in the Prime Minister's Office. At the beginning of 2011, the OSD exercised ownership steering in respect of 29 companies – three of which were listed – and three special task companies. Additionally, the state owns 23 companies with a special task where responsibility for ownership steering lies with the ministries responsible for the fields of activity in which the companies are engaged (Ownership Steering Department 2012, 7). The state is also a minority owner in several listed companies; this ownership is governed by the wholly state-owned holding company, Solidium (Solidium 2013). The financial importance of SOEs is illuminated by the fact that the total value of direct state shareholdings and indirect holdings in listed companies via Solidium was over 16 billion euros, valued at 12 February 2013 (Ownership Steering Department 2013). The SOEs are also economically and socially important because they are important employers. In 2012, companies owned directly by the state or indirectly through Solidium gave work to

220,000 people, about 45 per cent of them in Finland (Ownership Steering Department 2012, 20). Furthermore, the special task companies, such as the broadcasting company, Yleisradio Ltd, have important societal functions.

Some of the Finnish state's ownership of enterprises is based on purely financial interest, others on strategic interests and some on both strategic and financial interests. Moreover, some of these SOEs have corporation charters that make them into not-for-profit companies. In addition, Finnish state shareholdings range from 100 per cent sole ownership to less than 10 per cent ownership. Consistency in both the classification of SOEs and in choices of steering and reporting creates preconditions for ownership policy control and ultimately improves the outcomes of government ownership policy and steering.

Our study focuses on a special area within state ownership policy and steering that is less researched, namely how to form reporting model of SOEs for regulatory and parliamentary steering purposes. The research question is accordingly: What is a consistent reporting model of SOEs for parliamentary surveillance purposes that can be used as a basis for the development of ownership reporting?

We answer the research question within the theoretical framework of the principal-agent relationship and by using as a case study the Finnish government's method of steering and reporting the heterogeneous field of SOEs and, in addition, by using the results of an international comparison. In another paper, we presented a systematic and universal classification model of SOEs for parliamentary surveillance purposes (forthcoming 2014). In this paper, we elaborate in more detail on a consistent reporting model that satisfies the requirement for the efficient monitoring of SOEs. The model was elaborated during and partly after a study that we presented for the Audit Committee of Parliament in Finland (Kankaanpää et al. 2011). The study on how to build a good reporting system of ownership policy steering of SOEs was published in the Audit Committee publication series (Kankaanpää et al. 2011). In the evaluation, we first described and analysed the present condition of state ownership policy and reporting to Parliament (as of 2010), and then, after interviews with key

government officials and members of parliament and benchmarking using international practices, especially in other Nordic countries, suggested a developed reporting system to Parliament and its Audit Committee.

Lack of transparency has been stated as one crucial problem in international studies of SOEs. SOEs have been observed to operate behind a curtain, revealing little information beyond their general mandate (Ramamurti 1991; OECD 2005). In Finland, the state ownership policy has been put to the test in some recent cases that illuminate the importance of up-to-date, transparent and reliable reporting of SOEs. These four cases demonstrate the difficulties of policy implementation and highlight the importance of timeliness and reliable information and reporting for both ownership steering and parliamentary surveillance purposes. These cases also bring forward the question as to when matters should be made known to the wider public.

One such case is the strategic SOE, Finnair and its CEO, which became involved in real estate schemes among a circle of acquaintances and its board, which accepted this, and also expensive so-called stay bonuses to 18 Finnair leaders, when at the same time the company were making large personnel cuts and demanding sacrifices from cabin crew and other personnel. This annoyed the coordinating minister of state ownership policy, Heidi Hautala, who intervened and then in 2011 changed the composition of Finnair's board (Talouselämä 2013, 6–7).

Another case consists of a SOE, Talvivaara mining company, where the state holds a minority of shares, and the environmental catastrophe that it caused in 2011. Irrespective of the impressive corporate sustainability principles published on its website,¹ it ended up undertaking high-risk processing without due controls. Even if the state is a significant minority owner, it is difficult for it to directly influence the company in its role as an owner. The state has tried to control the company via official environmental supervision exercised by the local Regional State Administrative Agency in the Kainuu region. This supervision and control turned out to be weak and unable to stop the environmental disaster.

The third case is a big commercial company

that has been privately owned up until now. The dockyard of STX has been appearing in the media during 2012–2013. The Finnish government is not an owner of this dockyard, which plays an immensely big role in Finnish ship building industry and employment. Not being an owner and not wanting to become an owner seems to mean in the distorted competition in the sector in question that Finland loses orders to countries where the state is ready to be a shareholder and an active partner in the necessary financial arrangements. In this case, it is not a question of the reporting of existing SOEs but more of fundamental principles in state ownership policies and how to inform the principal and the general public of planned actions when some of them are considered to be sensitive trade secrets.

The fourth case is that of Arctia Shipping, which is completely owned by the state. The case illustrates the difficulty of agreeing on what is acceptable steering and what is unacceptable interference in company matters. The coordinating minister of state ownership policy, Heidi Hautala, was accused in October 2013 of giving instructions to the state-owned icebreaker firm Arctia Shipping to avoid making a criminal complaint over protests by Greenpeace activists. The protesters boarded icebreakers twice during 2012 to demonstrate against Arctia's involvement with Shell's plan to drill for oil in Alaska. The senior civil servant at the State Ownership Steering Office at the time, Pekka Timonen, contacted the Arctia management on his own initiative and advised them not to make a criminal complaint. Timonen told Arctia that state-owned companies should have more tolerance for NGO activism than normal enterprises. The former chair of the Green League admitted that she was aware of his actions and supported the move (YLE news 9.10.2013).

After the introduction, in Chapter 2 we present the research methodology and data. Chapter 3 addresses the theoretical framework, while Chapter 4 presents ownership policy and steering in Finland. Chapter 5 presents the interview results, describes relevant monitoring and reporting practices in some other countries and develops the basis for developing the Finnish reporting system. Chapter 6 contains the conclusions and a discussion.

METHODOLOGY AND DATA

The study can be classified as an evaluation study of steering and reporting of SOEs in Finland, theoretically interpreted in a principal-agency setting. The evaluation was accomplished during 2010–2011. The authors continued the research after releasing the basic research report to the Audit Committee for Finnish Parliament. The aim of the evaluation study was to describe and analyse the present reporting model for parliamentary monitoring purposes, based on information gathered from key stakeholders both on the principal (Parliament) and agent (government) sides, and evaluate ways in which to develop it. To aid this evaluation, we used comparisons of international best practices. The selected countries were Sweden, Norway, the UK, Holland, Australia and New Zealand. The choice of these countries was made after preliminary studies (Kalliomäki 2008; 2009), investigations via the Internet of steering and reporting systems in different countries, and discussions with the Audit Committee of the Finnish Parliament. All of these countries have developed steering and reporting practices for SOEs. Sweden and Norway were considered in more detail because they represented Nordic countries with a wide variety of SOEs, similar to Finland. The other mentioned countries, the British Commonwealth countries and Holland, were chosen not because of their large field of SOEs but because of their developed reporting practices and methods of processing reported information in parliaments. Answers to our special email enquiries were received from the governments of the UK, Holland, Sweden and Norway.

One essential document used as a source for Finnish policy regarding SOEs was the 2007 Government Resolution on State Ownership Policy. This decision-in-principle defines the guidelines and objectives of state corporate ownership and ownership steering. A government resolution can be described as a soft law instrument, which means that it is not legally binding itself, but it may have some indirect legal effect when it, for example, leads to new law-drafting (Meyer 2008). Typically, soft law obligations are legally non-binding recommendations and declarations.

In addition to parliamentary documents and other written material, the study consists of theme interviews with professionals connected to the ownership steering of SOEs or the parliamentary supervision of state finances. The reporting model was first outlined based on the principal-agency model of SOEs and our international comparison of best practices, and then tested with interviews targeted to our high ranking officials responsible for ownership policy steering and reporting.

The authors interviewed leading civil servants in the OSD and several ministries in Finland responsible for steering SOEs in their administrative sectors. Interviews were also carried out in the National Audit Office of Finland. A total of 6 interviews were carried out, giving 5 hours and 3 minutes of transcribed interview data. The main themes in the interviews dealt with the present method of steering and reporting and the need to develop steering and reporting, especially from the point of view of Parliament. The person from the OSD who was interviewed denied us the right to cite his interview in the published report text. Summary details of interview themes and data are presented in Appendix 1.

Furthermore, the authors have had an opportunity to utilise the information given by the Audit Committee of the Finnish Parliament through the steering group of the study. This steering group consisted of the authors of this article and several members and civil servants of the Parliamentary Audit Committee. The steering group was led by the chair of the Audit Committee, and assembled several times during the study.

THEORETICAL FRAMEWORK

The theoretical framework of this study is based on agency theory, which describes the relationship between two or more parties in which one party, designated as the principal, engages another party, designated as the agent, to perform some tasks on behalf of the principal (Berle & Means 1932; Coase 1937; Jensen & Meckling 1976; Shleifer & Vishny 1997; Armstrong et al. 2010). Agency theory is concerned with analysing and resolving problems that may occur in the agency-principal relationship in enterprises. The theory assumes

that once principals delegate authority to agents, they often have problems controlling them, because agents' goals often differ from theirs, and agents often have better information about their capacity and activities than principals. Agency theory focuses on the measures which principals use to try to mitigate this problem by selecting certain types of agents and certain forms of monitoring their actions, and by using economic incentives (Kiser 1999).

The theoretical framework of the principal-agent relationship has also been used in analysing the multiplicity of interest and co-existence of various categories of principals and agents in public utilities and state owned enterprises (Jones 1991; Vagliasindi 2008; Kankaanpää et al. 2011; Martinez et al. 2013). Through public ownership, the state can sustain sectors that are of long-term strategic or national security interest that are presently uneconomical for private investment (Luke 2010). In addition, governments often find SOEs to be a useful strategy for pursuing social goals such as greater equality and social stability (Ramamurti 1987; Bozec & Breton 2003). However, inefficiency, conflicting objectives, political interference and lack of public transparency are considered to be the main problems of SOEs. The goals of public enterprises may be difficult to specify because of the problems of multiple objectives (commercial versus non-commercial) and plural principals and agents (Jones 1991, 181). And the ultimate outcome of a biased content of ownership policy and steering may skew competition in the markets and hinder economic growth in the country (Shirley 1997).

The existence of many levels of principal-agent relations and accountability chains easily result in tensions and conflicts. The state government is not one unit, but consists of different administrative levels, ministries and units having perhaps different perceptions of what the goals should be or what the goals mean in terms of practical implementation. The problem of *common agency* is realised when each relevant part of the government has a somewhat different objective, and each tries to influence SOEs accordingly. Managing multiple and potentially conflicting objectives is one of the central challenges in the governance of SOEs (The World Bank 2006, 3–4).

In the present study, the agency theory setup exists in a complicated politico-administrative-business environment consisting of several agency relationships: one between the management and owners of individual SOEs; the second between a political decision-making body, the Parliament, and its Audit Committee, and the central administration (Cabinet and the separate ministries) responsible for implementing owner steering; and the third between the political decision-maker and the electorate. This multiple-stage reporting relation is typical for owner steering, particularly in Nordic countries (Finland, Sweden, Norway) but also in some other OECD countries, such as Australia, New Zealand and the Netherlands (Kankaanpää et al. 2011). It is crucial that the central government is obliged to report to its own principal as to whether owner steering and owner policy have been implemented according to the approved political objectives. Thus, it is important that high-quality monitoring information is systematically reported to Parliament (Kankaanpää et al. 2011).

The focus of this study is on state-owned enterprises, SOEs, which are not on-budget entities. The state has more powerful steering tools for its on-budget entities, such as budget steering, orders and directions, than for its off-budget entities, like state utilities and SOEs (on governmental steering methods in general, see Vedung 2000).

In part, the government ownership steering is indirect, because the state owns the shares indirectly by owning shares in a holding company, which then owns shares in other companies. In the Finnish case, the state completely owns a holding company, Solidium, which then owns further shares of listed companies. The individual SOEs are responsible for reporting to the holding company, and the holding company itself is required to report its operations to the central government. The Ownership Steering Department of the Prime Minister's Office then further reports to Parliament.

The content of a steering policy may be influenced, for instance, by a privatisation policy that aims to sell state-owned companies to private markets and to retain only some special purpose corporations in state ownership. In Finland, governments have not opted for selling their companies off vigorously, unlike some

other countries such as the UK, even if increased privatisation has been carried out during recent decades. This means that the government in Finland owns a wide variety of SOEs and faces the classic problem of partly conflicting goals and coordination difficulties between the various categories of principals and agents. This institutional setting is described in more detail in the following section.

STATE OWNERSHIP POLICY AND STEERING IN FINLAND

The history of Finnish state industrial policy extends back as far as the first decades after independence in 1917 (Hyytinen et al. 2003). During the years before the Second World War, and especially after the war, there was a lack of capital to start important heavy industries like energy, metal, wood and paper industries. Because of this, the state took the initiative and established state-owned companies in these fields. This historical background explains the wide array of Finnish state ownership in heavy industries (Moen & Lilja 2001).

From the late 1980s, the so-called New Public Management (NPM) movement, which aims to reform hierarchically operating public administration in a more flexible managerial direction and to apply market models, had an influence in Finland (Temmes 1998). The NPM trend in the Finnish public sector caused a transfer of business-like operations from the state budget into off-budget entities and further into state-owned corporations². However, systematic state ownership policy as a separate policy field in the platform of the Finnish government did not begin until the 2000s (Vuoria 2004). The first separate and explicit ownership policy and corporate governance government resolution was formulated in 2003. Nowadays, the state ownership policy and corporate governance are delineated in each government programme, and in each government resolution pertaining to state ownership policy. The most recent government resolution on state ownership policy was adopted in 2011. The Ownership Steering Department in the Prime Minister's Office is then in charge of the practical-level ownership steering of companies operating on market terms. The department also has

overall responsibility for the guidelines and development of the state ownership policy.

The power of the Finnish Parliament is real when it mandates the government to sell or buy shares in companies. But there is a danger that the power becomes more apparent than real when Parliament delegates the power to decide the content of the ownership policy to the Council of State and when the policy implementation resides in the ministries and their executive organs. The main lines of ownership policy are included in the government platform because it falls to the competence of the Council of State to make the resolution on state ownership policy (State Shareholdings and Ownership Steering Act, 1368/2007, 4§). It is important that Parliament demands that the Council of State reports the use of the mandated rights. Based on this reporting, Parliament may consider changing the legislation concerning ownership policy and steering. It is also important that the ministerial executive organs report to the minister so that the Council of State is able to report further to Parliament and its Audit Committee.

The current Finnish SOE policy is based on the international principles for state ownership recommended by the OECD (OECD 2004). Among the main principles of the recommendations are: 1) that the finances of the enterprise and the finances of the state be kept separate; and 2) that the state maintain clear separation of responsibilities among the bodies of the companies and operate only as the owner. Thus, the state-owner has an evaluative and monitoring role with regards to normal business operations, and does not intervene in operational business decision-making.

The basic law that the ownership steering must follow is the State Shareholdings and Ownership Steering Act (1368/2007). According to that act, state ownership steering refers to the exercising of the state's right to vote in general meetings as well as to other measures by which the state as a shareholder contributes to companies' administration and operating principles. Thus, the concept of 'state ownership steering' refers to various actions by which the governmental authorities as an owner may influence the companies. Duties relating to state ownership steering are handled in the ministries

and the Ownership Steering Department located in the Prime Minister's Office.

The owner steering function of the state of Finland is in accordance with the executive power and division of tasks set out in the legislation of the Finnish Companies Act (624/2006), which is most closely related to the corresponding laws in the other Nordic countries such as Sweden, Denmark and Norway (Liljeblom 2006; Kankaanpää 2009). Moreover, with regard to public listed SOEs, the Finnish corporate governance regulatory body also includes the Securities Market Act, the Rules of the Nasdaq Helsinki Stock Exchange and the Finnish Financial Supervision Authority governed by the Bank of Finland. The Finnish Corporate Governance Code complements the legislation and is in the form of '*Comply or Explain*'. This means that firms listed on the OMX are bound to follow this code to its full extent, but firms can deviate from the given recommendation by announcing the deviation along with the required explanations (OECD 2004; Securities Market Association 2010).

In Finland, the classification of SOEs is based on the various owner interests of the state. The SOEs fall into three groups: economic, strategic and special state assignment enterprises (Ownership Steering Department 2010). The tasks of *special state assignment enterprises* are generally provided for in the legislations of the various countries, and these also determine the state ownership policy and how state steering is carried out (Luke 2010). In accomplishing special state assignments, the objectives of state ownership are primarily societal, albeit with the general aim that the operations should be profitable (Finnish Council of State 2007). In Finland, the objectives of special state assignment companies are based on the best possible societal and economic overall results, which are evaluated primarily on the basis of how and at what cost the enterprise fulfils the objectives set for it by the ministries.

The corporate charters of several special state assignment companies stipulate that it is not the main purpose of the enterprise to generate profit (The steering group of the study, December 2010). One example of a special state assignment company is Veikkaus, which is the 100 per cent state-owned gaming and betting

company. Veikkaus contributes its total profits to the Finnish Ministry of Education and Culture, which distributes them further to Finnish arts, sports, science, and youth work.

Enterprises with economic and strategic interests operate under market conditions. Market conditions means that the operating principles, funding structure and target proceeds in enterprises owned by the state can be compared with other enterprises operating in the same fields, and the aim is to achieve an optimal economic profit (Vuoria 2004). Some SOEs (like Fortum and Patria) operating under market conditions are also linked to the state's strategic interests, such as objectives connected to maintaining and ensuring infrastructure or to basic services, but some of them are involved in purely market-based business (Parliament of Finland 1/2009).

According to the Finnish Constitution (731/1999), it is Parliament which wields the highest financial power in Finland. Parliamentary financial power also means the authority to monitor the state finances in their entirety, so Parliament can monitor the ownership steering of state-owned enterprises, too. In Finland, two main actors conduct the parliamentary financial surveillance: the Audit Committee of Parliament and the National Audit Office, which also has a direct connection to Parliament. Both of these institutions may monitor the ownership steering of SOEs.

REPORTING TO PARLIAMENT

Although Parliament itself does not directly practise ownership steering, it has several constitutional means by which to control and influence state ownership steering. The main objects of this monitoring are the parties responsible for the ownership steering, which are the ministries and the Ownership Steering Department. The parliamentary means of controlling the state ownership steering are, for example, legislation, written and oral reporting procedures and influencing through the supervisory boards of the state-owned enterprises (Kankaanpää et al. 2011).

However, the Audit Committee has on several occasions expressed its concern about the insufficiencies of parliamentary control and

reporting (Parliament of Finland 1/2009 and 5/2010). (i) It has been a problem, for example, that no comprehensive official document concerning the ownership steering of SOEs has been delivered to Parliament. A comprehensive report to Parliament was used, for instance, in our comparative countries, Sweden and the UK. The need for a comprehensive report was also confirmed in interviews conducted for this study (Interview with the chairman of the Audit Committee of the Finnish Parliament, October 2010).

Moreover, (ii) it has been problematic that the report of the ownership steering does not include all SOEs. In addition, (iii) the heterogeneous field of SOEs needs systematising so as to clarify the nature of state ownership. Finally, (iv) partly because of this heterogeneous field of SOEs and lack of systematising, government resolutions on state ownership policy have remained at too general a level, making it difficult to assess the achievement of the goals set in the government resolution.

International practices

Practices of ownership policy reporting to parliaments vary greatly between countries. Some of the best practices for this study were found in other Nordic countries, especially in Sweden and Norway. The ministries and agencies in charge of ownership steering were obliged to report to their parliament how the ownership policy and good corporate governance principles were being implemented in practice. They were obliged to disclose how goals connected to board nomination policies, reward and incentive pay, internal control and risk management were realised, and how external auditors were chosen. Sweden and Norway also required the reporting of corporate social responsibility during the reporting period, as well as the reporting of how strategic goals of SOEs with state strategic interests were taken into consideration. For instance, in Norway, the government has a strategic interest to maintain the headquarters of certain important companies in Norway. The Swedish government decided in November 2007 that SOEs must follow the standards of the Global Reporting Initiative (GRI) in their social

responsibility reporting. The Swedes emphasised that SOEs must set a good example of reporting to other listed and non-listed companies as well.

An interesting hearing procedure was in use in the UK. Based on findings included in the audit reports of the National Audit Office (NAO), the parliamentary Public Accounts Committee (PAC) invites responsible persons to public hearings. At these hearings, members of the committee present strict questions to the persons being heard³. This kind of typical Anglo-Saxon hearing procedure could mean a sharpening of the Finnish parliamentary proceedings on ownership matters. At the moment, the chief executive officers of SOEs report to their company boards, but in the future they could be more increasingly heard at parliamentary committees.

In the UK, the NAO includes regular audits of SOEs in its audit plans. In Finland, the National Audit Office (NAO) makes its audit plans independently, and previously it has not audited regularly SOEs. The NAO decided to include in every year of its audit plan for 2009–2011 at least one SOE, state owned utility or government fund⁴. Its more recent audit plans include even more audits concerning SOEs and the implementation of ownership steering⁵.

It seems that in the UK and Sweden, there is a habit of lively parliamentary discussion of SOEs and ownership policies. This adds to the transparency of ownership policy and steering and encourages the parliament to be an active player that requires information from the ownership policy field.

Developing Finnish practice

During our case study, we conducted a series of interviews with people connected to the ownership steering of SOEs or the parliamentary supervision of state finances. In the interviews, we tested what the interviewees thought of our model for parliamentary steering and surveillance reporting needs.

The keyperson in the Ministry of Social Affairs and Health was very positive regarding the suggested enhanced reporting responsibilities to Parliament:

“It is a good solution to enhance the role of ownership steering and to make a separate ownership steering report ... my opinion is that it would also motivate me in a new way [...] because now my writing gets lost in the general ministerial reporting pulp[...].” (Interview with the Councillor of the Ministry of Social Affairs and Health, 2011)

In comparison to, for example, the Shareholder Executive annual report in the UK, the Finnish ownership steering report did not include all of the SOEs. Thus it is crucial that the reporting of ownership policy should extend systematically to all SOEs, that the findings should appear in one single report and that the report is processed in the national Parliament as a parliamentary document. An administrative unit with sufficient executive power should be responsible for compiling this single combined ownership steering report.

It was interesting to note that in Finland, not only Parliament but also governmental bodies have proposed strengthening the reporting to Parliament concerning ownership steering. According to the leading civil servant at the Ministry of Education and Culture:

“It is reasonable to develop the exchange of information between the Ministry and Parliament, for example, by regular hearings in the Audit Committee.” (Interview with the Special Government Advisor of the Ministry, 2011)

The Audit Committee also considered oral reporting and consultation to be a useful parliamentary tool for monitoring ownership steering. At the parliamentary committee in charge of ownership policy issues, it is possible to hear the views of the ministries with responsibility for ownership issues, civil servants, chairs of company boards and their managing directors and auditors. These parties constitute an important source of information when the responsible operations of a company are being assessed. Thus, they serve to complement the available written reports and quantitative measurement information on the societal benefits of the company.

The key persons interviewed in the Ministry of Transport and Communications were in principle for enhanced reporting to the Parliament. However, they both emphasised many times during the interview that those SOEs that come under company law must carefully comply with the law, especially the rules of treating all shareholders equally:

“If the minister begins to interfere in the company’s matters, that company will be politicised.”

To improve reporting transparency, it was clear in the interviews that it was considered valuable for the government and ministers responsible for ownership steering to explain in an annual report (and other written reports) how each objective and principle contained in the state’s ownership policy has been achieved (The Audit Committee of Parliament, December 2010).

“Regarding the ownership steering report, it is important that if a ministry is responsible of special state assignment companies, then also the responsibility of the reporting content must reside in the ministry in question.” (Interview with the Chief Director of the Ministry of Transport and Communication, 2011)

In addition, interviews were also carried out at the National Audit Office of Finland, an independent body affiliated with Parliament. According to the Act on the National Audit Office (676/2000), the Office has the right to audit state-owned companies. The main issue of this auditing is how the ownership steering is implemented and the shareholder authority that is used in practice. The leading civil servant of the National Audit Office described the role of the Audit Office as follows:

“Our task is to ensure that the ministries do their duties and are able to use the tools of ownership steering. This kind of tool is for example the appointment of the members of the board of the company in the shareholders’ meeting.” (Interview with the Director for Performance Audit and Leading Performance Auditor, 2011)

Furthermore, the authors have had an opportunity to utilise the information given by the Audit Committee of the Parliament of Finland through the steering group of the study. It became clear that one major problem for parliamentary monitoring was the fact that no official document concerning the ownership steering of the SOEs has been delivered to Parliament.

“The core problem is structural: The annual reports of the ownership steering department are not processed in the parliament as parliamentary documents.” (Interview with the chairman of the Audit Committee of the Finnish Parliament, 2010).

According to our interviews, the ownership steering report for each company and group of companies should stress either the societal benefits for the society (implementation of special assignments) or the shareholder value creation. For example, in relation to special state assignment companies, it was emphasised by our interviewees that it is essential to know how the social interests and non-financial targets have been implemented in practice.

The SOE classification of enterprises as economic and strategic or special state assignment enterprises is one precondition for systematising the information needed for parliamentary monitoring. The more that the societal objectives are emphasised, the more the state as an owner has other than pure shareholder value interests, and the more Parliament needs surveillance information on how well the company is fulfilling its social service assignment. The focus in the class of special state assignment companies is on the steering perspective set by the ministry in charge. The general goal is that operations are profitable, but the monitoring information stresses the quantification and assessment of the companies' social service assignments.

In SOE categories that emphasise only economic principles, the aim of the state ownership policy is that the companies' profitability and financial structures should be at least as good as those of domestic and international competitors. Regarding profitability, good parameters are, among

others, earnings before interest and taxes (EBIT) describing the structure of the result, return of equity (ROE) and return on assets (ROA). For the analysis of financial structure, the appropriate measures are Debt to Equity and Gearing (see e.g. Revsine, Collings, Johnson, 2005; Stolowy & Lebas 2006).

Currently, in the annual reports of the Finnish state ownership unit (Ownership Steering Department 2010; Solidium 2010), the added economic value by listed companies is reported using the so-called EVA model (see e.g. Brealey et al. 2008). The use of the model is justified because it illustrates how shareholder value has developed during the fiscal period. However, it is important to note that the results of the EVA model do not themselves reveal anything about whether the change in owner value is a consequence of the actions of management or of factors external to the management's sphere of influence.

Furthermore, it is also important to perform reporting by company category (by investment portfolio) and for all companies together. This conclusion was based on both our domestic and international enquiries and comparisons (see e.g. Shareholder Executive 2008). Among others, the main information to be reported was considered to be development of market value and its relation to the general development of the shares, the yield of the portfolio in relation to the average market yield and the amount of dividends received by the state. For portfolios, as for individual companies, the information should be presented for a sufficiently long period of time, for example, for the previous five years.

The best practices revealed in our international comparisons and the opinions of our interviewed stakeholders were that SOEs should diversify their social responsibility reporting. Based on this, we suggested in our evaluation that ownership policy reports produced at the end of each company overview should publish information on the gender division of the board and other sub-areas of societal responsibility (see e.g. Sweden Government 2009). To promote transparency, it is crucial to report how the ownership steering has supported good corporate governance and social responsibility in SOEs (Securities Market Association Finland 2010).

After the publication of our report, there has been a development regarding social responsibility reporting. A new annex concerning the model for corporate responsibility reporting for state-owned companies was included in the latest government resolution on state ownership policy (2011).

In the interviews, we presented the reporting model that had been formulated based on the interviews, best practices and wishes expressed by the members of parliament on the Audit Committee for the Finnish Parliament. It became clear that both oral and written reporting to Parliament were considered to be important development targets and that the comprehensive report outlined in Appendix 2 was widely accepted as a good example. Because quantification of, for example, social service assignments is generally very difficult, qualitative measures and oral reporting were considered to be helpful. These could include assessment by independent experts, explanations given by ministers responsible for ownership steering, or explanations given by officials, chairs of the boards and managing directors of SOEs at parliamentary hearings.

The presented model for ownership steering reporting for parliamentary surveillance purposes (Appendix 2) seems to have already had some influence on the new state resolution of state ownership policy principles made by the Katainen Cabinet in 2011. The 2011 Annual Report of the Ownership Steering Department (2012) partly follows this model, but lacks some of the comprehensiveness that characterises our reporting model.

CONCLUSIONS

The origins of this paper stems from evaluation research conducted for the Audit Committee for Finnish Parliament. The purpose of the study and evaluation was to systematise the field of state ownership, ownership policy and steering from a parliamentary supervision perspective, and to create a good reporting model that suffices all of the basic surveillance and monitoring needs of the Finnish Parliament and its Audit Committee.

Based on the heterogeneous field of the Finnish state's share portfolio, we created within

the context of the principal-agent relationship a model for parliamentary monitoring purposes. Special attention should be paid to which matters are salient for the ownership steering of specific types of company. We divided the objectives of SOE ownership steering into two main principles: (i) the social service assignment principle; and (ii) the shareholder value creation principle. Moreover, we grouped the SOEs into different categories according to the extent to which the state as an owner is more focused on the social service assignment principle or purely shareholder value interests. This SOE classification clarifies the information needed for parliamentary monitoring. Consistency in ownership goals, steering and reporting creates preconditions for ownership policy decision-making and ultimately improves the outcomes of ownership policy and steering.

Both new operative means and an intensification of existing means were considered during the research. Our conclusions regarding the efficient steering and reporting model were based on our domestic and international documents, enquiries and comparisons. The best practices revealed in our international comparisons and the opinions of our interviewed stakeholders were that SOEs should report comprehensively by company category and describe how both the commercial goals and non-commercial social goals have been accomplished, and how the incumbent government has performed its steering and governance responsibilities.

Furthermore, the interviewed stakeholders agreed that annual reports of ownership steering should be processed in Parliament as official parliamentary documents. Moreover, new methods of oral reporting to Parliament were also considered to be interesting. These could include assessments by independent experts, explanations given by ministers responsible for ownership steering, or explanations given by officials, chairs of the boards and managing directors of SOEs, perhaps at parliamentary hearings.

This study report was delivered to the Audit Committee of the Finnish Parliament in 2011. Soon afterwards, that Parliament adopted a resolution whereby the government was required to report officially and annually to Parliament on the ownership steering of SOEs (Parliament

of Finland 11/2010). The Ownership Steering Department of the Prime Minister's Office published its 2011 Annual Report in 2012. This Annual Report was for the first time processed as a legal document as part of parliamentary proceedings.

The contribution of our study is that it elaborates the categorising of SOEs for systematic monitoring purposes within the principal-agent relationship, and based on this, formulates an evaluative approach used in the case country for developing ownership steering and reporting. A consistent model for designing and monitoring the implementation of ownership policy is not only important for parliamentary surveillance purposes but also because the government is accountable for the general public, voters and tax payers. International best governance practices include the condition that the government publishes its ownership policy lines and goals on the Internet or other accessible media, and also defines reporting requirements regarding different types of SOE. The detailed classification of SOEs suggested in the study may help to develop ownership steering and reporting, not only in the case country but especially in countries in their infancy of developing the public governance of SOEs.

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NOTES

¹ “Talvivaara’s responsible business operations incorporate three dimensions of corporate social responsibility: economic, environmental and social aspects. Through its responsible business operations, the company seeks to meet the challenges of sustainable development and ensure the conditions necessary for Talvivaara’s solid operation far into the future” (http://www.talvivaara.com/about-us/Talvivaara_Sustainability, accessed 12.2.2013).

² The state of Finland formerly had several businesses transferred from the state budget, but the only ones left in 2011 are Metsähallitus (administration of forests) and Senate Properties. In recent years, the incorporated businesses have been Ilmailulaitos, currently Finavia Oyj (aviation), Tieliikennelaitos, nowadays Destia Oy (The Finnish Transport Agency), Varustamoliikelaitos (currently Arctia Shipping Oy) and Luotsausliikelaitos (currently Finnipilot Pilotage Oy).

³ Kalliomäki, 18.7.2008.

⁴ Kalliomäki, 27.7.2009.

⁵ VTV, memorandum of Vesa Koivunen to the research group 3.2.2011.

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APPENDIX 1. INTERVIEW THEMES AND SUMMARY OF INTERVIEW DATA

Interviews consisted of following main themes:

- The present role and tasks of different partners in ownership steering
- Present tools of ownership steering and reporting
- Problems in the present steering and reporting system
- The needs to develop steering and reporting especially from the point of view of Parliament
- The willingness of the different accountable persons and institutions to participate in a new way of reporting to Parliament.

Organisation	Organisational Role of Interviewees	Date	Duration
1. Audit Committee of Parliament in Finland	Chairman	28.10.2010	0:52
2. Ownership Steering Department	Head of Department	2.12.2010	0:35
3. Ministry of Education and Culture	Special Government Advisor	5.1.2011	1:06
4. Ministry of Transport and Communications	Chief Director and Head of Business Unit	7.1.2011	0:32
5. National Audit Office	Director for Performance Audit and Leading Performance Auditor	10.1.2011	1:21
6. Ministry of Social Affairs and Health	Councillor	13.1.2011	0:37
Total			5:03

APPENDIX 2. WRITTEN REPORTING MODEL OF SOES TO PARLIAMENT

Report content
<p>1. Introduction</p> <ul style="list-style-type: none"> – The scope of state ownership, key figures – State ownership steering agency, structure and personnel, budgeted costs – A description to the reader of the report structure
<p>2. A summary review made by the responsible coordinating minister of the state ownership policy</p> <ul style="list-style-type: none"> – How has the accountable government and coordinating minister been able to accomplish the state ownership policy steering during the reporting year.
<ul style="list-style-type: none"> – The valid government resolution on ownership policy and the good corporate governance principles set by the government create the basis for the reporting to Parliament and its Audit Committee. <p>3. Special reviews made by different ministries in charge of ownership steering of SOEs</p> <ul style="list-style-type: none"> – The government corporate governance principles and possible exceptions of these principles during the reporting year. – Regarding companies in which the state has a pure shareholder interest, the development of market value and its relation to the general development of the shares, the yield of the portfolio in relation to the average market yield and the amount of dividends received by the state. Also changes in state ownership, sales and purchases of shares, fusions, new state established companies and so on during the reporting year. – Accomplishment of societal service and non-commercial goals, environmental and sustainable development goals, social responsibility goals, gender equality in board nominations etc. during the reporting year. – How has the responsible personnel policy goals been advanced with the state ownership policy during the reporting year. – How have the goals of fighting against corruption and unethical behavior been accomplished especially in international activities. <p>4. SOEs in which the state has mainly commercial interests</p> <ul style="list-style-type: none"> – Detailed disclosures of company performance indicators company by company in a standardized manner. – Also the accomplishment of strategic interests if the government has such regarding the company (for instance, Finnair, Neste and Fortum) <p>5. Special state assignment enterprises</p> <ul style="list-style-type: none"> – Sector ministries are responsible of this part in the combined monitoring report to the Parliament. – Detailed disclosures of company financial performance indicators enterprise by enterprise in a standardized manner. – Also key performance indicators regarding non-financial goals, non-standardized descriptions because the non-financial goals vary a lot. <p>6. Other special institutions owned by the government</p> <ul style="list-style-type: none"> – The Bank of Finland, National insurance institution (KELA), SITRA etc. – Because these institutions have their own special control and reporting systems to the parliament, only a short summary of main results and references to the special reports of them. <p>Annexes, for instance: Elementary concepts, key figures and indicators and board compositions of important SOEs</p>