

REVISED OECD SOE GUIDELINES – REGIONAL BALTIC LAUNCH EVENT

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Good Practices for Strong SOE Boards – Experiences from Finland

Kimmo Viertola, Senior Policy Advisor, State-Owned Enterprises Unit, OECD

Strong SOE Boards: Selected OECD SOE Guidelines Recommendations

I. Rationales for state ownership

II. State's role as an owner

- **Recommendation II.F.2.** *Establishing and safeguarding well-structured, merit-based and transparent board nomination processes, actively participating in the nomination of all SOEs' boards, and contributing to gender and other forms of board and management diversity.*

III. SOEs in the marketplace

IV. Equitable treatment of shareholders and other investors

- **Recommendation II.F.8.** *Establishing a clear and transparent overarching remuneration policy for SOE boards that fosters the long- and medium-term interest of the enterprise and can attract and motivate qualified professionals.*

V. Disclosure, transparency and accountability

- **Recommendation VI.C.** *SOE board composition should allow the exercise of objective and independent judgement. All board members, including any public officials, should be nominated or appointed based on qualifications relevant to the enterprise's sector of activity and business profile and have equivalent legal responsibilities.*

VI. Composition and responsibilities of SOE boards

VII. SOEs and sustainability

Board nomination process: OECD SOE Guidelines Recommendations

Recommendation II.F.2. Establishing and safeguarding well-structured, merit-based and transparent board nomination processes, actively participating in the nomination of all SOEs' boards, and contributing to gender and other forms of board and management diversity.

The State should ensure that SOEs have efficient and well-functioning professional boards

➤ Establishing a structured **nomination and appointment process**

- Often **facilitated by the ownership entity** with sole responsibility for the state's nomination process
- Based on **board profile** and an appraisal of the variety of skills, competencies and experiences required, included in specialised committees

➤ **Selection** of Board members

- Competence and related experience requirements should derive from an **evaluation** of the incumbent board and **needs** related to the enterprise's long-term strategy
- A **merit-based nomination** and appointment process should also ensure that board selection is decoupled from electoral, partisan or any other potential conflict of interest that may detract from board independence
- **SOE boards** should also be able to **make recommendations** to the ownership entity concerning the approved board member profiles, skill requirements and board member evaluations
- The use of **professional staffing agencies** or international advertisements is another means to enhance the quality of the search process

Composition and Responsibilities of SOE Boards: OECD SOE Guidelines Recommendations

Recommendation VI.C. SOE board composition should allow the exercise of objective and independent judgement.

SOE boards should be selected on core competencies and possessed knowledge

- Key **criteria** for board members:
 - **Merit**, personal **integrity** and professional **qualifications**
 - Core **competences** (such as business acumen, financial literacy, and expertise in audit and controls) based on high-quality **data and metrics**
 - Possess **knowledge** and acquired **experience** in the enterprise's line of business
- Transparent procedures that should include diversity, background checks and, as appropriate, mechanisms aimed at **preventing future potential conflicts of interest**

SOE boards need wide array of diversity and competencies

- **Diversity** with regards to gender, age, geographical, professional and educational background
- Board members need **commercial**, **financial** and **sectoral expertise** to effectively carry out their duties
 - Board members may need to acquire additional skills upon appointment through training or other means.

Setting Remuneration Policy for SOE's: OECD SOE Guidelines Recommendations

Recommendation II.F.8. Establishing a clear and transparent overarching remuneration policy for SOE boards that fosters the long- and medium-term interest of the enterprise and can attract and motivate qualified professionals

Aligning the remuneration of board members of SOEs with market practices

- For SOEs with predominantly economic objectives operating in a competitive environment, board remuneration levels should:
 - Align with the **longer-term interests** of the SOEs
 - Reflect **market conditions** insofar as this is necessary to attract and retain highly qualified board members
- Depending on the size and orientation of the SOE, remuneration levels can also be **set by law** or based on **public sector wage grids**, but care should be taken that they remain competitive.
- Good practice calls for **performance-based** remuneration components to **not be granted** to board members
 - Would align board members' interest with those of key executives (compromise their independence by encouraging management to take excessive short-term risks)
 - In cases where board members receive variable remuneration, careful consideration should be given to the amount of their pay that is linked to performance targets or management pay

For more information:



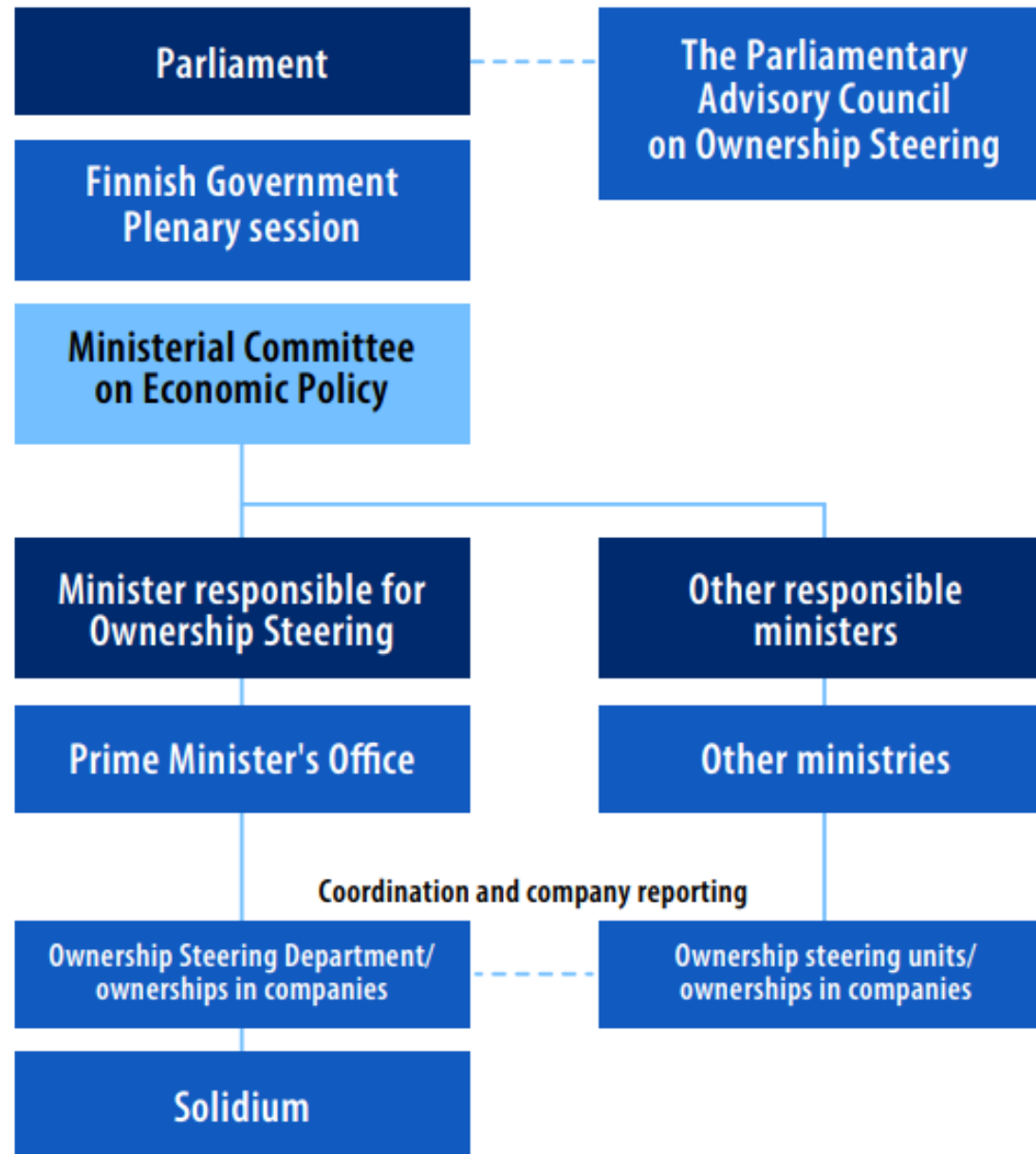
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Case Finland: Elements for selection and remuneration of SOE Boards

State-ownership steering governance model

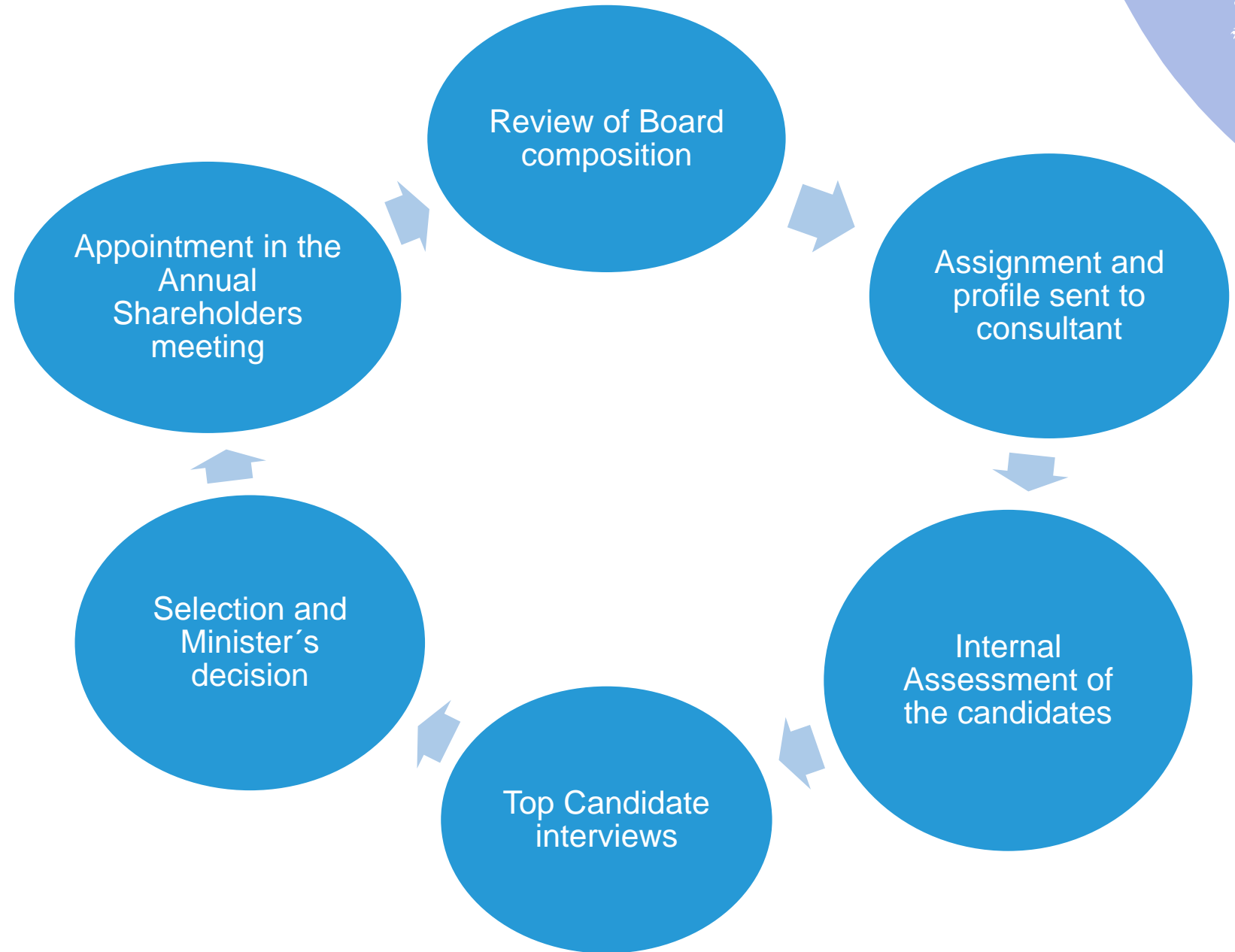


Board elections principles in Finland

- The election of company board members is an essential part of the implementation of the Company Strategy and the **Ownership Strategy**
- The aim is to **ensuring sustainable shareholder value**
- Board members are selected based on
 - Candidate's **experience** and **expertise**
 - Company's **strategic situation requirements**
 - Ensuring Board's ability to **cooperate and provide diverse expertise**
- State aim is that the composition of the Boards is also sufficiently **gender-balanced and diverse (age, country, education and background)**



Process of board election by Ownership Steering Department (OSD)



Board remuneration - Case of VR



- The remuneration of the Board is decided annually in the AGM.
- The remuneration of the members of the Board of Directors consists of:
 - Fixed annual fee (which depends on the individual's position in the Board of Directors)
 - Fee of EUR 600 for attending every board and committee meeting
- The members of the Board of Directors are not receiving variable fees to avoid situation deciding on their own remuneration and conflicting interests.

The remuneration of the Board of Directors in 2023, as decided by the Annual General Meeting of 30 March 2023

Chair of the Board	EUR 54,750/year
Vice Chair of the Board	EUR 25,800/year
Member of the Board	EUR 22,800/year

Board competence mapping tool

Example of mapping tool for
consideration



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Board composition

Board member	General information							Company specific				Competencies											
	Company	Gender	Age	Start year	Role	Comittee	Current postion	Education	CEO/CFO experience	Business VP Experience	Project Managemnt	Marketing and Sales	Sustainability	Procurement	Industry knowledge	International Business	Regulation	Strategy and Innovations	Digitalisation and ICT	Finance	Risk management	HR	Change management
Person 1	Company	M		2021	Chair	none	Board Professional	Msc.Econ															
Person 2	Company	N	1966	2013	Member	Audit	Board Professional	Msc.Econ															
Person 3	Company	M	1961	2020	Member	Audit	Board Professional	Msc.Econ															
Person 4	Company	N	1963	2021	Member	Audit	CEO	Msc.Econ															
Person 5	Company	N	1968	2021	Member	Audit	CFO	Msc.Econ															
Person 6	Company	N	1979	2021	Member	Personell and remuneration	State representati	Msc.Engineering															
Person 7	Company	M	1969	2017	Member	Personell and remuneration	EVP	Msc.Engineering															
Person 8	Company	M	1965	2021	Member	Personell and remuneration	CEO	Msc.Engineering															

Board evaluation and remuneration

Competence

Strength

Chair evaluation of the Board Work

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Board self assesment of the Board Work

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Outside evaluation of the Borad Work

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Board strengths and weaknesses

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Evaluation of the co-operation of the chair and CEO

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Action points

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Board renmuneration

Fee	€	Benchmarks comparison
Chair p.c.m.	4000	
Vice Chair p.c.m.	2500	
Member p.c.m.	2000	
Meeting fee per meeting, dometic	600	
Meeting fee per meeting, foreign	1200	

Candidate competence mapping

Board candidates

Board member	General information						Company specific					Competencies											
	Yhtiö	Genderi	Age	Start year	Role	Comittee	Current postion	Education	CEO experience	Business VP Experience	Project Managemnt	Marketing and Sales	Sustainability	Procurement	Industry knowledge	International Business	Regulation	Strategy and Innovations	Digitalisation and ICT	Finance	CG and Risk management	HR	Changes
Candidate 1									Kyllä														
Candidate 2									Kyllä														
Candidate 3									Kyllä														
Candidate 4																							
Candidate 5									Kyllä														

Competence

Strength

What competencies are sought after

Sustainability and ESG expertise

Thank You!

<https://valtioneuvosto.fi/en/government-ownership-steering>



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