Finland CENTRAL CHAMBER OF COMMERCE
Leena Linnainmaa **FidAR-Forum**, Berlin, 15 March 2010

The Finnish experience in promoting women on company boards

Finland and Sweden have the highest number of women on the boards of listed companies in the European Union. After spring 2010, it will be known, if the Finnish Corporate Governance Code for Listed Companies requiring both genders to be represented on the board has helped Finland to take the lead in the European Union.

As a rule, Finnish listed companies use a so-called one-tier governance model, which, in addition to the general meeting, comprises the board of directors and the managing director. According to the Limited Liability Companies Act, a company may also have a supervisory board. Very few listed companies have supervisory boards. One-tier governance model means that there are fewer members on the boards of Finnish listed companies than on the German supervisory boards. Finnish listed companies often have five to seven board members.

Until recently, the boards were mostly male. This has changed dramatically over the last few years.

The Finnish Strategies for promoting women board members

Several strategies for promoting women board members have been put into practice in Finland. These active measures include studies, corporate governance codes, governmental action and media attention.

a) Higher profits with women directors

The dramatic change in board compositions in Finland has its background in changing attitudes towards women executives. There are many reasons for the change, but one catalyst may have been the study *Female Leadership and Firm Profitability* published by the Finnish Business and Policy Forum EVA (www.eva.fi) in September 2007. According to the study, firms led by women are from slightly over 10 to well over 20 per cent more profitable than businesses led by men. This study is an analysis of 14,020 Finnish companies, probably the largest study on this subject in the world. After the study was published by the nationally well-known and respected EVA, it has become difficult to state that women are not successful business leaders.

Even already before the results of the EVA study were published, the most important businessman in Finland, Mr Jorma Ollila, Chairman of both Nokia and Shell, and also of EVA, stated publicly that we need more women directors and that resources are wasted if women are not chosen to the top decision-making positions. Now it is very difficult for other businessmen to belittle the issue at least in public.

b) Corporate Governance Code

The Finnish Corporate Governance Recommendation of 2003 was the first national code in the world to mention the sex of board members:

> "It is imperative for the board's work and its effective functioning that the board is composed of directors with versatile and mutually complementary capabilities and skills. The age mix and the proportions of both sexes can also be taken into account in the composition of the board."[1]

Of course, this was not a strong approach but it was the beginning and helped to pave way for a stronger approach later.

In 2008, an updated Finnish Corporate Governance Code was issued. Following public discussion and special emphasis announced by Ms Mari Kiviniemi, Minister of Public Administration and Local Government, a much stronger approach was adopted. Recommendation 9 of the Finnish Corporate Governance Code for Listed Companies now states as follows:

> Both genders shall be represented on the board.

This recommendation has now entered into force and is applicable from the first annual general meeting held after 1 January 2010. If a company does not comply with the recommendation, it must account for and explain the departure from the Code. Actually, although some other national codes include diversity on the boards, the Finnish Code is the only one requiring an explanation if there are not both genders on the board of a company. This requirement makes it the strongest of the corporate governance codes in this respect.

The general experience in the Finnish market is that most companies are reluctant to depart from the Code due to the publicity of the departure. So there was confidence that a

[1] The Finnish Corporate Governance Recommendation of 2003, Recommendation 15.

recommendation requiring an explanation if not complied with will have an effect. This confidence was not unfounded.

In 2008, when the Code was issued, only 51 per cent of Finnish listed companies had a female board member while 49 per cent of the companies had all-male boards. After the recommendation was given, the ratio soon started to change. In 2009, already 59 per cent of the companies had at least one female board member even though the recommendation had not entered into force.

The spring of 2010 will show the success of this approach after every listed company has held its annual general meeting. It is already known that 13 listed companies with previously all-male boards have elected or have proposals for a woman board member. This figure alone covers 10 per cent of Finnish listed companies.

By now, the number of companies with at least one woman board member (or at least proposal for a woman board member) has risen to 69 per cent of all listed companies. The figure will still rise because ca 15 listed companies have not yet published the proposals for their new boards. It can be estimated that the figure of companies having women board members will rise to over 70 per cent of all listed companies in spring 2010. This can be seen as a success as the change from 51 to over 70 per cent has happened in two years and without much controversy. Naturally, in the future the figure will have to be higher if this approach can be estimated to be a continuing success.

It should be noted that nowadays almost all Finnish listed companies with all-male boards are small companies. All large cap companies comply with the Code. It must be admitted, however, that an important factor in the growing number of women on the boards has the Finnish Government's decision to require 40 per cent of both sexes on the boards of state-owned companies (see below for more information). Before that decision very few board members of listed companies were women.

The Finnish business sector mostly opposes quota legislation but has gradually learnt to accept alternative ways to accelerate change because it was widely acknowledged that women's number in decision-making positions was not satisfactory compared to women's high education and number in the work-force.

c) Governmental action promoting women's board membership

In order to reduce stereotyping and a male-dominated corporate culture, governments should take an active role in promoting women's board membership. Such measures may include policy decisions, equality programs and legislation.

In Finland, since its first introduction by the Government of Ms Anneli Jäätteenmäki, Prime Minister of Finland in 2003, the Finnish Government programs have included ambitious targets for promoting gender equality. In 2004 the Finnish Government set a target of 40 per cent women board members in state-owned companies.[2] This target was reached already in spring 2006. This has been an important factor in promoting women on company boards because state-owned companies include several important and well-known listed companies in Finland.

In August 2006, the Prime Minister of Finland, Mr Matti Vanhanen and the Minister for Social Affairs and Health, Ms Tuula Haatainen sent a letter to some 100 of the largest listed companies encouraging business leaders to join the debate on finding new measures to incorporate the expertise and competence of women in economic decision-making. The letter expressed the view that the expertise and experience of women will contribute new strengths enabling Finnish companies to achieve success.

During the preparation of the Corporate Governance Code of 2008, the strong encouragement to promote women's board memberships in the Code given by Ms Mari Kiviniemi, Minister of Public Administration and Local Government, was an important factor in persuading the corporate sector to accept a stronger approach in the Corporate Governance Code. The corporate sector wished to avoid quota legislation and thus the strong gender recommendation in the Corporate Governance Code of 2008 was created.

d) The role of the media

Media attention is crucial in achieving new attitudes. Whilst typical "women's magazines" are often rather conservative and ignore this issue, financial newspapers and magazines are somewhat less conservative with some of them systematically highlighting the importance of having women directors. For example, the Finnish weekly magazine *Talouselämä* (Financial Life) publishes an annual special issue on women directors and organises an annual gala for women directors.

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2 Equality Program of the Government 2004-2007 (*Hallituksen tasa-arvo-ohjelma* 2004-2007), Publication of the Ministry of Health and Social Affairs (*Sosiaali- ja terveysministeriön julkaisuja*), 2005:1.

During spring 2010, the Finnish media has followed the growing number of women on the boards with a lot of positive publicity. It has certainly been one of the factors behind the success of the Corporate Governance Code. The media has also published negative examples, featuring companies with all-male boards. Companies wish to avoid negative publicity, so the role of the media must be recognised.

Conlusion

The Finnish experience of using studies, corporate governance codes, governmental action and media attention in promoting women's participation on the boards of listed companies could serve as an example in other countries. Change can be achieved in a relatively short time without introducing quota legislation if the government shows real interest in the subject and gives signals to the corporate sector. The corporate sector should then assume its responsibility and find ways to introduce more women to company boards. After all, the old practise of having all-male boards can be interpreted to be a hidden male quota system.

The Finnish experience shows that Corporate Governance Codes can be used as a powerful tool in promoting women's number on corporate boards. It could be so in Germany, too.