

This audit concerns the owner control of state-owned companies which perform special social tasks. The audit focused on the role of the supervising ministry and the board of directors in the owner control of state-owned companies. It included the Finnish National Lottery (Oy Veikkaus Ab), which operates in the administrative sector of the Ministry of Education, and the Finnish Broadcasting Company (Yleisradio Oy), which operates in the administrative sector of the Ministry of Transport and Communications.

The audit examines issues and problems which on the basis of the audit can be considered the most significant factors influencing the effectiveness of owner control for each company and in general.

The Finnish National Lottery

With regard to the Finnish National Lottery, the audit drew attention to the following issues, among others:

- Owner control at the Ministry of Education; the company's position in the increasingly competitive operating environment requires active owner control by the ministry as well as a strong role for the board of directors in overseeing the company's operational activities.
- The Ministry of Finance is not the supervising ministry but in emphasizing the result target it has taken a de facto role in owner control.

The Finnish Broadcasting Company

With regard to the Finnish Broadcasting Company, the audit focused attention on the following issues, among others:

- In the Finnish Broadcasting Company's administrative model, the company's 21-member administrative council has tasks which would otherwise belong to the board of directors and the general meeting. In the changed operating environment, the company's administrative model should be developed.

Multi-level control and the general meeting

The use of owner authority and owner control in state-owned companies is based on representational democracy. Actors include Parliament, the Government, ministries, administrative councils and boards of directors. In the opinion of the State Audit Office, when there are numerous actors there is a danger that the division of tasks will in some cases be unclear and that this will make it difficult to focus on timely matters. To prevent this and to ensure effective ownership, it is decisively important for different actors' tasks and position to be sufficiently clear.

The State Audit Office notes that a joint-stock company is an independent legal entity whose administrative organs are supposed to make decisions independently according to the Companies Act. This means that the state's primary channel of influence should be the general meeting and decisions and recommendations made there.

The State Audit Office emphasizes that, regardless of the administrative model, channels must be organized so that operational management cannot eliminate owners' influence. Owners must make sure that dependence is one-way.

Owners' and management's interests

The multi-level and representational nature of owner control which is typical of state-owned companies increases the danger that owners' and management's interests will diverge. In other words management may not necessarily act in a way which is in owners' interests. With a long control chain it may not always be clear who has authority and how this authority should be exercised. The key question in owner control is the administrative model which the owner uses to arrange activities. The administrative model should help ensure that management acts in accordance with the owner's interests and for the good of the owner.

In the opinion of the State Audit Office, on the basis of the broad role and responsibility which the Companies Act gives the board of directors, this organ can do the best job in balancing different stakeholders' interests. The board of directors can best ensure the balanced management of a company's activities.

The State Audit Office notes that active ownership requires sufficiently clear authority in relation to a company's management as well as a clear division of responsibility and authority among organs participating in owner control.

Overseeing activities

The owner cannot protect its interests through contracts like the company's other stakeholders. The owner gets what is left after everyone else has been compensated according to contracts. The owner uses oversight to protect its interests.

The owner exercises oversight by appointing members of the board of directors who are suitable for this purpose, given the field of operation and situation. In the opinion of the State Audit Office, the selection of the board of directors is the most important means by which the owner can make sure that management acts according to the owner's interests.

The State Audit Office notes that the state, as the main and often sole shareholder in state-owned companies, can always influence the establishment of an administrative model which will allow it to control management's activities effectively.

Active ownership

In the opinion of the State Audit Office, in the present business environment, a passive ownership role is no longer sufficient in the owner control of state-owned companies. In this case the owner as a rule only steps in when things begin to go badly. A passive owner typically confines the monitoring of financial development to a company's own reporting.

Outside vs inside directors

In the opinion of the State Audit Office, fulfilling oversight and control tasks requires a board composed entirely of outside directors. The chairman of the board can be regarded as the owner's trustee and thus a key person in the state's owner control and in oversight of the company and its management. The State Audit Office notes that the chairman of the board is the managing director's immediate superior. The managing director must be able to get support and guidance from the board and its chairman but should not have a seat on the board.

Selection of the board

In the opinion of the State Audit Office, from the viewpoint of everyday owner control, the selection of a company's board is the most important decision made by the general meeting. Succeeding in the selection process requires the advance evaluation of suitable persons, often on a large scale. Owing to the importance of this task, the State Audit Office considers it important for the ministries to seek candidates systematically and to keep a register for this purpose as part of the owner control of state-owned companies.

Ministerial officials as board members

Even though officials who are appointed to the board of a company are generally regarded as being the agents of the state, the State Audit Office emphasizes that officials as well as other members of the board must act in a way which promotes the interests of the company.

The State Audit Office notes that appointing an official at the supervising ministry to the board of a company can result in conflicts in the ministry's owner control. One problem is whether a lower-ranking official can have the will and real possibility to question the actions of the board and the ministry's representative on it if differences arise concerning the company's activities. Or can a lower-ranking official have the will and real possibility to act in a way which he knows to be in conflict with the position of an upper-ranking official at the ministry if differences arise concerning the company's activities? Appointing an official to the board can be considered justified at least in the case of a state-owned company which performs special tasks such as the Finnish National Lottery.

The role of the administrative council

The State Audit Office notes that the role of a state-owned company's administrative council is often problematic for owner control. Owing to its large number of members, the administrative council is an awkward decision-maker, and all the members do not have a sufficient sense of responsibility for the success of the company. Furthermore, many individual members are quite distant from daily business operations, which makes it difficult for them to evaluate key solutions for the success of the company.

The State Audit Office notes that an administrative council is best suited for state-owned companies in which the state has a strong social interest. It is important, however, that the responsibilities and authority of different administrative organs, i.e. the administrative council and the board, are clearly defined.

Selection and oversight of the managing director

In the opinion of the State Audit Office, of all the decisions taken by the board, the selection and dismissal of the managing director is the most important for the success of the company. Although the board plays a key part in overseeing and directing the company, the managing director's role in actual business operations is decisive.

Ownership and risk-taking

The operational management of a state-owned company never takes ultimate financial responsibility for the success of the company; risk-taking is the owner's responsibility. Evaluating and controlling risk is therefore the owner's main task. The State Audit Office emphasizes that in owner control the state must always make sure that the owner evaluates and controls risk keeping in mind that any financial risks must ultimately be borne as losses by the owner.

The State Audit Office notes that, regardless of how good and effective owner control of state-owned companies may be, in the end it is the management and personnel of a company who make it profitable. The owner's task is to specify objectives and requirements for the company's activities and to monitor their achievement.