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EQUILIBRIUM ON BOARD: THE ESTONIAN CASE

Master's thesis

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I declare that I have compiled the paper independently
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TABLE OF CONTENTS

ABSTRACT.....	5
LIST OF ABBREVIATIONS.....	6
INTRODUCTION.....	8
1. THEORETICAL FRAMEWORK: WOMEN ON BOARDS.....	10
1.1 Value of women on corporate boards.....	10
1.2. Applicable theories to analyse corporate governance.....	13
1.3. Means to improve gender diversity on corporate boards.....	14
1.4. Gender diversity in Estonia.....	16
2. CASE STUDY.....	17
2.1. Research approach and strategy.....	17
2.2. Corporate governance in Estonia.....	19
2.2.1. Regulatory framework for CG in Estonia.....	20
2.2.2. Corporate board structure of listed companies.....	21
2.2.3. Size of corporate boards of Estonian listed companies.....	22
2.2.4. Corporate board composition.....	23
2.2.5. Compliance with the CGR.....	32
2.3. Corporate boardroom gender diversity in Finland, Sweden, and Norway.....	34
2.3.1. Barriers for women onto corporate boards.....	34
2.3.2. Gender diversity initiatives and requirements adopted in Finland.....	36
2.3.3. Gender diversity initiatives and requirements adopted in Sweden.....	38
2.3.4. Gender diversity initiatives and requirements adopted in Norway.....	39
2.4. The Estonian case: how to improve gender diversity on corporate boards?.....	44
2.4.1. Public discussion.....	45
2.4.2. Development of standards and value of “good” corporate governance.....	45
2.4.3. Update of Estonian CGR.....	45
2.4.4. Effective enforcement of Estonian CGR.....	46
2.4.5. Rating of good and bad governed companies on NASDAQ web site.....	46
2.4.6. Development of qualification and expertise in women.....	47
2.4.7. Development of inclusive corporate culture.....	47
2.4.8. Creation of database of women qualified and ready to serve on corporate boards....	48
2.4.9. Voluntary targets.....	48

3. CONCLUSION.....	49
LIST OF REFERENCES.....	51

ABSTRACT

In recent years, the business and scientific communities pay enormous attention to the issue of good corporate governance, which has been raised by recent financial crises and corporate scandals all over the world.

Since women contribute to improved corporate governance, this Master's thesis aims to define ways for the Estonian business community to increase the number of women on corporate boards. This work starts with the assumption, as demonstrated by many European Union (EU), Organization of Economic Development and Co-operation (OECD), International Labour Organisation (ILO), and other studies and papers, that there are strong strategic benefits in having corporate boards with members of different backgrounds, experience, and particularly gender, which is reflected in better corporate governance. Since this diversity issue has not yet been properly analysed or addressed in Estonia, there are relevant roadblocks to the country's business ambitions (attracting foreign investments, digital economy and cybersecurity leadership, IT leadership and others).

In order to analyse this issue, the author considers the experience of three neighbouring countries (Norway, Sweden, Finland), which achieved improved women's representation on corporate boards via different paths (quotas, soft law guidelines, and internal corporate codes). The author explores the benefits and pitfalls of each approach, as well as their relevance to Estonian business reality.

The author purposely focuses on developing strategies to improve gender diversity on the corporate boards of Estonian listed companies, without regard to arguments that emphasize equal rights or a feminist agenda. The results of the current research will be a valuable analytical resource for the Estonian business community, as well as for policy makers.

Key words: Corporate governance, gender diversity, board composition

LIST OF ABBREVIATIONS

AGM – Annual general meeting

CG – Corporate governance

CGC – Corporate Governance Code

CGR – Corporate Governance Recommendation

CSR – Corporate social responsibility

EBRD – European Bank for Reconstruction and Development

EC – European Commission

ECCI – Estonian Chamber of Commerce and Industry

EFSA – Estonian Financial Supervision Authority

EU – European Union

FCC – Finland Chambers of Commerce

GM – General meeting

ILO – International Labour Organization

IFC – International Finance Corporation

NASDAQ – National Association of Securities Dealers Automated Quotations

NCGB (NUES) – Norwegian Corporate Governance Board

NCP – Norwegian Code of Practice

NGM Equity – Nordic Growth Market Equity

NHO – Norwegian Employers' Confederation

OECD – Organization of Economic Development and Co-operation

PBF – Professional Boards Forum

PLC – Publicly listed company (Norway)

ROE – Return on equity

ROI – Return on investments

ROS – Return on sales

ROIC – Return on invested capital

SCGB – Swedish Corporate Governance Board

SAERG – Swedish Agency for Economic and Regional Growth

TSE – Tallinn Stock Exchange

WEF – World Economic Forum

INTRODUCTION

Despite discussing the topic at several different European Union institutions, among local politicians, and in the public media, the issue of gender equality at the corporate board level in Estonia has still not been properly addressed in Estonia.

According to the European Commission fact sheet, “Gender Balance on Corporate Boards” (2016), during the past six years (2010-2016), the share of women on corporate boards increased in 23 of the 28 member states. The largest percentage point increases were recorded in Italy (+25.5 %), France (+24.8%), Belgium (+16.1%), Germany (+14.6%), Slovenia (+14.1%), the United Kingdom (+13.7%) and the Netherlands (+13.2%). During the same period, in Estonia the number of female board representatives increased by 1.2% (Jourová 2016).

In the case of Estonia, the data has shown that women, compared to men, are educated to higher or an equivalent degree (WEF 2016). Moreover, based on their involvement in research and development and strong presence in middle management, they are equally qualified to work at the board level (*Ibid.*).

The central research question of this thesis is: how might Estonia increase the number of women on the corporate boards of listed companies? The author shall also consider the following sub-questions in this thesis:

RQ 1: What is the current state of corporate governance and board composition of listed companies in Estonia?

RQ 2: What is the degree of gender diversity on corporate boards in Estonia?

RQ 3: How have other economically developed countries such as Finland, Sweden, and Norway overcome different social, cultural, and political barriers to encourage more gender participation on corporate boards?

RQ 4: What experiences from these three countries are relevant to Estonia?

This Master's thesis compares different means and policies, applied by Finland, Sweden, and Norway, in order to reveal the most effective way for Estonia to increase number of women on corporate boards of listed companies.

To review the thesis' structure, the first chapter will consider the theoretical framework relevant

to this topic. The second chapter will introduce the thesis methodology and then analyse the corporate board composition of listed companies in Estonia according to standards of “good” corporate governance (Filatachev *et al.* 2007 referenced in Wahl 2010, 7). This chapter will also provide the results of a comparative analysis of other Nordic countries, such as Finland, Sweden, and Norway. These countries are useful reference points, as they have successfully increased the number of women on corporate boards by different means and present an established track record for Estonia to consider as it might increase gender diversity on corporate boards. Finally, the third chapter will summarize the results of this analysis.

1. THEORETICAL FRAMEWORK: WOMEN ON BOARDS

1.1 Value of women on corporate boards

The issue of more women in the boardroom was certainly topical in the latter part of the twentieth century, with more women working at the top corporate echelon. In 1977, Catalyst, Inc. launched the Catalyst's Corporate Board Resource to help companies to find female candidates to serve on corporate boards. This was an admirable step to increase diversity which did not bring significant results. But it was not until the first decade after 2000, when greater numbers of researchers, non-profit organizations, along with the European Union itself started focusing attention on gender diversity in managerial positions and equal rights for men and women in the workplace (OECD, World Bank, European Institute for Gender Equality, Women on Board, *et al.*)

The issue of gender diversity on corporate boards drew a lot of attention in 2010, when public and business media began to discuss explicitly the issue of gender diversity on corporate boards and results of legislative acts in Norway became visible. Major strategic consulting companies also launched their own projects to measure the effectiveness of women's representation on corporate boards (PriceWaterhouseCoopers, McKinsey, Deloitte, Grant Thornton, *et al.*) and as a consequence, began to advocate for increased women's representation in the boardroom.

In this work, the author makes the assumption that increased gender representation on corporate boards is economically justified business practice because this issue has already been studied at great length. Nonetheless, in order to provide context for this thesis, the author will review briefly the literature on why women improve corporate governance by serving on boards. It is possible to organize this published work into the following topical groups: the effect on company's financial performance, the effect on the quality of decision-making, the effect on customer and employee satisfaction, the effect on a company's corporate social responsibility, the effect on organizational innovation, and the effect on corporate governance (conflict mediation, transparency of operations, decreasing the probability of corruption, and risk mediation).

The effect on a company's financial performance is a controversial one. The scholarly proponents for this view (e.g., Carter *et al.* 2003, Erhardt *et al.* 2003), as well as among non-profit organizations (Catalyst 2007-2017, OECD, World Bank, *et al.*) and consulting companies (McKinsey 2007-2017, PriceWaterhouseCoopers 2017), measure different business ratios (such

as ROE and ROI) to argue that companies with higher numbers of women on their corporate board demonstrate better financial results. At the same time, contrarian scholars argue that already successful firms have the capability to hire more women on their boards (Farrell, Hersch 2005), and therefore a strong correlation between increased gender participation and financial success is not necessarily the case.

Several scholars have also taken the opposing point of view to attempt to prove no business impact for increasing gender equality on corporate boards. These studies have found no discernible difference in Tobin's Q or ROE in connection with female representation on corporate boards (Campbell, Mínguez-Vera 2008; Adams, Ferreira 2009). Byron and Post have also conducted meta-analyses which show insignificant correlation between financial performance and representation of women on corporate boards. They did, however, admit the positive effect of women's boardroom representation on financial performance in countries with stronger shareholders' rights protection (Byron, Post 2016).

These mixed conclusions regarding greater women's participation on corporate boards are rooted to some extent in their methodological differences and inherent biases. Another problem is numerous micro and macroeconomic factors affecting firm financial performance, which is almost impossible to measure within the framework of any given research. This problem was pointed out by Du Plessis: "Because of the innumerable variables impacting upon the performance of corporations, concluding that a diverse board improves corporate performance is hence difficult" (Du Plessis *et al.* 2014, 4). Therefore, the body of literature specifically analysing the impact of diversity in the boardroom on financial performance is conflicting for a reason: perhaps it is ultimately not possible to settle conclusively.

The effect of having more women in the boardroom on the quality of the board decision-making process has also been characterized by mixed research conclusions. The positive aspects of this argument have stressed the inclusion of broader viewpoints, the avoidance of "groupthink," and the benefit of alternative problem-solving approaches (Dutton, Duncan 1987; Watson *et al.* 1993; Daily, Dalton 2003). Other studies have noted the benefit in less tangible ways, i.e., increased creativity (Higgs *et al.* 2005) and a lower level of conflicts in the boardroom (Nelson, Huse 2010).

But other scholars have pointed out the negative aspects of having more women in the boardroom, including increased conflicts and miscommunication (Miller *et al.* 1998), and

negative influence on group efficacy (Pelled *et al.* 1999). In these authors' view, such results are two sides of one coin: group heterogeneity reflects differences in opinion because of differences in values, experiences and beliefs. Nonetheless, these very same differences often lead to a more considered decision-making process, despite any added conflicts inside the group.

The undoubtedly positive effects of a women's participation on boards has been demonstrated in several other aspects of corporate governance, such as customers' and employee satisfaction, CSR, and a better understanding of consumers needs and values. For instance, the beneficial effect of a diverse boardroom with more women has been revealed in terms of customer and employee satisfaction. According to Kaplan (2011), companies with more women board members have a higher customer and employees satisfaction rate (Kaplan *et al.* 2011). This can be explained by a higher level of empathy among women, sensitivity to social issues and the personal needs of employees, along with a more gentle and considered leadership style (Homan, Greer 2013). In addition, according to McKinsey, women have a deeper understanding of consumers' needs and values (McKinsey 2015).

In the realm of corporate social responsibility (CSR), the influence of women in the boardroom has been described by scholars as undeniably a positive one. Bear (2010) reveals direct correlation between the number of women on the board and CSR. Williams (2003) writes about the positive influence of female representation on CSR: "The results support positive links between women and firm charity to community services ($p < 0.001$), as well as firm charity to the arts ($p < 0.01$)" (Williams 2003, 9).

Bear (2010) summarized different dimensions of female influence on CSR:

"... that the number of women on the board has a positive relationship with the strength ratings for CSR. Women bring a number of strengths to the board including an increased sensitivity to CSR (Williams 2003) and participative decision-making styles (Konrad *et al.* 2008), and these benefits may contribute to enhanced corporate responsibility strength ratings." (Bear *et al.* 2010, 217)

The findings of Wang and Coffey (1992) "also indicate that the proportion of women and minority directors is positively related to corporate giving" (Wang, Coffey 1992, 777).

The literature on innovation is more selective, but scholars have also come to the conclusion that

women in the boardroom have a positive influence on organizational innovation. These authors determined that the level of organizational innovation is higher in companies where both the CEO and the board is female (Torchia *et al.* 2011).

Finally, and arguably most significantly, the effect of women board members on corporate governance (conflict mediation, transparency of operations, better performance of monitoring function, decreased corruption, risk mediation) has been well described as beneficial (Terjesen *et al.* 2008). The highlights on this point include: higher moral and stronger ethical standards (Pan, Sparks 2012), a tendency to consider questionable business practices as unethical (Franke *et al.* 1997), monitoring of companies with higher level of scrutiny (Adams, Fererra 2009), calculating business risks more carefully (Chapple *et al.* 2012; Grant Thornton 2017), and better meeting preparation, which results in more detailed consideration of board issues (Singh *et al.* 2002; Huse, Solberg 2006).

Despite some controversy on the effect of women board members in terms of financial performance and decision-making, there is a strong case for greater women participation in relation to customer and employee satisfaction, CSR, organizational innovation, and corporate governance. It is reasonable that a board composed of people with varied skills and experience operates better than a board with a homogeneous viewpoint and set of experience. As Davies aptly described the case:

“Corporate boards perform better when they include the best people who come from a range of perspectives and backgrounds. The boardroom is where strategic decisions are made, governance applied and risk overseen. It is therefore imperative that boards are made up of competent high calibre individuals who together offer a mix of skills, experiences and backgrounds. Board appointments must always be made on merit, with the best qualified person getting the job.” (Davies 2011, foreword)

To summarize this point, as the existing literature sufficiently demonstrates the value of greater participation for women in the boardroom (e.g., positive effect on the decision-making process, risk aversion, customer and employee satisfaction, CSR, and organizational innovation), the author takes this business judgement as a given in this work.

1.2. Applicable theories to analyse corporate governance

Scholars have applied different theories to the study of corporate governance, in part because

they are analysing different aspects of governance. For instance, Shleifer and Vishny (1997) adopt agency theory to define corporate governance as “the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investments” (Shleifer, Vishny 1997, 738). The Cadbury Report uses resource dependency theory and stewardship theory for its approach to CG:

“Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.” (Cadbury 2000, overview, 6)

According to Wahl (2010), the agency theory prevails among researchers as the primary approach to analyse corporate governance, but this theory considers only interests and interactions of executive management and shareholders, ignoring the rest of the stakeholders.

Thus the most comprehensive theoretical framework is stakeholder theory (Tirole 2001; Fidrmuc *et al.* 2006; Monks, Minow 2004; Hilb 2008), by which corporate governance should take into consideration the interests of all major stakeholders (e.g., shareholders, suppliers, employees, environment protection organizations and other relevant and important to company’s business specifics groups). Indeed, the stakeholder perspective is more relevant to contemporary business reality, and this theory has been employed as a general framework for the current research.

1.3. Means to improve gender diversity on corporate boards

Europe has made great strides to improve gender diversity in the boardroom in the past two decades. Norway was the first country in Europe fully to implement mandatory quotas regarding gender representation on the boards of publicly listed companies (the law was introduced in 2003 and in 2006, quotas became mandatory). In Norway, they successfully achieved female representation of 41% on corporate boards (OECD Stat 2017). Later, other European countries introduced quotas with different levels of enforcement, including Spain in 2007, France, Belgium and Italy in 2011, the Netherlands in 2013, and Germany in 2016.

In terms of the means of achieving this better balance in other countries, attempts have been made to change corporate governance codes, NGOs have established programs, and of course

quotas have been attempted to varying degrees in different countries. As there is no relevant literature on the effectiveness of soft laws and corporate governance codes to increase the number of women in the boardroom, these approaches will be analysed later as they were promoted on a practical level in Finland and Sweden.

With regard to quotas, scholars and policy-makers have an ambivalent attitude to mandating by law changes to the gender balance on corporate boards. The proponents of quota argue that quotas act quickly and are effective—they presume that without a proper “push,” there can be no progress in gender diversity in the boardroom. The EU commissioner in charge of justice and gender equality, Věra Jourová, in her recent interview with the *Guardian* said that the EU needs quotas since there is no other current way to enforce the changes. She proposed new legislation to force listed companies to publish gender-specific statistics on pay. “There are no teeth [to current laws],” she said. “According to our estimates, discrimination accounts for 8-10% of the gap. There is not enough enforcement. It must be done by labour inspectorates, and it should be captured in collective bargaining by the trade unions.” (Boffey 2017)

The OECD Head of Division of Country Studies Branch, Piritta Sorsa, also believes there will be no progress on gender equality in boardrooms without quotas (Sorsa 2016). In her opinion, quotas are an effective way to break the “glass ceiling,” and cites the case of Norway as proof. At the same time, Sorsa adds that without supportive governmental policies, such as the creation of a databank of qualified women and training programs for qualified female candidates, the results from mandatory quotas will be mixed. Besides politicians, scholars who support quotas rely on arguments that quotas lead to improved financial performance, promote equal opportunities, better corporate governance, and the development of a pipeline for women to obtain leadership positions (Kelan & Wang 2012).

Opponents of quotas insist that they bring more harm than benefits; in particular, they infringe owners’ rights, bring insufficiently qualified individuals to serve on boards, and lead to tokenism. Matsa and Miller (2013), as well as Ahern and Dittmar (2012), describe the negative effect of quotas on companies’ financial performance. Smith (2014) concludes that there is no evidence that quotas are effective as a policy to address gender diversity in boardrooms. In Smith’s view, quotas only affect in a positive way companies that demonstrated poor performance, but at the same time, negatively affect companies that performed well. Even the famous advocate of gender diversity on corporate boards, Lord Mervyn Davies, UK Member of

Parliament, former U.K. Minister for Trade, Investment and Small Business and Infrastructure in 2009-2010, and author of the Davies report, has clearly stated that despite the appeal of quotas, business community and policy makers should take it upon themselves to promote and mentor women (Treanor 2010).

Adams and Kirchmaier conclude that quotas are not effective to tackle systematic social and cultural barriers: “In countries with more barriers, targeting the boards of listed companies may not be sufficient to achieve the societal and governance objectives of diversity policies. Instead, policies that address the barriers directly may be more effective.” (Adams, Kirchmaier 2015, 25) Therefore, on balance it may be more effective to start directly with the immediate roadblocks to increasing the number of women on corporate boards, rather than prescribing a quota without preparing the business population.

1.4. Gender diversity in Estonia

Corporate governance has been a focal point for researchers, as has the value of gender diversity in the global context and the use of quotas to achieve that parity. Unfortunately, Estonian corporate boards have not been identified as a main topic for scholars, though their basic description has been included in papers of the OECD, Catalyst's, Deloitte, EBRD, the World Economic Forum, and others. Moreover, the issue of gender equality on corporate boards in Estonia has not been addressed, despite an abundance of statistical data. In the current work, the author tries to fill that gap and provide a detailed review on the issue of gender equality on corporate boards, along with measures to address it.

2. CASE STUDY

In order to conduct this case study research, the current chapter will be structured as follows:

- 1) Methodology: research approach and strategy;
- 2) Analysis of the current state of corporate governance in Estonia, with a focus on gender diversity in board composition;
- 3) Synthesis of the means by which Finland, Sweden, and Norway have increased gender diversity on corporate boards;
- 4) Results: determination of the most effective means to increase gender diversity on Estonian corporate boards.

2.1. Research approach and strategy

The current research has been conducted with an induction approach and a pragmatic philosophical approach. To address the research question comprehensively, the author employs stakeholder theory as a main framework and case studies as a research strategy. Listed companies were chosen as the main object of this research, since listed companies are obliged to disclose valid and up-to-date information about themselves. Therefore, the information is as accurate as possible. In addition, listed companies are subject to institutional regulations, and there are clear grounds for the evaluation of companies according to a corporate governance code. The sample includes 16 Estonian companies listed on the Tallinn Stock Exchange (NASDAQ TLX) in 2017. The main and secondary list companies will be analysed, while the First North Baltic Share List will be excluded from the sample since “it does not have the legal status of an EU regulated market” (NASDAQ 2018).

For the case-study portion of this work, the sample consists of four countries: Estonia, Finland, Sweden, and Norway. These latter three countries, Finland, Sweden, and Norway, were selected as the objects of research since they successfully achieved gender balance on corporate boards by different means (quotas, soft law, corporate governance code) and might serve as a relevant example for Estonia.

The inductive approach seems to be the appropriate way to address the central research question of this analysis. As Saunders described its application: “The purpose here would be to get a feel of what was going on, so as to understand better the nature of the problem” (Saunders *et al.* 2009, 126). The inductive approach seems to provide the author with more latitude to reveal

conclusions from this case-study analysis of increasing gender diversity on Estonian corporate boards. With this approach, the author has collected data to uncover meaningful points of comparison between Estonia and other countries, as well as practical guidelines for direct implementation. The induction approach seems to be more relevant than other approaches since it is better suited to consider context: “Research using an inductive approach is likely to be particularly concerned with the context in which such events were taking place” (Saunders *et al.* 2009, 126).

Another good reason to use the inductive approach for this analysis is the lack of literature on the topic of gender diversity on corporate boards in Estonia. “With research into a topic that is new, is exciting much debate, and on which there is little existing literature, it may be more appropriate to work inductively by generating data and analysing and reflecting upon what theoretical themes the data are suggesting” (Saunders *et al.* 2009, 127). For all these reasons, the author applies an inductive approach to generate conclusions about effective means to improve gender participation on corporate boards in Estonia.

As a research strategy to conduct this thesis, the author utilizes case studies because there is so little data available on the topic of women’s board participation in Estonia. The author has chosen to review comparable countries, to look at “real life phenomenon in depth” (Yin 2009, 18). In order to answer comprehensively the research questions, the author uses information from secondary sources, as listed below in Table 1, “Research sources.”

Table 1. Research sources

Research issue	Sources
Development of research approach	Saunders <i>et al.</i> 2009
Development of the case-study approach	Yin 2009
Evaluation of theoretical framework: agency theory, resource dependence theory and stakeholder theory	Eisenhardt 1989; Hillman, Dalziel 2003; Donaldson, Preston 1995; Freeman 1984
Business viewpoints and insights, as well as statistical data	McKinsey & Co. 2013-2017; Deloitte 2013-2017; PWC 2017; Grant Thornton 2017
Statistical data	European Commission; ILO; Eurostat; OECD; Catalyst; NASDAQ

Analyses of corporate governance practices in Estonia	Hilb 2008; Monks, Minow 2004; EFSA 2013; OECD 2017; NASDAQ 2016-2017; Corporate Annual Reports 2016-2017
Barriers for women seeking to serve on corporate boards	Terjesen <i>et al.</i> 2008; Adams, Kirchmaier 2015; Du Plessis <i>et al.</i> 2014; OECD working papers 2010-1016; ILO 2016; McKinsey 2013-2017
Analysis of Scandinavian experience on improving gender diversity on corporate boards (e.g., Norway, Sweden, Finland)	Du Plessis <i>et al.</i> 2014; Smith 2014; Storvik 2011; Legislative documents; EU Directives: European Commission database on women and men in decision-making and progress report; National Chambers of Commerce reports; Corporate Governance Codes

Note: The data has been collected from various sources as mentioned above.

For this analysis of board composition and compliance with the standards of good corporate governance, the sample of this paper consists of the 16 companies listed on the Tallinn Stock Exchange (TSE) in 2017.

2.2. Corporate governance in Estonia

In contemporary business, after many corporate scandals and mishaps, the importance of corporate governance (CG) is widely recognized. While several European countries, such as France, Germany, Finland, Sweden at al., have established norms, and a business culture that accepts a Corporate Governance Code (CGC), other countries like Estonia have a more “relaxed” approach to compliancy. In Estonia, listed companies tend not to make a legitimate effort to be compliant with the Estonian Corporate Governance Recommendations (CGR).

Corporate governance is defined by scholars in many different ways, but among these definitions there are always two major tenets: management practices are 1) to account responsibly for all stakeholders and 2) to practice responsible asset management. In the definition of Monks and Minow (2004), CG concerns the “accountability to the public for the impact of corporate functioning on society and [the] accountability to the owners for the effective management of assets” (Monks, Minow 2004, 322). The OECD defines CG as:

“a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.” (OECD 2004, 11)

Ultimately, as a recent OECD report noted, corporate governance is about attracting capital, and finding the best way to optimize the financial and human resources of all stakeholders (including customers and suppliers) to create sustainable wealth (OECD 2015). On a more practical level, the importance of corporate governance has been concisely articulated by Minow and Monks (2004): “Markets needed global capital, and that meant they needed to adopt standards of governance that global capital understood” (Monks, Minow 2004, 312). This need for greater capital investment and integration into global markets is particularly relevant to the ambitions of the Estonian market for attracting foreign investment.

2.2.1. Regulatory framework for CG in Estonia

The legal basis for regulating corporate governance in Estonia is described by statute in the Commercial Code (2014), Securities Market Act (2013), Accounting Act (2002), and various acts on auditing and credit institutions (EBRD 2017). The Estonian Financial Supervision Authority (EFSA), the main regulator in Estonia for CG, and the Tallinn Stock Exchange have also established normative recommendations for listed companies (CGR), which came into force in January 2006.

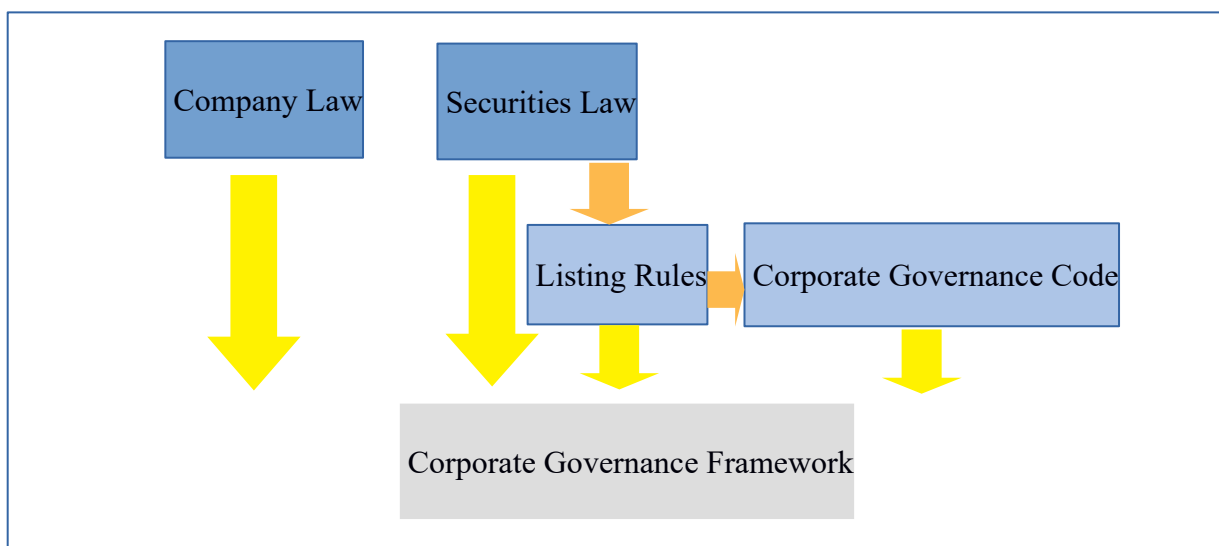


Figure 1. Regulatory framework for corporate governance in Estonia
 Source: Adopted from OECD Corporate Governance Factbook (2017)

Given this legislative framework, as illustrated in Figure 1, it is a little surprising that in Estonia there is a general lack of monitoring or history of enforcement to compel companies to adhere to

the rules of the CGR. Since 2005, there is no evidence of enforcement or de-listing in connection with complying with the terms of the CGR. Moreover, the EFSA and the NASDAQ provide no regular information regarding companies and their attempts to improve CG; no ranking or public scrutiny of the companies of any kind is provided with regard to governance.

During the last decade in particular, norms in Europe for CG have evolved to respond to market challenges, and in the majority of OECD countries, corporate codes have been updated or amended. Meanwhile the Estonian CGR have not been updated since 2006 (OECD 2017). In 2011 and 2017, the EFSA did cite the Action Plan of the European Commission to improve the CG framework, including a “disclosure of board diversity policy” and an improvement of the “quality of corporate governance reporting prepared on the ‘comply or explain’ basis,” but has not brought these principles to bear in the Estonian marketplace (EFSA 2013, 7). This lack of an enforcement track record with no changes in the CG regulatory framework gives Estonia the dubious distinction of being an OECD laggard in CG.

2.2.2. Corporate board structure of listed companies

Estonian listed companies implement a two-tier corporate board structure (also known as “dual system”) (Hilb 2008) with both a management and supervisory board (OECD 2017, 101). According to Hilb (2008, 49), the key characteristic of “dual” systems is that members of the management board cannot also serve on the supervisory board since the primary benefit of such systems is the supervisory check on management authority. Interestingly, in practice on Estonian corporate boards there is a tendency to “monistic” board systems, where the supervisory board includes people from the management board (*Ibid.*, 49). Moreover, it is clear from corporate annual reports that it is also a common practice in Estonia that a person, at the conclusion of his or her term, who served on a given management board was immediately appointed to the supervisory board, and vice-versa. Therefore, Estonia corporate boards do not collectively reap the benefits of a dual system.

According to the OECD, the Management board must provide day-to-day representation and management for a given company. The CGR defines the board’s function to offer “independent day-to-day decision[s] without favouring personal and/or controlling shareholder’s interests. The Management Board shall make decisions based on the best interests of the Issuer and all shareholders and it obliges to ensure reasonable development of the Issuer according to goals and strategy set” (NASDAQ CGR 2006, 6). In addition, the Management board should perform

all its professional activities in accordance with the law and conduct internal audits and risk management regularly (NASDAQ CGR 2006).

In contrast, the OECD defines the function of the Supervisory board to plan and supervise the activities of the Management board (including internal control) and to provide notification of general meetings to review its supervisory role. In the CGR, a Supervisory board should regularly review the strategy, general plan of action, principles of risk management, and annual budget of a company. Moreover, it should work together with the Management board to implement a company's long-term strategy. Again, the main function of the Supervisory board is to establish internal control of the Management board's activities (strategy, business plan, risk management standards and principles, annual budgeting) and to present the results of monitoring to the general meeting (NASDAQ CGR 2006).

2.2.3. Size of corporate boards of Estonian listed companies

According to Estonia's Commercial Code Articles of association (§ 139, 2007), in the case of a two-tier board system, the exact number of members of each board or the minimum and maximum number of members should be specified in a company's Article of Association. However, the Commercial Code requires that a Management board consist of at least one member and the Supervisory board of at least three members. According to the EBRD (2017), the average Supervisory board of listed companies in 2015 consisted of five members (no data was provided on the Management board size). The OECD concluded:

“Supervisory body of public limited liability companies are required to have a supervisory board with at least three members. ...In practice, the majority of listed companies have five to six members on the supervisory board. Management body of public limited liability companies are required to have a management board which may comprise only one member. ...In practice, the majority of listed companies have two to four members in the Management board.” (OECD 2017, 105)

To consider the 16 listed Estonian companies in 2017, the Management board consists of one to four members (with an average of two members), and the Supervisory board consists of three to nine members (with an average five members) (author's calculation based on NASDAQ Fact sheets 2017).

Several scholars have suggested that smaller boards are more efficient than bigger ones, and that no board should have more than nine members (Lipton and Lorsch 1992; Jensen 1993). Hilb has suggested that the number of board members should be correlated with firm size, and vary from three to seven members. He argues that bigger boards are hard to manage, and also that there is very poor interaction among members of larger boards. The most important criterion on board size, in his opinion, is that there must be the necessary level of knowledge for effective company management, and that different roles and social characteristics should be cumulatively represented by board members (Hilb 2008). The Diligent Corporation (a global consultant in corporate governance), based on the results of GMI Rating, suggests that smaller boards are more informal, productive, effective, and faster in decision-making (Price 2017). Therefore, based on data from NASDAQ Fact Sheets (2017) and annual reports (2016), in terms of size, the boards of Estonian companies are close to ideal and correspond to OECD norms.

2.2.4. Corporate board composition

Skills and experience

For board members of listed companies in Estonia, there are no formal requirements, unless the company is a bank. Therefore, in order to estimate skills and experience for board members in Estonia, one must use data published in the CGR and in publicly available corporate information. According to Hilb (2008), people who are elected to corporate boards should have experience and competency for implementing a given company's strategy, as illustrated by Figure 2.

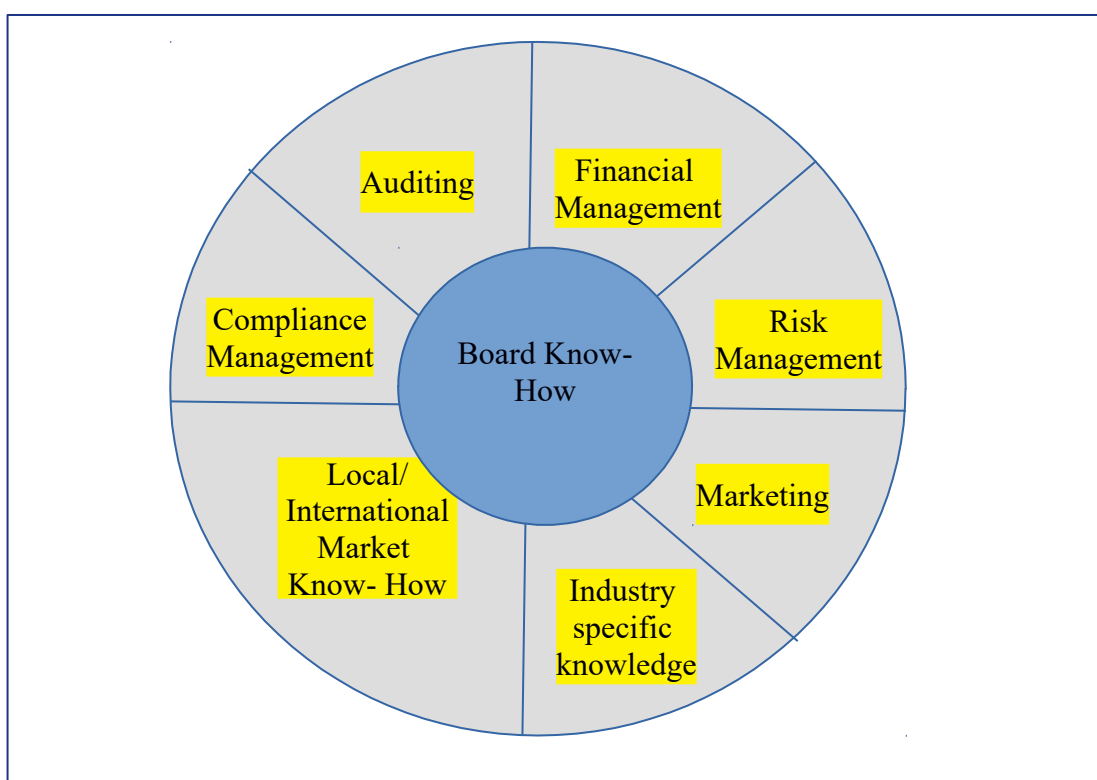


Figure 2. Targeted board composition based on know-how (competency)

Source: Adapted from Hilb (2008)

Hilb suggests that members of a Supervisory board should have equal competency relative to members of a Management in order to conduct effective control. In his view, members of the two boards (Management and Supervisory) should possess complimentary knowledge and experience for effective implementation of corporate strategy.

Based on the information published on companies' web sites and annual reports, the author has made conclusions about the competency of Estonian corporate boards with regard to education and experience. The results of this analysis are presented in Figure 3 and Figure 4:

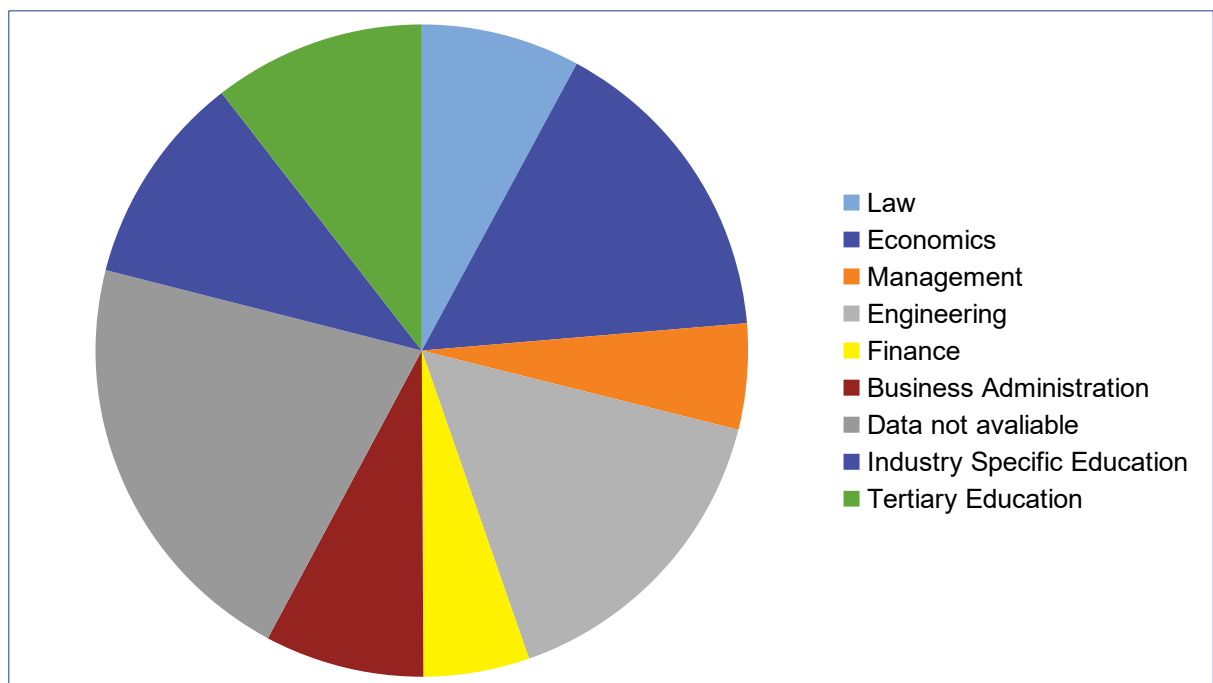


Figure 3. Management board composition (industry background) of Estonian listed companies (2016, 2017)

Source: Author's calculation based on Corporate annual reports (2016) and official web sites (2017)

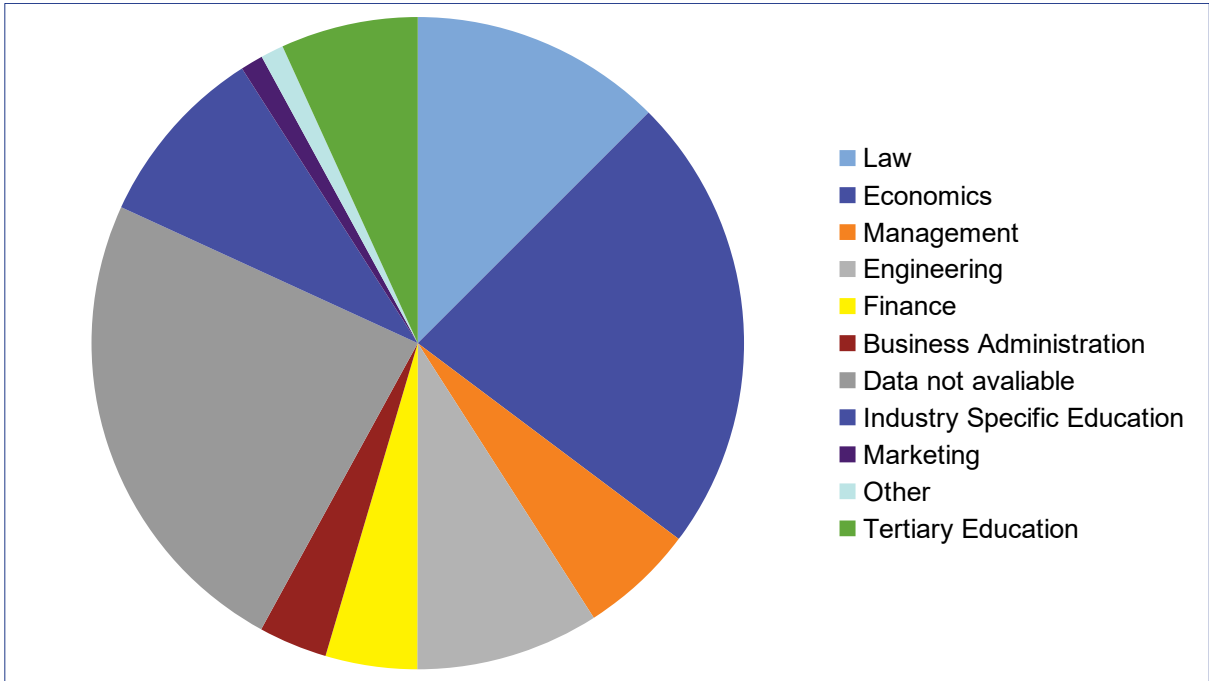


Figure 4. Supervisory board composition of Estonian listed companies (2016, 2017)
 Source: Author's own calculation based Corporate annual reports (2016) and official web sites (2017)

According to the author's analysis, Supervisory board members have sufficient experience for the effective control of Management boards in Estonia. In addition, the cumulative backgrounds and experiences on a macro level of Management and Supervisory boards are almost optimal for strategy implementation. The most common education and work experience of Supervisory board members in Estonian listed companies are financial management, risk compliance (law and industry expertise), and local or international market expertise. The major crucial gap for most boards, in this analysis, is marketing (only 1 member (1.21%) out of 82 total had a marketing education).

Risk management and auditing skills are very often represented on audit committees, which have been established by almost all listed companies (81% of all listed companies or 13 out of 16 companies). Moreover, many members of Supervisory boards possess long-term experience serving in governmental institutions (e.g., Parliament (Riigikogu), Ministry of Defence, Ministry of Finance, Bank of Estonia, county and district courts, *et al.*) as well as trade associations (Estonian Chamber of Commerce, Estonian Traders Association, Estonian Food Industry Association, and others). The author's assumption is that these types of governmental and trade experiences may be beneficial to board members in terms of regulatory risk compliance.

Independent boards members

An independent board member is one that is theoretically free of any ties with a given company or its major shareholders. The maximum tenure of independent members in Estonia is specified as eight to ten years (OECD 2017; CGR 2006). The International Financial Corporation (IFC 2012) of the World Bank defines an “independent director” as a person “who has no direct or indirect material relationship with the Company other than membership on the Board” and fits the following criteria:

- 1) has not been employed at a company within the past five years;
- 2) has not had a commercial relationship with a company or its affiliates (including as a major shareholder) and has not supervised a person who has had such a relationship;
- 3) is not a member of a non-profit organization receiving “significant funding” from a company or its affiliates;
- 4) has not received pay from a company or its affiliates within the past five years other than from serving on the board, which should in any event be a significant part of his or her annual income;
- 5) does not have share options or a pension of any kind from the company or its affiliates;
- 6) is not employed as an executive officer in another company that has board members from among the executives of the original company;
- 7) has not been affiliated with or employed at a present or former auditor of the company or its affiliates within the past five years;
- 8) does not possess a “material interest” in the company or its affiliates and does not oversee a person that holds such an interest;
- 9) is not related as a family member to any person meeting the definition of points 1)-8);
- 10) is identified in the annual report of a company as independent director;
- 11) does not serve on a company board for more than ten years (IFC 2012).

Hilb (2008) defines an independent board members as one based on the British Public Interest Research Centre (PIRC) report criteria, which are similar to the IFC. They add one condition, however: independent members should be selected by a formal process, and not as a result of some personal relationship. Hilb (2008) believes that all members of the Supervisory board should be independent in order to fulfil their role properly and to provide effective governance. Nonetheless, Carter and Lorsch (2004) argue that a board which consists mostly of independent directors is likely have limited knowledge about a given business or industry. The Estonian CGR suggests a middle path between the two viewpoints: it suggests that at least half of the Supervisory board should be independent (NASDAQ CGR 2006).

The independence of the Supervisory board members is obviously one of the major problem areas of board composition in Estonia. Based on the author's analysis, there is a lack of understanding of the proper function and selection criteria for independent board members among Estonian listed companies. Several members declare themselves as independent though they have served on a board more than ten years. Several companies declared the existence of independent board members but did not specify their names in publicly available data. Also, it is common to have less than 50% of a Supervisory board composed of independent members. There are even cases where the entire Supervisory board is constituted from representatives of the company's shareholders. Indeed, on a macro level the total number of shareholders among Supervisory board members of Estonian listed companies (author's own calculation based on annual reports) is slightly more than half of all board members (51.2% or 42 members out of 82).

No open nomination procedure for Supervisory board members has ever been established in Estonia; therefore, it is challenging to otherwise consider how these members match normative criteria for independence. Based on the limited information on these members that has been disclosed in the CGR, the author can only estimate the number of members of Supervisory Board who might be declared independent, according to the definitions cited in the preceding paragraphs. Thus, one may provisionally conclude that the number of independent members on Estonian Supervisory corporate boards is very poor: only 17% (14 out of 82 members) might be classified as independent. And even from this low number, not all of these members meet the full set of criteria listed above (NASDAQ CGR 2006; OECD 2017; IFC 2012; Hilb 2008).

The Review of Corporate Governance Practices published by NASDAQ in 2015 (based on data of the CGR of 2014) demonstrated that 47% of Estonian companies had at least half of their Supervisory boards composed of independent members (NASDAQ 2015, 2). By 2016, just 2 of 16 listed Estonian companies (12.5%) met this standard for at least half of the membership being independent. Therefore, unfortunately there actually appears to be a worsening trend in Estonia on this point.

Multiple directorships

Another consideration of importance in establishing proper corporate governance is the issue of one person having multiple directorships at the same time. Estonian law and the CGR do not provide any guidance on this matter, although it is clearly problematic for Supervisory boards in

Estonia. There is widespread recognition on the conflict of interests when corporations have interlocking directors, but what are the problems with multiple directorships?

Admittedly, there is no clear viewpoint among scholars and business consultants on this issue. Clements *et al.* (2015) presented arguments both for and against multiples directorships: the “Busyness Hypothesis,” which essentially states that one person cannot adequately manage more than one directorship competently because of the demands that even one corporate board can present (Clements *et al.* 2015, 3). On the other hand, Clements *et al.* poses an “Experience Hypothesis,” which supposes that one person can apply experience from one corporation to another board membership (Clements *et al.* 2015, 4).

In the Estonian case, it is significant that directors who sit on different boards do not have appointments in the same industry, which would logically negate the value of the “Experience Hypothesis.” The exception is when one person sits on the boards of subsidiaries of a given corporation as well as the group holding board. Currently 55% of the members of Supervisory boards could be considered “multiple” directors, some of whom sit on three or more boards. On average, according to the author's calculations, a “multiple” director in Estonia sits on the boards of 5.5 companies (from 2 to 16 companies simultaneously). For comparison, a multiple director in Finland sits on average on 1.2 boards (Finland Chamber of Commerce 2017).

Clearly, if one rules out the value of having experience to devote to companies in the same industry, according to Clement’s hypothesis, one is left with only the negative consequence of having too many responsibilities for too many companies in Estonia for “multiple” directors. And the case in Estonia, at least relative to Finland, is precariously more pronounced. Finally, it is worth noting that with the prevalence of multiple directorships and the absolute number of independent board members, there seems to be a dearth of qualified candidates in Estonia, a topic that the author will examine in the next chapter.

Tenure

Regarding tenure, in Estonia the maximum term of office on a Supervisory board members before re-election is five years (NASDAQ CGR 2006). The most common maximum term on Supervisory board among OECD countries is three years, while in Finland and Sweden the maximum term is one year (OECD 2017). For the Management board, in Estonia there is no specific recommendation regarding tenure. Therefore, again Estonia falls on the more risky end

of the spectrum among OECD countries in its practical implementation of director limits.

Board-level committees

On the questions of committees in Estonia, there is one requirement for the establishment of an audit committee, but no requirements on the chair or independence of the members of the audit committee. There is no requirement to establish nomination or remuneration committees. To consider Estonian listed companies, the majority do have audit committees, but very few have remuneration committees. Nomination committees are not common: only 1 out of 16 companies established nomination and remuneration committees. In the case of board-level committees, Estonian companies are far behind other countries in representing “best practice” standards for corporate governance.

Employee representation

Listed companies are required have at least one employee representation on boards in Estonia (OECD 2017, 112). Among the 16 listed companies in Estonia, not 1 has an employee representative on its Supervisory board. Estonia is woefully deficient in this particular criterion for effective corporate governance.

Standards of internal control and risk management

Estonia is among the very few jurisdiction where the responsibility to establish systems of internal control and risk management are not specified by listing rules or recommended by regulations (OECD Corporate Governance Factbook 2017). Nonetheless, the majority of Estonian listed companies pay close attention to internal controls in the sense that they have formed audit committees. Very few of the Estonian companies, e.g., banks, have established risk committees. One major mitigating factor for these risk committees, unfortunately, is that in some cases the members of the Management board and representatives of major shareholders sit on the risk committee. By having the same person sitting in both groups, this defeats the purpose of the risk committee since no person can objectively review his own decisions at an arm’s distance.

Election

While a number of OECD countries have specific requirements or recommendations for board member qualification, Estonia has none (OECD 2017). There is only a vaguely worded recommendation in the Corporate Governance Recommendations that a nominated/elected

person should possess “sufficient knowledge and experience for participation in the work of the Supervisory board” (CGR 2006, 10). Moreover, since in most cases there is no Nomination committee nor any professional requirements for serving on a corporate board in Estonia, no formal procedure exists for screening or evaluating candidates. Only the names, rather than a candidate’s experience or qualification, need be disclosed to shareholders.

Remuneration and evaluation

In Estonia, there is no specific recommendation for executive remuneration as well as no requirement for shareholder approval regarding board members and key executive remuneration. Estonian listed companies are not obliged to disclose the function and role of board members. There is no established practice for regular systematic evaluation on the performance of board members (only one company mentioned random evaluation of board members performance), so there is no linkage between performance of board members and their remuneration.

Diversity policy

Regarding corporate policies to increase diversity, there is only one formal mention in Estonian regulations. In the Accounting Act of Estonia:

“A large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company’s management board and senior management and the results of the implementation thereof during the accounting year.”

(Accounting Act, Subsection §24² (4))

Therefore, no specific requirement regarding the implementation or need for a policy on diversity has been promulgated in Estonia.

Moreover, a review of the 16 listed Estonian companies from their corporate annual reports (2016, 2017) confirms that formal policies on diversity are virtually non-existent. Of the 16 companies, not 1 has implemented a policy to increase diversity. In the majority of cases, the listed Estonian companies made no reference to policies on diversity in their corporate governance reports (62.5%). In some cases, companies acknowledged a diversity policy (37.5%), but concluded they were irrelevant.

In other cases, it would appear that companies believe that simply making a statement on diversity policy is equivalent to having a formal selection process, evaluation, and training procedure to increase diversity. For example:

“Nobody is discriminated against because of their age, gender, religion, ethnic origin or other characteristics. In selecting Management Board Members and Supervisory Board Members, experience in the business or area of expertise, education and background are considered to be the most important, in order to provide an effective and balanced Board... There are no women sitting in the Supervisory Board.” (Tallinna Vesi 2017, 68)

Several companies have used irrelevant explanations to excuse the lack of a formal policy on diversity, for example: “Silvano Fashion Group has not implemented a diversity policy, which applies to all group companies yet, as we operate in many different legislative and cultural zone countries, most of them non-EU countries” (AS Silvano Fashion Group 2016, 14).

Contrary to what these Estonian companies have communicated on diversity, a formal policy would normally encompass a holistic approach to human resource practices, internal and external communications, and management strategy. According to Arfken, “Diversity is needed not only in gender and ethnicity, but also in age, educational experience, background, status, and income level. "Group think" and unhealthy and possibly unethical decisions often result if everyone on the board shares the same demographic characteristics.” (Arfken *et al.* 2004, 184) Therefore, it would appear based on public communications that Estonian companies have yet to make a decision to diversify their workforce and board membership.

Gender diversity

A handful of Estonian companies have only briefly mentioned, without addressing, the need for gender diversity at the board level. One company (Tallinna Vesi) declared the existence of a diversity policy, without having any women on the Supervisory board. Regarding the need to define a formal policy to increase diversity at the executive level, the most commonly used commentary was that personnel were chosen based on skills and experience, rather than gender. For example, “LHV has not deemed it necessary to implement a diversity policy, as LHV is governed in the recruitment of staff and management members by the best interests of LHV – the education, skills and previous experience of the person on a gender neutral on non-discriminatory basis” (LHV 2017, 30).

The EBRD defines gender diversity on Estonian corporate boards as “very weak” (EBRD 2017). According to its data, the percentage of female directors in 2015 was 9.78%. The OECD estimated the total number of women on both corporate (Management and Supervisory) boards in Estonia is 8.2% (OECD 2016), whereas the average EU female board representation is 23.3% (EC 2016). The author’s own estimation based on analyses of CGR (2016) of listed companies corroborates the EBRD data: total female representation on corporate boards (both Supervisory and Management) is equal to 9.6%. The number of totally male boards is 50% (8 of 16).

Moreover, according to the European Commission (2016), the number of women on listed company boards in Estonia in the past six years (2010 to 2016) has increased by 1.2%, compared to the average EU rate of increase of 11.4%. This trajectory of progress on the issue of gender diversity is just another indication of how poorly Estonia fares in this measure of good corporate governance.

2.2.5. Compliance with the CGR

Based on an analysis of the annual reports (2016) of 16 listed Estonian companies in 2017, the author has drawn conclusions about their compliance with the CGR. The results, as detailed below, show a lack of compliance in such important areas as:

- 1) directors independence;
- 2) gender diversity;
- 3) lack of disclosure about competency of board candidates;
- 4) a non-transparent election process;
- 5) absence of evaluation process for board members efficacy;
- 6) lack of disclosure about Management board remuneration;
- 7) lack of disclosure about auditors’ remuneration.

It is important to note that the tone of management, according to annual reports, is somewhat dismissive, and indicates that management believes it is not really necessary to comply with the CGR. It seems that there is lack of understanding of value of “best practices” corporate governance among the management of listed Estonian companies. Of course, “for practical considerations, some of the recommendations (of CGR) are partially followed” (AS Ekspress Grupp 2016, 32).

The result of the author’s analysis are provided below in Table 2 below:

Table 2. Compliance of Estonian listed companies (2016) with the NASDAQ CGR

Clause N./ Definition	Compliance	Comments and Explanations
1. General Meeting	All companies declare compliance, except sub-clauses (1.3.2; 1.3.3.)	1.2.3. Very seldom is information concerning a Supervisory candidate published; 1.3.2. In two cases, the auditor was absent in GM; 1.3.3. Does not provide option of participation in GM via the Internet, due to lack of equipment, high cost, lack of ability to identify shareholders via internet.
2. Management board	All companies declare compliance, except sub-clause (2.2.7.)	2.2.3. There is no established procedure for evaluation, or a basis for remuneration of Management board; 2.2.7. Majority of the listed companies refuse to disclose payments to members of Management board (citing privacy and security reasons).
3. Supervisory board	All companies declare compliance, except sub-clause (3.2.2.)	3.2.2. Only four companies out of 16, declare that half of their board consists of independent members. Not all of them fit to criteria for “independence,” described in the CGR annex.
4. Co-operation of Management board and Supervisory board	All companies declare compliance	No comments
5. Publication of information	All companies declare compliance	No Comments
6. Reporting	All companies declare compliance, except sub-clause (6.2.1., 6.2.2.)	6.2.1. Only five out of 16 companies disclosed and publish auditors remuneration, the remaining 11 companies refuse to disclose information due to contract obligation and competition risk; 6.2.2. Since this clause stipulates that companies should not sign contracts with a non-disclosure component on payments to auditors, several companies are

		breaching this clause.
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Source: Author’s analysis based on corporate annual reports of listed companies (2016)

Note: The table follows the structure of NASDAQ CGR (2006), where all numbers of clauses and sub-clauses correlate. The full text of NASDAQ CGR (2006) is available on NASDAQ official web site http://www.nasdaqbaltic.com/files/baltic/TSE_CGC.pdf.

To summarize, on a regulatory level, the author finds no evidence of enforcement on issues of the Estonian CGR for listed companies and no recent attempts to modernize the CGR regulations themselves. On a managerial level, as noted in the above Table 2, there appears to be a lack of understanding of value of good corporate governance, including all contemporary guidelines for best practice. What can be done to improve CGR in Estonian listed companies and gender equality on corporate boards? What are the main barriers for Estonian women to get on corporate board and how they can be eliminated or minimized? It is instructive to look at neighbouring countries to answer these questions.

2.3. Corporate boardroom gender diversity in Finland, Sweden, and Norway

All developed countries have faced challenges to increase the diversity, while improving, the quality of corporate boards over the last two decades. On the one hand, traditions, stereotypes, and simple sexism have preconditioned many corporate cultures to favour men over women for new openings. But there are also deeply rooted cultural problems with the availability, attitude, and supply of women candidates for corporate boards. Several European countries, notably the three Nordic nations, Finland, Norway, and Sweden, which have long been ahead of the times in issues related to women’s rights, serve as helpful guides to the question of women on corporate boards in Estonia. The way that these countries have handled this issue highlight steps that Estonia might take to improve its gender diversity at the board level.

2.3.1. Barriers for women onto corporate boards

To be sure, the main barriers for women to enter the boardroom in contemporary European business are the same ones that have typified the question of women’s rights for the past hundred years, or more: gender stereotypes, a decidedly masculine corporate culture, and the unequal distribution of family responsibilities. According to the ILO in 2015, two-thirds of women now in executive positions in Europe indicated that stereotypes about women, and their abilities, is the most important hurdle for them to successful careers. McKinsey (2013) has also indicated that corporate culture and long-established mindsets have to a large degree held back women from higher corporate roles. In this 2013 survey “Women Matter,” McKinsey revealed that 40%

of women respondents and 30% of men respondents believe that existing corporate culture (communication and leadership style) does not encourage women to be efficient leaders (McKinsey 2013). The same research indicated that many women want to become corporate leaders though they are less confident than men to try to attain success. Although family responsibilities in this survey are cited as an obstacle to career advancement by both men and women, some 62% of female respondents believe nonetheless that having families for women is ultimately compatible with developing their careers (McKinsey 2013).

On an individual level, several scholars and studies have looked at women themselves and their professional and personal readiness to serve in the boardroom. The following Table 3 summarizes the major arguments for (and against) improved gender diversity at the top corporate level.

Table 3. Perceived barriers and counter-arguments

Barriers for women on board represented by scholars	Counter-arguments by scholars and consultants
Women are prone to prioritize family responsibilities to career (Greenhaus, Parasuraman 1999 referenced in Powell 1999)	Results of McKinsey research (2013) show that women are as ready as men to sacrifice their personal/family life on the way to career achievements (McKinsey 2013)
There are not enough of qualified women to serve on boards (Powell 1999)	Meanwhile, scholars (Shwarts 1980; Mattis 1993 referenced in Burke 1994) insist that women are gaining all necessary experience and track records to serve on boards, but they still neglected by male CEO
Women do not have a strong motivation to serve on corporate boards (Browne 1999)	Women equally motivated to serve on corporate boards (McKinsey 2013)
Women do not have enough ambition and are reluctant to self promote or actively manage their career within an organization (Singh <i>et al.</i> 2009)	Results of McKinsey research (2013) show that 81% of female respondents communicate their ambitions, and 53% asked for promotion (McKinsey 2013)

Source: Greenhaus, Parasuraman 1999; Powell 1999; Browne 1999; Singh *et al.* 2009; Shwarts 1980; Mattis 1993; McKinsey 2013; Burke 1994

Before analysing the attempts to improve gender diversity in the boardroom in each country, an overall comparison should help to understand the differences between the countries, and especially with Estonia. As illustrated by Figure 5, each country did progress on gender diversity in the last decade: Estonia (increased the number of women by 1.2%), Finland (by

4%), Sweden (by 10%), and Norway (by 3%). But the base levels vary considerably, in Estonia only 8.2% of board members are women, while the other countries are much closer to gender parity: Finland has 30%, Sweden has 36%, and Norway has 41% of its board members as women. What steps have been taken by these Nordic countries to achieve such impressive results on gender balance in the boardroom?

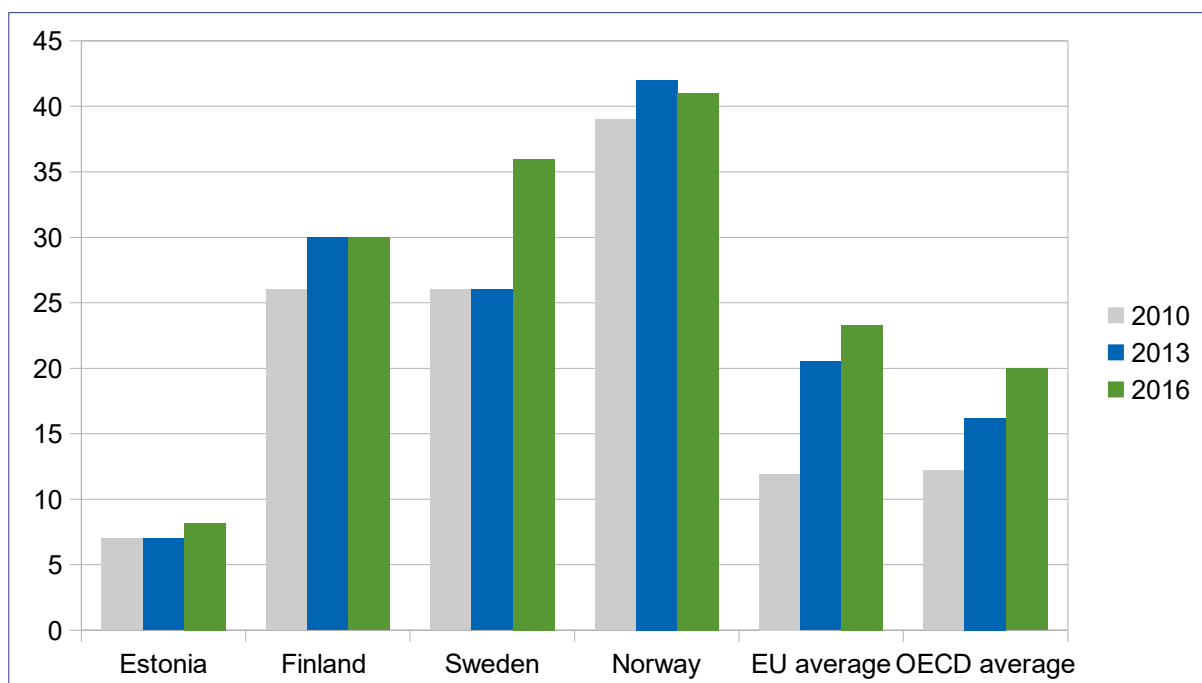


Figure 5. Progress on gender diversity on the corporate boards of the publicly listed companies in 2010-2017 (in percent)

Source: OECD Stat (2018); European Commission (2016)

2.3.2. Gender diversity initiatives and requirements adopted in Finland

According to the Finland Chamber of Commerce (FCC) in 2016, advocates of gender equality on corporate boards has been proactive since 2003 in Finland. The issue of gender diversity was included into the Finnish Corporate Governance Code (FCGC) for listed companies in 2003. The FCGC was established by the Finnish Securities Market Association for listed companies and consists of policies aimed to achieve transparency in governance and remuneration. The code applies to all companies that are listed on the Helsinki stock exchange. In 2008, the proviso for diversity in the FCGC was transformed into a recommendation, stipulating that both genders to be represented on corporate boards.

The latest version of the FCGC, which entered into force in 2015, includes an additional

recommendation for reporting precise objectives and measures regarding board diversity policy as well as requirements to describe the precise means to achieve the objectives (Recommendation 9, FCGC 2015). This recommendation allows companies to use their own discretion to formulate a diversity policy based on their company size and strategy, taking into account age, gender, business background, etc., but must nonetheless be reflected in their Corporate Governance Report (FCGC 2015, 25). So these policies are essentially non-binding, though if they do not comply, companies are supposed to explain why they do not comply with the FCGC, and how they deal with this issue (otherwise known as a “comply or explain” policy) (Securities Market Association 2012). It is moreover instructive that strict quotas for women were considered and rejected in Finland, as the Finland Chamber of Commerce (FCC) considers quotas as restricting the rights of shareholders (FCC 2016).

Currently there are no legislative requirements for Finnish listed companies to increase diversity on their boards. It is, however, telling that Finland legislated quotas for government organs, and state-owned enterprises to increase the number of women on these bodies. In 2005, a new amendment, the Act on Equality between Women and Men (1986) was introduced, in which Section 4a (232/2005) proclaimed that “the composition of public administration bodies and bodies exercising public authority” (Finnish Act on Equality between Women and Men 2005, 2). This legislative document requires all government committees, advisory boards and other corresponding bodies to achieve at least 40% representation of both men and women. Other public authorities or state-owned enterprises should achieve “equitable” representation of both men and women. The adherence to this quota is mandatory. In effect, the Finnish government has set an example of increasing the number of women in state boards and companies, which acts as a clear message to business community leaders.

The Government Action Plan for Gender Equality in Finland specifies voluntary targets for listed companies to have at least 40% representation of both genders on their boards by 2020 (Finnish Government, Government Action Plan for Gender Equality 2016–2019). Moreover, the Finnish Cabinet (FIN: “Valtioneuvosto”) based on voluntary progress toward this goal, determined they would evaluate the need for new legislation in 2018. The government’s objective is to achieve equal representation in accordance with the recommendations set by the Securities Market Association Management Code and through companies’ own actions. Therefore, the Finnish government does not interfere with business decisions and respects owners as well as shareholders’ rights, but at the same time supports an ongoing discussion on gender equality on

corporate boards and setting national goals in that area.

Because Finland has such a large manufacturing sector and requires personnel with engineering degrees, the number of women with an engineering or manufacturing background has not been sufficient to create a pool of candidates for employment or directorship on the board level (Itaniemi referenced in Deloitte 2017, 51). In response to this need, the FCC implemented a Women Leaders Program starting in 2012 with the mission to promote the best people to leadership positions in Finnish companies, regardless of their gender (FCC 2016, official web site, front page). The FCC also publicizes annually progress in gender diversity, examining factors impacting gender diversity on corporate boards and generally supporting public discussion on corporate gender equality.

2.3.3. Gender diversity initiatives and requirements adopted in Sweden

According to the Swedish Corporate Governance Board official web site (2018), the original Corporate Governance Code (2005) was developed in 2004 by body called the Code Group. This group consisted of three members of the governmental Commission on Business Confidence and six representatives of the corporate sector and chaired by Erik Åsbrink, a former Finance Minister who was also chair of the Commission on Business Confidence. Before the CGC was introduced to government, the Code Group's proposal was open to public comment and was the subject of general debate in the media and at a number of conferences.

The CGC in the Swedish case was formulated according to the “comply or explain” principle, such that compliance is not obligatory for listed companies, but a lack of compliance needs to be explained. There are, however, no penalties for non-compliance. According to Swedish Corporate Governance Board (SCGB), “the corporate governance of Swedish companies is regulated by a combination of statutory rules, self-regulation and unwritten practice and traditions” (SCGB official web site 2018).

This very first CG code in 2005 included a section on the “Size and Composition of the Board” (3.2), which included a diversity policy that said “An equal gender distribution on the board is to be an aim.” The CGC has been updated to provide clarity on grey areas, to meet new legislative requirements, and EC directives, for the last time in 2016. The current Swedish CGC (SCGC) (2016) includes diversity recommendations in clause 4.1: “The board is to have a composition appropriate to the company’s operations, phase of development and other relevant

circumstances. The board members elected by the shareholders' meeting are collectively to exhibit diversity and breadth of qualifications, experience and background. The company is to strive for gender balance on the board" (SCGC 2016, 17). Thus, the SCGC has called for women on boards, but without specifying an exact target in the past. By 2020 however, the SCGC has made it a goal for listed companies to increase women on boards to 40%. Sweden has increasingly been motivating companies to include women on boards as early as 2005, though admittedly in a non-binding fashion.

There are no legislative regulations for gender diversity for listed companies in Sweden. Corporations in Sweden are governed by the Swedish Companies Act and the listing requirements and applicable rules of respective stock exchanges according to the Swedish Securities Council. But in these laws and rules there are no formal quotas to increase women at the board level. Although legislators have discussed measures several times, and even introduced draft legislation on quotas, these proposals were rejected each time. According to Deloitte (Deloitte 2017), the last draft on a quota was considered and rejected in September 2016 (the Sveriges riksdag (parliament) draft was proposing for 40% representation of each gender on boards of listed and state-owned companies by 2019).

The Swedish Agency for Economic and Regional Growth (SAERG) in 2010 initiated a national women's entrepreneurship program with the aim to prepare women to serve on corporate boards (Deloitte 2013). Lasting until 2014, the program offered participating women access to 900 business owners and mentors from different industries to encourage women to broaden their skills set and experience. It is important to mention that despite the impressive achievements on gender equality in Swedish society, and the 10% increase on boards between 2013 and 2016, several politicians point to public dissatisfaction on the issue of gender diversity on corporate boards. "I regret it ... We're advancing very slowly towards gender equality in the boardroom," the enterprise minister, Mikael Damberg, of the Social Democrats, told the TT news agency (Boffey 2017).

2.3.4. Gender diversity initiatives and requirements adopted in Norway

In Norway, the corporate governance document is termed a Code of Practice (NCP), which provides a similar function as the corporate governance code in the other countries. This NCP is principally intended for companies that are required by the Norwegian Accounting Act to provide a report on their policies and practices for corporate governance. This mainly relates to

companies whose shares are listed on regulated markets in Norway, i.e., Oslo Børs and Oslo Axess, and also savings banks with listed equity certificates. As in Finland and Sweden, companies in Norway must comply with the NCP, or explain a valid reason why they do not comply and how they deal with a given issue.

The preliminary edition of the NCP for corporate governance was issued by a working group in 2003, and after widespread consultations with market participants, in 2004 the first edition was published by the Norwegian Corporate Governance Board. The eighth edition of the NCP (2014), indeed describes a normative diversity policy in the same terms, as the first version as follows:

“The composition of the board of directors as a whole should represent sufficient diversity of background and expertise to help ensure that the board carries out its work in a satisfactory manner. In this respect due attention should be paid to the balance between male and female members of the board. The board is responsible as a collegiate body for balancing the interests of various stakeholders in order to promote value creation by the company. The board should be made up of individuals who are willing and able to work as a team.” (NCP 2004, 24)

In Norway, therefore, the NCP suggests a balance between men and women for the boardroom, without setting a given threshold.

In Norway, contrary to Finland and Sweden, the government took the lead role in addressing gender diversity in the boardroom. According to Smith (2014), in 2002 less than ten percent of the Norwegian boardroom was composed of women. In 2003, the Norwegian parliament took the unprecedented step to mandate a 40% quota for women on listed company boards (Act on Public Limited Companies (Public Limited Liability Companies Act) where gender equality on board was described in clause § 6-11 a.). With a grace period for compliance until 2008, by that year all PLC Norwegian companies met the quota terms (Storvik 2011; Ahern, Dittmar 2012, referenced in Smith 2014, 45). This requirement applied to the boards of state-owned and inter-municipal companies, and later, the regulations were expanded to include the boards of all municipal and cooperative companies (Storvik, Teigen 2010, referenced in Smith 2014, 45).

It is noteworthy to mention that introduction of quotas initially were perceived rather negatively by the market and business community. Women also reacted negatively since the law diminished their professional value and in effect made them second-class board members “We don’t want to

be on a quota-system, we want to be chosen for our skills and competencies, we don't want to be second-class board" (PBF official website, 2018). In fact, some companies preferred to change their organisational form instead of meeting the law requirements. According to Ahern and Dittmar (2012) and Bøhren and Staubo (2012) (referenced in Smith 2014) from 30 to 50 percent of the PLCs lost their listing rather than comply with this board requirement (the numbers vary by researcher according to how they count the initial number of PLC).

In 2016, the Norwegian government decided to introduce a goal of 40% representation of each gender for not just the board, but also for middle and senior management. New initiatives were designed for executive management of state agencies and for companies where the government has an interest. According to Deloitte (2017), the main objective of the new proposals is to set goals for gender parity in the management teams of companies, at both the executive and middle-management levels:

- 1) to achieve 40% representation of each gender in executive management positions for government directorates and agencies and companies where the government has an interest;
- 2) to achieve 40% representation of each gender in the executive management positions of the state;
- 3) to achieve 40% female representation in companies in which the state has a stake;
- 4) the government should systematically recruit women as middle managers to be a part of the states' human resources management and annually report to parliament on the results of efforts to promote equality and diversity in all sectors.

As a supportive measure, Norway also developed databases of qualified women who were willing to serve on corporate boards (Hilb 2008; Storvik, Teigen 2010). Moreover, in 2003 the Norwegian Employers' Confederation (NHO) created a leadership development programme for women called "Female Future" with the aim to prepare woman for senior executive positions and for the boardroom. The programme was designed to coach women free of charge and for companies themselves to nominate their candidates to the programme (NHO 2018). Finally, after the quota law was passed in 2003, Elin Hurvenes established the Professional Boards Forum (PBF) to bring together talented, qualified, and ambitious women and the companies that require their assistance. The results, at least in quantitative terms, have been impressive for Norway, which is a global leader in gender diversity in the boardroom.

In the final analysis, Finland, Sweden and Norway achieved far gender equality in the

boardroom by different means. In all these countries, governmental initiatives and social pressure played a crucial role in the development of gender diversity policies. There were also differing degrees of acceptance of policies from the business community: in Sweden and Finland, diversity policies were widely discussed or initiated by the business community (e.g., local chambers of commerce). This broad-based acceptance eased the changes without major reservations or problems for businesses. In Norway, the initial reaction was very negative, particularly given the lack of available, qualified women to adopt new roles in companies (leading to a tendency for “golden skirts” to appear—women who held multiple directorships). Over time, the changes in Norway have been more generally accepted as the numbers of experienced women have increased. All these countries had public and/or private initiatives to mentor women and to help them make contact with companies who might use their services.

Other researchers (Smith 2014; Du Plessis *et al.* 2014) have pointed out several drawbacks to the policies. For instance, in Norway the quotas have not had an impact on the low absolute numbers of women appointed to the CEO position. There has also been a negligible impact on the gender gap pay: from 2003 (women earned 16% less than men in gross hourly earnings) until 2016 (14.9% less), the gap decreased on 1.1% (Eurostat 2003-2016). So the major achievement of quotas is quantitative, but not necessarily qualitative. A helpful summary of the attempts of these countries to increase gender diversity at the board level is provided in Figure 6, “Establishment of diversity on corporate boards in Finland, Sweden, and Norway.”

	Finland	Sweden	Norway
Initiator of gender diversity improvement	In 1995 government set up the quotas for governmental bodies and state owned companies	SAERG in 2010 has initiated a national women's entrepreneurship program	Government set up the quotas for PLCs in 2003
	FCC launch the "Women Leaders Program" to prepare women serve on boards in 2008	Government:threat of quotas make companies proactive	
Role of government	Role model and support for businesses, Initiator of public discussion	Pressure on business without interference: Initiation of public discussion and treat of quotas law	Direct regulation of gender balance on corporate boards of PLCs. Monitoring of compliance and enforcement
Role of business	Initiator of gender diversity on corporate boards	Initiator of gender diversity on corporate boards	Conform with law and requirements
Interaction of business and government	Cooperation	Cooperation	Opposition
Result: Female representation on corporate boards	30% (2016)	36 % (2016)	41% (2016)
Result: Increase in female representation on corporate boards in last 6 years	4 % (2010 -2016)	10 % (2010 -2016)	2 % (2010- 2016)
Problems	Not applicable	Not applicable	On initial stage of implementation of quotas law - lack of qualified woman

Figure 6. Establishment of diversity on corporate boards in Finland, Sweden, and Norway
Source: Deloitte (2017); The Act on Equality between Women and Men, Composition of Public Administration Bodies and Bodies Exercising Public Authority, Section 4a (2); FCC (2016); FCGC (2015); Estonian Accounting Act (2002); SCGB (2018); OECD (2017)

2.4. The Estonian case: how to improve gender diversity on corporate boards?

The Estonian corporate world faces many challenges to improve corporate governance, as detailed in Section 2.2. The number and quality of independent board members, conflict of interests, public information regarding board members, and their nomination, as well as gender diversity remain problematic areas of board composition. The current high number of multiple directorships also points out the problem of a lack of qualified candidates, of either gender, to serve corporate boards. Perhaps one might explain the limited managerial talent pool on account of the relatively low wages and small market size, which are not interesting for international executives. But undoubtedly, increasing the number of qualified women on boards would not only help to improve the pool of candidates, but also increase board diversity, which is a vital part of contemporary corporate governance, as described in the Introduction. The author will first discuss a primary question that Finland, Sweden, and Norway encountered, “Would quotas be appropriate for Estonia?,” before highlighting specific topical issues in turn.

On the central question of quotas, many researchers and policy makers who have analysed the results of quota law in Norway cannot justify their further implementation (Du Plessis *et al.* 2014; Smith 2014; Davies referenced in Treanor 2010). In the author’s opinion, such radical means as an introduction of a quota law to Estonia would be inappropriate for the economic situation and would bring more harm than good to Estonian business. There are several major problems which would lead to negative consequences of quota law, as was observed in Norway (and debated in Finland) in particular:

- 1) quotas infringe shareholders rights;
- 2) quotas do not by themselves promote women and develop women talents—they just bring them to the boards, which at least in Norway, was perceived negatively by men as well as by women;
- 3) listed companies are not ready to meet any legislative quota requirements: there are no internal (talent development programs) or external policies (nomination committees, established HR practices, qualification criteria) to hire qualified women to serve on boards (because of this poor situation, the immediate impact of quotas would be de-listing for many companies, which would defeat the quota’s purpose);
- 4) currently the size of potential female candidates pool to serve on boards is unclear, so it is difficult to assess an appropriate quota size for Estonia.

Therefore, in the author’s opinion the best way to improve gender diversity for Estonia would be

to employ a voluntary strategy, e.g., to achieve more efficient and binding implementation of the CGR in combination with supportive policies and actions from the government and other private institutions. To discuss the major issues raised by the examples of Finland, Sweden, and Norway, the following topical questions might serve as a blueprint for Estonia.

2.4.1. Public discussion

In Norway and Sweden, public pressure initially drove the movement to increase women's participation in corporate governance. The Estonian government in collaboration with corporate governance experts could similarly initiate a public discussion on the value of women on corporate boards. A number of NGO, such as the Estonian Chamber of Commerce and Industry (ECCI), the Estonian Women's Studies and Resource Centre (ENUT), the Estonian Association of Business and Professional Women (BPW Estonia), and the Women's Training Centre (Naiskoolituse Keskus) could prove invaluable in broadening this public discussion.

2.4.2. Development of standards and value of “good” corporate governance

In Finland, the respect among listed companies for the FCGC enabled widespread compliance with its policies, even in the absence of legislation. These companies' understanding and acceptance of “best practice” standards for corporate governance is a crucial factor in the sustainable growth of companies and their attractiveness to investors. Therefore, in Estonia, there could be some kind of corporate governance forum, where experts from that area can meet companies leaders to discuss the current situation. Professional unions or NGOs might also be good participants for such a forum.

2.4.3. Update of Estonian CGR

Another crucial issue on the question of increasing diversity in the Estonian boardroom is a re-tooling of the existing Corporate Governance Recommendations. The current CGR has not been updated for the past decade, since it was introduced. Yet corporate governance standards have changed over time, in response to new market conditions and challenges, not to mention new EC directives and recommendations. In all the case study countries under examination, amendments have regularly been introduced. For Estonia, the following amendments might be considered:

- 1) improvement of the quality of reporting: the recommendation of the European Commission on “the quality of corporate governance reporting (‘comply or explain’) from 9 April 2014” could be incorporated in the Estonian CGR, for example;
- 2) clarification of diversity policy: focus on the diversity of skills and backgrounds as well as

gender diversity (diversity of opinions and approaches) (the amendment of the Estonian Accounting Act addressing diversity policy (Subsection §24² (4)) also might be incorporated in the Estonian CGR);

- 3) multiple directorships might be limited to two companies per member term in order to avoid conflict of interests and to ensure sufficient dedication of time and efforts from directors;
- 4) the tenure of members of Supervisory boards should be limited to two terms (six years in total) without possibility of re-election (such a policy would improve the independence of members, and bring Estonia in line with “best practices”);
- 5) full information about potential and current members of Supervisory boards (e.g., education, experience, age, shareholding, business affiliations with other companies, family and other ties that might influence the decision-making process) should be published by listed companies;
- 6) the election procedure for Supervisory board members should be transparent to shareholders;
- 7) the function and contribution of Supervisory board member must be clarified on company websites and annual corporate governance reports;
- 8) the remuneration of board members should be based on evaluation results;
- 9) standards and frequency of evaluation of board members should be established by listed companies.

2.4.4. Effective enforcement of Estonian CGR

Monitoring of companies’ compliance with the CGR might become annual and systematic, with proper outside enforcement. Cases of non-compliance might need to be justified, including alternative measures to be implemented by companies in order to address a given corporate governance issue. NASDAQ and EFSA could serve as effective organs to implement regular and effective monitoring of this compliance with the CGR. The corporate governance codes are taken seriously in Finland, Sweden, and Norway, and the “comply or explain” basis, although technically allowing for an exception loophole, works in these countries to promote compliance. For example, the FCC stresses the importance of absolute compliance and even terms it “binding,” with any “breach will be evaluated by the stock exchange which may rule sanctions against the company” (FCC 2017, 11). In Estonia, perhaps more enforcement or clear steps for sanctions, if necessary, would encourage real compliance.

2.4.5. Rating of good and bad governed companies on NASDAQ web site

Annual ratings of properly and poorly governed companies, based on monitoring annual CG reports, could be published on the NASDAQ website. This public notice of the corporate

governance for listed companies in Estonia could encourage better compliance, as it would be available to all investors.

2.4.6. Development of qualification and expertise in women

A critical problem, particularly in Norway where the effort to improve gender diversity was begun as early as 2003, has been the preparation of qualified and skilled women to serve on corporate boards. The experience of Finland, in particular Finland Chamber of Commerce, with its Women Leaders Program is a helpful example of how a private organization took the initiative to prepare women for board service.

Estonia is fortunate to have relatively high numbers of trained and educated women. According to the World Economic Forum (2016), more women than men attained tertiary education (88% of women versus 59% of men), women are represented among business owners (35.8% of firms include women owners), and women represent 45% of research and development personnel (World Economic Forum 2016, The Global Gender Gap Report 2016). Moreover, women have a strong presence in senior management in Estonia, at 40% (Grant Thornton 2017).

By these markers, it would seem clear that mentorship and collaboration programs could help prepare the ranks of qualified women for Estonian corporate boards. For instance, the PBF (Norway) already has a track record for international partnership, successfully sharing their experience to United Kingdom to help form the UK Professional Board Forum. Currently, the PBF is already assisting with Professional Boards Forum in France, Holland, Spain and Australia. Mentoring programs could also be established within Estonian listed companies in order to develop talent. It is much cheaper to build skills and experience inside companies than to acquire from outside.

2.4.7. Development of inclusive corporate culture

In Norway, the negative reaction to more women in the boardroom after 2004 was rooted in established stereotypes about a woman's place in society. In Estonia, a first step to address this issue on a practical basis might be the adjustment of HR policies and training programs to be more inclusive. McKinsey (2014) has even suggested a new diversity performance model (where gaps in a career track due to maternity leave would be accepted as normal and not a deviant career path). Further, the implementation of a corporate ethical code might be beneficial for the creation of a more inclusive corporate culture.

2.4.8. Creation of database of women qualified and ready to serve on corporate boards

In Norway and Sweden, the creation and dissemination of a public database of women qualified and interested to serve on corporate boards was a tremendous resource for companies, and helped smooth the transition to a more diverse corporate boardroom. In conjunction with the NASDAQ, EFSA, and other NGO, a database of competent and interested women might be compiled for listed companies' use. The database should contain such information about potential board candidates such as education, professional experience and competencies, as well as previous board experience.

2.4.9. Voluntary targets

In lieu of formal and legally binding quotas, as were used in Norway governmental institutions, relevant NGO might set voluntary targets to improve gender representation on corporate boards. This process would meanwhile define the size of the talent pool of women to serve in the boardroom, and progressively scale targets over time. These bodies might take in consideration other efforts, such as mentoring programs, to calibrate these targets.

3. CONCLUSION

This thesis aimed to address the question of how Estonia might increase the number of women on the corporate boards of listed companies. After conducting research, it became apparent that for Estonia the most relevant way to increase gender diversity is a voluntary one where business itself initiates change. However, before approaching the issue of gender equality, Estonia has a number of fundamental governance challenges to address, as detailed in Section 2.2. There is a need for more independent members, a curb on multiple directorships, and better nomination procedures to put Estonia in line with “best practice” corporate governance standards. And more effective enforcement policies, whether via the CGR, or a governmental authority, could ensure compliance with these standards. The OECD has noted that a more inclusive gender balance requires “a deep cultural change at both societal and organizational levels” (OECD 2016). Most certainly for Estonia, changes in the boardroom to increase the number of women is just one of the CG problem areas that need attention. A first step should be to update overall CG standards and to improve compliance, and then a comprehensive policy on gender diversity could be determined. Only then could the means to achieve better gender diversity be introduced.

Nonetheless, the experience of Finland, Sweden, and Norway in addressing gender diversity in the boardroom does draw some pathways for Estonia to consider. Quotas as a mechanism to increase the number of women on corporate boards was ultimately effective in Norway, but at an initial economic cost that may be too significant for the developing economy of Estonia to bear. The cases of Sweden and Finland, which explicitly rejected quotas, provide a more relevant example for Estonia because there was no stress on the economy when the process began. In these two countries, efforts by the Finland Chamber of Commerce and SAERG to mentor women helped to identify and train a generation of women as a first step to providing an environment where they could be successful in the boardroom. The corporate culture in these two countries also was responsible in the sense that non-binding CGC recommendations for increasing women in the boardroom were accepted as necessary, rather than ignored, by corporations.

Efforts to improve gender diversity in the boardroom in Estonia would have to encompass many initiatives not only to mentor women, but also to introduce women candidates within listed companies. Two initiatives from Finland and Norway, for example, offer relevant experiences. Estonia might collaborate with the FCC, with its successful Women Leaders Program, or the

PBF in Norway, which has already partnered with other organizations in the UK to improve corporate governance, in order to address its own lack of veteran women board members. As the case in Norway demonstrated, once women began to serve more broadly on boards from 2004, the availability of talented and experienced women becomes increasingly self-sustaining.

The current thesis is intended as a pilot study to provide the blueprint for a larger-scale study of gender diversity in Estonia. However, there are many challenges that Estonian companies must address to bring boardrooms more in line with contemporary EU corporate governance standards before such a study is warranted.

Increasing women in the boardroom with the aim to improve corporate governance was never a simple challenge to address. Finland, Sweden, and Norway have all demonstrated success in this process, albeit by different measures and at different paces. Estonia is in many ways fortunate to draw on their experiences to adapt its own policies to improve corporate governance, and to increase gender diversity in particular, in the boardroom. This will undoubtedly lead to superior returns in the long run for Estonian corporations.

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