

CORPORATE GOVERNANCE IN ESTONIA: EQUILIBRIUM ON BOARD

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Summary

This paper starts with an assumption, that there are strong strategic benefits in having boards with members of different backgrounds, experience, and particularly gender, which is reflected in better corporate governance. The central research question of this paper is: Why and how might Estonia increase the number of women on the boards of listed companies? In the case of Estonia, all listed companies on the Tallinn Stock Exchange (NASDAQ TLX) are included in our sample. The authors purposely focus on developing ownership strategies to improve diversity on the boards of corporations with concentrated ownership structure, without regard to arguments that emphasize equal rights or a feminist agenda. The results of the current research are a valuable analytical resource for the Estonian business community, as well as for policymakers.

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Introduction. The subject of corporate governance has become a major concern for business and academia, reflecting the owners' deep concerns about the diverse and dynamic business environment and the results they want from their corporations (Hilb, 2016). Moreover, corporate governance differs significantly from country to country in terms of control patterns and the types of shareholders that prevail in each group of countries. For instance, countries that promote shareholder-value governance approaches (such as the United States of America or the United Kingdom) and countries that strive for stakeholder-value approaches (such as Germany or Japan). (Goergen, 2012) Therefore, different systems of corporate governance are derived and significantly observable worldwide (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Tricker, 2015) and there are considerable similarities and differences among different corporate governance systems (Goergen, 2012). Furthermore, researchers have devoted a considerable amount of attention to developing a better understanding of the heterogeneity and homogeneity of worldwide corporate governance systems (Goergen, 2012). Additionally, due to the many corporate crises that have occurred in different corporate governance systems, the phenomena of corporate governance has become a critical topic worldwide (Hilb, 2016).

On the other hand, discussing the topic at several different European Union institutions, among local politicians, and in the public media, the issue of gender equality at the 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 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)

The central research question of this paper is: Why and how might Estonia increase the number of women on the boards of listed companies? Following four sub-questions “What are the current state of corporate governance and supervisory board composition of listed companies in Estonia? What is the degree of gender diversity on boards in Estonia? 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 boards? What experiences from these three countries are relevant to Estonia? To reveal the best way for Estonia, the authors comparing different means and policies applied by Finland, Sweden, and Norway.

The results of the study reveal that 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. Increasing women in the boardroom with corporate governance was never a simple challenge to address. Finland, Sweden, and Norway have already demonstrated success in this process.

The paper proceeds as follows. Section “Theoretical framework: Equilibrium on board” reviews the theories and evidence relating to board diversity, focusing especially on gender diversity and corporate governance. The section “Case Estonia: Corporate governance in Estonia” starts with the analysis of corporate governance in Estonia, followed by a comparative analysis of other Nordic countries. Finland, Sweden, and Norway are useful reference points, as they have successfully increased the number of women on boards by different means and present an established track record for Estonia to consider as it might increase gender diversity on boards. Section “Conclusions,” concludes the paper and proposes the future research direction.

Theoretical Framework: Equilibrium on Board. The effect on a company’s financial performance is a controversial one. The scholarly proponents for this view (Carter, Simkins, & Simpson, 2003), as well as among non-profit organizations (Catalyst, OECD, World Bank) and consulting companies (McKinsey, PWC), measure different business ratios (such as ROE and ROI) to argue that companies with higher numbers of women on their board demonstrate better financial results. At the same time, contrarian scholars argue that already successful firms can 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.

These mixed conclusions regarding greater women's participation on 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, O'Sullivan, & Rentschler (2014) "Because of the innumerable variables impacting upon the performance of corporations, concluding that a diverse board improves corporate performance is hence difficult" (Du Plessis, O'Sullivan, and Rentschler, 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.

Research methodology. Research philosophies tell us about the philosophic assumptions the author has about the world, the nature of knowledge and knowing, the role of values, and how to go about studying the phenomena. Current work is based on constructionism, interpretive ontological assumptions are that the world is complex and dynamic and is constructed, interpreted and experienced by people in their interactions with each other and with wider social systems. Reality is constructed by people based on beliefs, feelings and experiences; multiple local and specific "constructed" realities exist (Hine & Carson, 2007). An interpretive epistemological assumption is that knowledge is based not only on observable phenomena, but also on subjective beliefs, values, reasons, and understandings. Values are an integral part of social life – no values are wrong, only different (Hine & Carson, 2007). Interpretive research focuses on the full complexity of human sense making as the situation emerges (Kaplan & Maxwell, 1994).

1. Case Estonia: Corporate governance in Estonia

Authors employ stakeholder theory (Freeman, 1984; Donaldson and Preston, 1995) as the main framework and case studies as a research strategy. The stakeholder theory (Freeman, 1984) is based on the relationship-based local corporate governance system, which focuses on the responsibility of major shareholders towards all the stakeholders of the corporation. These stakeholders may include creditors, employees, suppliers and other parties with whom the corporation conducts its business (Goergen, 2012). Furthermore, Berle and Means (1932) predicted that corporations evolve towards a separation of ownership and control as they become larger. Therefore, managers eventually have a high discretionary power over the corporation and most shareholders are not able to control the managers' actions (Roe, 1994). Under this dilemma, stakeholder theory suggests that a corporation should pay attention to all its constituencies (Freeman, 1984). In contrast with agency theory, stakeholder theory suggests that a corporation could not create a long-term advantage without a good relationship with customers, employees, suppliers, regulators and communities (Goergen, 2012).

The sample includes all ($n = 16$) Estonian companies listed on the Tallinn Stock Exchange (NASDAQ TLX) in 2017. For the comparing case study, four countries were chosen: 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 boards by different means (quotas, soft law, and corporate governance code) and might serve as a relevant example for Estonia.

The legal basis for regulating corporate governance in Estonia is described by the statute in the Commercial Code (2014), Securities Market Act (2001), Accounting Act (2002), and various acts on auditing and credit institutions (EBRD). 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, 2006), which came into force in January 2006.

Given this legislative framework, 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 concerning 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 has 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).

According to Estonia’s Commercial Code Articles of association (§ 139, 2007), in the case of a two-tier board structure, the exact number of members of each board or the minimum and a 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, 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 is 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. The management body of public limited liability companies is required to have a management board that 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 of five members) (authors’ calculation based on NASDAQ Fact sheets, 2017).

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 etc.) as well as trade associations (Estonian Chamber of Commerce, Estonian Traders Association, Estonian Food Industry

Association etc.). The authors assume that these types of governmental and trade experiences may be beneficial to board members in terms of regulatory risk compliance.

An independent board member 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).

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 problematic for Supervisory boards in Estonia. There is widespread recognition of 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, Neill, and Wertheim (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 board can present (Clements, Neill, & Wertheim, 2015, 3). On the other hand, they pose an “Experience Hypothesis,” which supposes that one person can apply experience from one corporation to another board membership (Clements, Neill, & Wertheim, 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 authors’ calculations, a “multiple” director in Estonia sits on the boards of 5.5

companies (from 2 to 16 companies simultaneously). For comparison, multiple directors in Finland sits on average on 1.2 boards (Finland Chamber of Commerce, 2016).

Regarding tenure, in Estonia the maximum term of office on a Supervisory board member before re-election is five years (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 riskier end of the spectrum among OECD countries in its practical implementation of director limits.

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.

Listed companies are required to 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.

Estonia is among the very few jurisdictions where the responsibility to establish systems of internal control and risk management are not specified by listing rules or recommended by regulations (OECD, 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. Having the same person sitting in both groups defeats the purpose of the risk committee since no person can objectively review his own decisions at an arm’s distance.

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 are no established practices 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 the performance of board members and their remuneration.

A handful of Estonian companies have only briefly mentioned, without addressing, the need for gender diversity at the board level. One company (AS 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 a non-discriminatory basis” (AS LHV, 2017, 30).

The EBRD defines gender diversity on Estonian boards as “very weak” (EBRD 2017). According to its data, the percentage of female directors in 2015 was 9.8%. 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 authors’ estimation based on analyses of CGR (2016) of listed companies corroborates the EBRD data: total female representation on boards (both Supervisory and Management) is equal to 9.6%. The number of totally male boards is 50.0% (8 of 16).

Moreover, according to Jourová (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.

Based on the analysis of the annual reports (2016) of 16 listed Estonian companies in 2017, the authors have concluded their compliance with the Corporate Governance Code (CGR). 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 necessary to comply with the CGR. It seems that there is a lack of understanding of the value of “best practices” corporate governance among the management of listed Estonian companies. Of course, “for practical considerations, some of the recommendations are partially followed” (AS Ekspress Grupp, 2016, 32).

To summarize, on a regulatory level, the authors found 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, there appears to be a lack of understanding of the 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 boards? What are the main barriers for Estonian women to get on board and how they can be eliminated or minimized? It is instructive to look at neighbouring countries to answer these questions.

2. Boardroom diversity in Finland, Sweden, and Norway

All developed countries have faced challenges to increase diversity while improving, the quality of 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 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 boards in Estonia. The ways that these countries have handled this issue highlight steps that Estonia might take to improve its gender diversity at the board level.

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 International Labour Organization (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).

The latest version of the Finnish Corporate Governance Code, 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 discretion to formulate a diversity policy based on their company size and strategy, considering age, gender, business background, etc., but must nonetheless be reflected in their Corporate Governance Report (FCGC, 2015, 25). These policies are essentially non-binding, though if they do not comply, companies are supposed to explain why they do not comply with the Finnish Corporate Governance Code, 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 considers quotas as restricting the rights of shareholders (Finland Chamber of Commerce, 2016).

Currently, there are no legislative requirements for Finnish listed companies to increase diversity on their boards. It is, however, telling that Finland introduced 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. 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.

According to the Swedish Corporate Governance Board (2018), the Swedish Corporate Governance Code (SCGC) was developed in 2004 by a body called the Code Group. The Swedish Corporate Governance Code 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. The Swedish Corporate Governance Code 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 SCGC (2015) 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, 2015, 17). Thus, the Swedish Corporate Governance Code has called for women on boards, but without specifying an exact target in the past. By 2020 however, the Swedish Corporate Governance Code 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 parliament [*SverigesRiksdag*] draft was proposing for 40% representation of each gender on boards of listed and state-owned companies by 2019.

In Norway, the corporate governance document is termed The Norwegian Code of Practice for Corporate Governance (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.

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 10% 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 where gender equality on board was described in a clause of the Norwegian Public Limited Liability Companies Act (1997, § 6-11a.). With a grace period for compliance until 2008, by that year all PLC Norwegian

companies met the quota terms (Storvik, 2011; Ahern & Dittmar, 2012; 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; Smith 2014, 45).

3. Improving gender diversity on boards in Estonia

The Estonian corporate world faces many challenges to improve corporate governance. 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 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 authors 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 question of quotas, many researchers and policymakers who have analysed the results of quota law in Norway cannot justify their further implementation (Du Plessis, O’Sullivan, & Rentschler, 2014; Smith, 2014; Davies, 2011). In the authors’ 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. Several major problems 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 authors’ 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.

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 (88.0% of women versus 59.0% of men), women are represented among business owners (35.8% of firms include women owners), and women represent 45.0% 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 boards. For instance, the PBF (Norway) already has a track record for international partnership, successfully sharing their experience with the 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 to develop talent. It is much cheaper to build skills and experience inside companies than to acquire from outside.

Conclusions. This paper aimed to address the question of: Why and how might Estonia increase the number of women on the 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 the business itself initiates change. However, before approaching the issue of gender equality, Estonia has several fundamental governance challenges to address. 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 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, a change 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 boards were 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 the Swedish Agency for Economic and Regional Growth 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 CG 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 Finland Chamber of Commerce, 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, to address its 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.

This study practically contributes to an understanding that 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. From this study, owners will understand increasing women in the boardroom to improve corporate governance was never a simple challenge to address. Finland, Sweden, and Norway have already demonstrated success in this process.

The current paper is intended as a pilot study to provide the blueprint for a larger-scale study of 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 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 its experiences to adapt its 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. Good corporate governance is manifested in the design and implementation of a long-term, adaptive, enlightened strategy. Veranen (1996) has emphasized that corporations must be managed masterfully and skilfully. The findings are of importance insofar as they provide new knowledge and consequently, further our understanding of the diverse phenomena of corporate governance in Estonia.

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