

# Conclusions of the National Audit Office

## Steering and implementation of corporate social responsibility in state-owned companies Case: Arctia Ltd., Kemijoki Oy and Vapo Oy

The aim of the audit was to assess how corporate social responsibility is promoted in state-owned companies through ownership steering and to review its current state, how it is implemented and what are the reporting practices. Practices concerning the implementation of corporate social responsibility and the coordination of ownership interests were also assessed.

The auditors examined the corporate social responsibility aspects of ownership steering in three state-owned companies. The ownership steering of the companies is the responsibility of the Ownership Steering Department in the Prime Minister's Office. Under the Government resolution on state ownership policy adopted in 2011, the purpose of ownership steering is to ensure that state-owned companies operate in a responsible manner and to promote responsible operations in them. In 2016, corporate social responsibility was defined as the core value of Finnish state-owned companies.

## The responsible solutions offered by the companies should feature more prominently in their corporate reporting

According to the audit, corporate social responsibility in the three companies means energy efficiency, material efficiency, solutions that help them to determine and reduce the carbon footprint and other environmental impacts of their operations, specific management and reporting systems and attention to customer satisfaction, occupational safety and well-being at work.

When deciding how to integrate corporate social responsibility into its business operations, a company must give priority to its own needs and interests. From the perspective of shareholder value, the reputation and growth potential of the company are important factors. Against this background, companies should highlight the global megatrends (such as climate change or dwindling natural resources) or the more limited problems to which they have developed responsible solutions.

According to the new Government resolution on state ownership policy adopted in 2016, corporate social responsibility in business operations is based on the principle that a society that is a good place to live is also a good place to do business. When reporting on their activities, companies should perhaps also give more emphasis on the link between corporate social responsibility and sustainable development.

## Responsibility is now an integral part of ownership steering

All case companies had surveyed the responsibility themes that are essential to their business operations and important to their stakeholders by conducting a materiality analysis. According to the audit, this is a prerequisite for the integration of corporate social responsibility into the company's day-to-day operations and the way in which it conducts business.

Based on the audit findings, there is full agreement on the division of work in the implementation of corporate social responsibility between the companies and the Ownership Steering Department. Implementing

corporate social responsibility is always the task of the company, its board of directors and the managing director. The task of the Ownership Steering Department is to promote the target-setting of the companies in corporate social responsibility issues and to motivate the companies to adopt responsible solutions.

The responsibility-related targets laid out in the state ownership policy are properly considered by the companies. The board chair plays an important role in the conveying of the owner's views on responsibility to the company's management.

Even though corporate social responsibility issues figure prominently in the dialogue between the owner and the companies, the companies do not always get enough information on the contents of the responsibility analysis

According to the audit, the Ownership Steering Department has integrated corporate social responsibility issues into its analysis and ownership strategy work and corporate social responsibility is an integral part of the dialogue between the owner and the companies.

The responsibility analysis (risk and materiality analysis) that the Ownership Steering Department has prepared for its own use is integrated into the companies' financial analysis. Some of the components of the analysis are still under development. According to the audit findings, the department had used a broad range of different indicators when analysing the elements of corporate social responsibility. Furthermore, the indicators were relevant and the scoring and the scoring criteria used for them were available for examination. The challenge is to put the corporate social responsibility targets and their impacts into a measurable form.

Company-specific responsibility analyses serve as a tool that help to highlight the most important problems in corporate social responsibility. However, it has not always been possible to properly convey the essential information contained in the analyses to the companies.

Case companies are well-placed to observe corporate social responsibility

According to the audit findings, all case companies are well-placed to act in accordance with the principles of corporate social responsibility: They have identified and assessed the risks and business potential arising from corporate social responsibility and carried out materiality analyses. They have all integrated corporate social responsibility into their business operations, core functions, risk management and management systems. All companies have measurable corporate social responsibility targets laid out by the management and the achievement of the targets is monitored and reported in the annual reports. Corporate social responsibility aspects are on the board agenda in all three companies. All three companies give consideration to the stakeholders' expectations concerning corporate social responsibility.

Ensuring the continuity of operations and maintaining the social licence are two of the most important benefits that environmentally sensitive companies (such as the three case companies) can hope to achieve by observing the principles of corporate social responsibility.

## Recommendations of the National Audit Office

The National Audit Office recommends that

1. the Ownership Steering Department should assess how extensively the elements creating corporate value should be highlighted in the companies' reports and to determine the sustainability challenges to which the companies offer responsible solutions
2. the Ownership Steering Department should work to ensure that basic issues, such as the tax footprint and climate commitments, are also highlighted as strengths in the implementation of and reporting on corporate social responsibility
3. companies should report more extensively corporate social responsibility issues in addition to absolute figures and make comparisons between them as this would make it easier to identify and assess the level of responsibility.