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Article

Corporate Governance in Estonia: Equilibrium on Board

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Abstract: 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: To what extent have Estonian listed companies complied with the requirements of the EU law on Gender Balance on Boards compared to other Nordic countries? In the case of Estonia, all listed companies on the Tallinn Stock Exchange are included in our sample. The authors purposely focus on developing ownership strategies to improve diversity on the boards of corporations with concentrated ownership structures, without regard to arguments that emphasize equal rights or a feminist agenda. The methodology part of the study analyses corporate governance in Estonia, followed by a comparative analysis of Nordic countries (Finland, Sweden, Norway) that have successfully increased female representation on boards, providing valuable insights for Estonia's efforts to enhance gender diversity. The results of the current research are a valuable analytical resource for the Estonian business community, as well as for policymakers.

Keywords: board diversity; case study; corporate governance; Estonia; gender diversity

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1. 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 considerable 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 have 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: To what extent have Estonian listed companies complied with the requirements of the EU law on Gender Balance on Boards compared to other Nordic countries? 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 compare 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 "Methodology: Case 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 "Results and Discussion" provides the solution to the above-identified research question. Section "Conclusions," concludes the paper and proposes the future research direction.

2. Literature Review

Theoretical framework: Equilibrium on Board

Diversity management can be defined as the recognition and valorisation of individual differences and similarities. It means understanding that each individual is unique and recognizing our differences. A diverse workforce has many benefits but the most highly praised is innovation. It has been recognized by several companies, that having people from different backgrounds e.g., with diverse genders, ages, cultures, ethnicities, sexual orientations etc. enables synergy, innovation, creativity and problem-solving.

The socio-economic developments and changes in corporate governance affect organizational efficiency and effectiveness and form the basis of relations between individuals and organizations. We live in a world in which interactions of people from different cultures both face-to-face and digital, are increasing. It is important to be aware of the differences and their impacts on performance. As the world globalizes, companies face diversity-related challenges not only among their employees but also other stakeholders. The issue of gender diversity on boards drew a lot of attention in 2010 when the media began to discuss explicitly the issue of gender diversity on boards.

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 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.

Several scholars have also taken the opposing point of view to attempt to prove no business impact on increasing gender equality on boards. Byron and Post have also conducted meta-analyses that show an insignificant correlation between financial performance and the representation of

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women on 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 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.

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, Kumar, & Michaelsen, 1993; Daily & Dalton, 2003). Other studies have noted the benefit in less tangible ways, i.e., increased creativity (Higgs, Plewnia, & Ploch, 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, Eisenhardt, & Xin, 1999). In the author's 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 women's participation on boards have been demonstrated in several other aspects of corporate governance, such as customer and employee satisfaction, CSR (Corporate Social Responsibilities), 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, Wiley, and Maertz (2011), companies with more women board members have a higher customer and employee satisfaction rate. This can be explained by a higher level of empathy among women, sensitivity to social issues and the personal needs of employees, along a gentler and considered leadership style (Homan & Greer, 2013).

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, Rahman, and Post (2010) reveal a direct correlation between the number of women on the board and CSR. They 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 several strengths to the board including increased sensitivity to CSR (Williams, 2003) and participative decision-making styles (Konrad, Kramer, & Erkut, 2008), and these benefits may contribute to enhanced corporate responsibility strength ratings." (Bear, Rahman, & Post, 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 concluded 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 are female (Torchia, Calabrò, & Huse, 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, Sealy, & Singh, 2009). The highlights on this point include their moral and stronger ethical standards (Pan & Sparks, 2012), a tendency to consider questionable business practices as unethical (Franke, Crown,

& Spake, 1997), monitoring of companies with a higher level of scrutiny (Adams & Fererra, 2009), calculating business risks more carefully (Chapple, Kent, & Routledge, 2012; Grant Thornton, 2017), and better meeting preparation, which results in more detailed consideration of board issues (Singh, Kumra, & Vinnicombe, 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 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 experiences. As Davies aptly described the case "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 is applied and risk is overseen. It is therefore imperative that boards are made up of competent 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) 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 authors take this business judgement as a given in this work.

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 "how 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 Corporate Governance (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, 1992) The agency theory prevails among researchers as the primary approach to analyse corporate governance, but this theory considers only the 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; Monks & Minow, 2004; Hilb, 2016), by which corporate governance should take into consideration the interests of all major stakeholders (e.g., shareholders, suppliers, employees, environmental 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.

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. In Norway, they successfully achieved female representation of 41% on 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 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 in increasing the number of women in the boardroom, these approaches will be analysed later as they are promoted on a practical level in Finland and Sweden.

About quotas, scholars and policy-makers have an ambivalent attitude to mandating by law changes to the gender balance on 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.

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Sorsa (2016) believes there will be no progress on gender equality in boardrooms without quotas, quotas are an effective way to break the "glass ceiling" and cites the case of Norway as proof. 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 (2011, 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 positively a company that demonstrated poor performance, but at the same time, negatively affect companies that performed well.

Adams and Kirchmaier (2015) conclude that quotas are not effective in tackling 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 boards, rather than prescribing a quota without preparing the business population.

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

3. Methodology

Corporate governance in Estonia

Estonia is one of the ten European Union member countries with a history of a centrally controlled command economy between 1940 and 1990. With a population of 1.4 million and a 45,000-square-kilometre territory, Estonia is one of the smallest countries in the European Union. The smallness of the state permits it to perform an in-depth but comprehensive view of any investigated subject. In Estonia, the management of a public limited corporation operates through general meetings of the shareholders, a management board and a supervisory board. A private limited corporation operates through a management board. The general meeting of the shareholders has the highest authority in the corporation and is to be convened at least once a year. The general meeting approves the annual report, distributes profits, elects the supervisory board members and the auditors of the corporation, amends the Articles of Association, increases and decreases the share capital, and decides on the dissolution of the public limited company according to law. Resolutions are usually passed by a simple majority vote. However, to amend the Articles of Association, terminate its operation, or for a resolution to decrease or increase the share capital, a majority of 2/3 is required. A management board is the executive body of a corporation; it represents and manages the corporation. The management board must report the corporation's activities and economic situation to the supervisory board at least once every four months. A supervisory board plans the strategic activities of the corporation, arranges its management, and controls the management board. A member of the management board cannot be a member of the supervisory board. (Wahl, 2009) An advanced framework for corporate governance has been developed in Estonia since the restoration of independence (Gerndorf, Elenurm, & Terk, 1999).

Authors employs 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

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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 comparison 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.

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, and Sweden at al., have established norms, and a business culture that accepts a Corporate Governance Code, other countries like Estonia have a more "relaxed" approach to compliance In Estonia, listed companies tend not to make a legitimate effort to be compliant with the Estonian Corporate Governance Recommendations (CGR, 2006).

Corporate governance is defined by scholars in many different ways, but among this definition, there are always two major tenets: management practices are 1) to account responsibly for all stakeholders and 2) to practice responsible asset management. Schnyder (2012) stated that one of the foremost challenges of corporate governance research since its inception has been the definition of measures of "good corporate governance," i.e., of corporate governance mechanisms that lead to financial efficiency and social legitimacy. Succinctly, Schnyder (2012) concluded that the problem of a lack of theory behind measuring corporate governance could guide us in our choices regarding a corporate governance index. Tricker (2015) added that there are no theoretical floodlights available to illuminate the boundaries of corporate governance.

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.

The legal basis for regulating corporate governance in Estonia is described by the statute in the Commercial Code (2014), Securities Market Act (2013), 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

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(Compound Growth Rate). Since 2005, there has been no evidence of enforcement or de-listing in connection with complying with the terms of the CGR. Moreover, the EFSA and the NASDAQ (National Association of Securities Dealers Automated Quotations) provide no regular information regarding companies and their attempts to improve CG; no ranking or public scrutiny of 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).

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.

Links between the board and management depend on the underlying corporate governance model; the listed companies in Estonia implement the two-tier board structure which requires the management board to carry out the performance-orientated management role and the supervisory board to carry out the conformance responsibility corporate governance (Tricker, 2015). According to (Hilb, 2016), 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 boards, there is a tendency to "monistic" board systems, where the supervisory board includes people from the management board (Hilb, 2016). Moreover, it is clear from corporate annual reports that it is also a common practice in Estonia that a person, after his or her term, who served on a given management board was immediately appointed to the supervisory board, and vice-versa. Therefore, Estonia 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" (CGR, 2006, 6). Besides, the Management Board should perform all its professional activities following the law and conduct internal audits and risk management regularly (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 an 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 (CGR, 2006).

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) (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 & Lorsch, 1992; Jensen, 1993). Hilb, (2016) 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, 2016). Based on data from NASDAQ Fact Sheets (2017) and annual reports, in terms of size, the boards of Estonian companies are close to ideal and correspond to OECD norms.

Proficiency is a high degree of skills and knowledge, sustainability and development need professional corporate governance and proficient board members (Wahl, 2015). For board members of listed companies in Estonia, there are no formal requirements, unless the company is a bank. Therefore, to estimate the skills and experience of board members in Estonia, one must use data published in the CGR and publicly available corporate information. According to Hilb (2016), people who are elected to boards should have experience and competency for implementing a given company's strategy. Hilb suggests that members of a Supervisory board should have equal competency relative to members of a Management to conduct effective control. In his view, members of the two boards (Management and Supervisory) should possess complementary knowledge and experience for effective implementation of corporate strategy (Hilb, 2016).

Based on the information published on companies' websites and annual reports, the authors have made conclusions about the competency of Estonian boards concerning education and experience. According to the analysis, Supervisory board members have sufficient experience for the effective control of Management boards in Estonia. Also, 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 (1.2%) out of 82 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 etc.) as well as trade associations (Estonian Chamber of Commerce, Estonian Traders Association, Estonian Food Industry Association etc.). The authors assumes 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

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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 (2016) defines an independent board member 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 (2016) believes that all members of the Supervisory board should be independent to fulfil their role properly and to provide effective governance. Nonetheless, Carter and Lorsch (2004) argue that a board that consists mostly of independent directors is likely to 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 (CGR, 2006).

The independence of the Supervisory board members is one of the major problem areas of board composition in Estonia. Based on the 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 for 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 (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 authors can only estimate the number of members of the 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 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 (CGR, 2006; OECD, 2017; IFC, 2012; Hilb, 2016).

The Review of Corporate Governance Practices published by NASDAQ in 2015 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 appears to be a worsening trend in Estonia on this point.

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

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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 author's 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).

If one rules out the value of having the experience to devote to companies in the same industry, 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.

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.

While several 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 board in Estonia, no formal procedure exists for screening or evaluating candidates. Only the names, rather than a candidate's experience or qualification, need to be disclosed to shareholders.

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.

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 §24^2 (4)) 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 (375%) 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 to provide an effective and balanced Board… There are no women are sitting on 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 strategy. According to Arfken, Bellar, and Helms (2004), "Diversity is needed not only in gender and ethnicity, but also in age, educational experience, background, status, and income level. "Groupthink and unhealthy and possibly unethical decisions often result if everyone on the board shares the same demographic characteristics." (Arfken, Bellar, & Helms, 2004, 184) Therefore, it would appear based on public communications that Estonian companies have yet to decide to diversify their workforce and board membership.

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 (European Bank for Reconstruction and Development) 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 author's 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.

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).

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. 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 10.0%), and Norway (by 3.0%). 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 30.0%, Sweden has 36.0%, and Norway has

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41.0% 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?

According to the Finland Chamber of Commerce in 2016, advocates of gender equality on boards has been proactive since 2003 in Finland. The issue of gender diversity was included in the Finnish Corporate Governance Code (FCGC) for listed companies in 2003. The Finnish Corporate Governance Code 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 Finnish Corporate Governance Code was transformed into a recommendation, stipulating that both genders be represented on boards.

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.

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 [*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 following the recommendations set by the Securities Market Association Management Code and through companies' 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 on-going discussion on gender equality on 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 (Deloitte, 2017, 51). In response to this need, the Finland Chamber of Commerce 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 (Finland Chamber of Commerce, 2016). The Finland Chamber of Commerce also publicizes annually progress in gender diversity, examining factors impacting gender diversity on boards and generally supporting public discussion on corporate gender equality.

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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 (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 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 [*SverigesRiksdagg*] 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 in 2010 initiated a national women's entrepreneurship program intending to prepare women to serve on boards (Deloitte, 2013). Lasting until 2014, the program offered to participate in 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 boards.

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.

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 (*Norsk Utvalg for Eierstyring of Selskapsledelse*). The eight editions 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 in terms of the gender of its members must satisfy the requirements of the Norwegian Public Limited Liability Companies Act (1997). 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 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

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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).

It is noteworthy to mention that introduction of quotas initially was 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" Professional Boards Forum (PBF, 2018). Some companies preferred to change their organisational form instead of meeting the law requirements. According to Ahern and Dittmar (2012) from 30 to 50% of the PLCs lost their listing rather than comply with this board requirement.

In 2016, the Norwegian government decided to introduce a goal of 40% representation of each gender for not just the board, but also 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 boards (Hilb 2016; Storvik &Teigen 2010).

In the final analysis, Finland, Sweden and Norway achieved for 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 contact companies who might use their services.

Other researchers (Smith 2014; Du Plessis, O'Sullivan, & Rentschler, 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 in pay. So, the major achievement of quotas is quantitative but not necessarily qualitative.

4. Results and Discussion

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 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 businesses. 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's 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.

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 boards. Several 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.

In Finland, the respect among listed companies for the Finnish Corporate Governance Code 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.

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 quality of corporate governance reporting ('comply or explain') 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 §24^{2} (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.

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 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 Finland Chamber of Commerce 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" (Finland Chamber of Commerce, 2016). In Estonia, perhaps more enforcement or clear steps for sanctions, if necessary, would encourage real compliance.

Annual ratings of properly 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.

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 boards. The experience of Finland, in particular the 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 (88.0% 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 its experience with the United Kingdom to help form the UK Professional Board Forum. Currently, the PBF is already assisting with the Professional Boards Forum in France, Netherlands, 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.

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.

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

Instead of formal and legally binding quotas, as were used in Norway's governmental institutions, relevant NGOs might set voluntary targets to improve gender representation on 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 into consideration other efforts, such as mentoring programs, to calibrate these targets.

5. Conclusions

This paper aimed to address the question of: To what extent have Estonian listed companies complied with the requirements of the EU law on Gender Balance on Boards compared to other Nordic countries? 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. The author 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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