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Debate: Board nominations of MOCs—Does politics come before expertise?

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Municipally owned companies (MOCs) are increasingly being used for service provision in Europe, and the process of corporatization changes traditional decision-making structures in local government (Torsteinsen, 2019; Andrews et al., 2020; Ruohonen et al., 2021b; Bergh et al., 2022). In Finland, the number of MOCs has doubled to around 2,000 in 15 years, and almost all MOCs are private limited liability companies, and many of them operate in competitive markets (Statistics Finland, 2024). The reasons for corporatization are related to the competition neutrality requirement between the public and the private sectors, efficiency efforts and the clearer decision-making structure. However, corporatization also has downsides regarding the transparency of operations and the democratic opportunities for citizens to influence decision-making (Voorn et al., 2017; Torsteinsen, 2019; Ruohonen et al., 2019).

At best, an MOC offers the opportunity to organize decision-making in a new way so that the company's management actually has *sufficient expertise* in board work and financial management. This model undoubtedly requires expertise on two levels:

- Municipal ownership steering.
- The board of directors.

Municipalities (as shareholders) must steer and govern their MOCs through the legal tools provided in the laws regulating them (Ruohonen et al., 2021b). Such tools include articles of association, shareholder agreements, financial goals and board nominations. If shareholders are unable to identify and utilize these tools to control the company, the power of the board is emphasized too much, and the decision-making of the MOC moves away from the municipality. On the other hand, if an MOC's board does not have sufficient expertise, it will not be able to act optimally—regardless of the level or quality of ownership control.

Purpose of MOCs and directors' duties

Research shows that municipalities prefer creating for-profit MOCs rather than nonprofit ones (Andrews et al., 2020). In Finland, for example, the majority of MOCs were established to make a profit (Ruohonen et al., 2021a). The board is responsible for appropriately organizing its operations and arranging the 'control of the company accounts and finances'—Finnish Limited Liability Companies Act (FCA, 2006, p. 6:2). 'The company board shall act with due care and promote the interests of the company' (FCA, 2006, p.

1:8). In addition, promoting the purpose of an MOC requires the board to have sufficient knowledge on making business judgements and managing company finances.

Board's expertise is a key factor

The composition of the board of a local authority subsidiary company must take into consideration 'the financial and business expertise required for the sector in which the corporate entity is operating' (Finnish Local Government Act, 410/2015, §47). According to a recently published study, only about three-fifths of purely politically elected MOC board members have sufficient expertise of company finances and business (Ruohonen et al., 2019). If three members of a board are competent enough, what are the rest of them there for? The answer is clear—according to our study up to 60% of MOC board members and 47% of chairmen of the boards are *elected on a political basis* (Ruohonen et al., 2019; Kankaanpää et al., 2023). Sometimes it might be useful to bring local government's interests into the board work but, at the same time, it can seriously hinder the effectiveness of an MOC if the politically chosen board member is not capable of addressing, for example, economic and strategic problems (Harris & Raviv, 2008).

What must be done?

In the 21st century, managing uncertainty has undoubtedly become a permanent challenge for boards (for example financial crises, the coronavirus pandemic, Russia's attack against Ukraine). At the same time, exceptional circumstances have increased the utilization of MOCs in the production of public services (Giacomini, 2022). In a constantly changing business environment, the boards of MOCs must also be able to function professionally.

There are at least three key ways to improve the operation of Finnish MOCs:

- Sharpen owner control—a legal toolkit for versatile use.
- Renew board nomination processes—expertise before politics.
- Secure sufficient access to information to the stakeholders (owners, municipal decision-makers, citizens)—democracy perspective.

These improvements would probably increase confidence in the operation of MOCs as part of the public sector in other

European countries as well. As mentioned, if the owner is unable to identify and utilize legal tools to control the company, the board will be overly powerful and MOC decision-making will slip far away from the municipality. Legal tools include articles of association, financial goals, and board nominations. Ultimately, the owner can change the board members of the MOC.

The board nomination process should be renewed in the municipalities. Shareholders should map out potential competent board members in a more versatile way than before, and candidates should also be recruited from outside political circles. This approach would require a total detachment from the current models, which are strongly linked to political power relationships. Political representation may cause conflicts of interest as a politician may pursue the interests of voters rather than the interests of the MOC (Bergh et al., 2019). The problem of excessive emphasis on political representation can be alleviated by making sure that the expertise requirement is fulfilled by introducing more hybrid boards where both expertise and political representation are represented. Of course an individual can also be nominated for political reasons and still have suitable board expertise (Ruohonen et al., 2019).

Finally, there is still work to be done in promoting the transparency of MOCs. Municipalities as owners must ensure that municipal decision-makers and citizens have adequate access to information.

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