

## Sustainable business

– the Government's governance of state-owned companies

### Summary and recommendations

Efforts to promote sustainable business can strengthen companies in significant respects by helping them identify and manage risks and thus create competitive advantages. Companies also need to provide more and better information to an increasing extent to the rest of the world, for example concerning climate risks and climate work, in order to inspire confidence and be attractive to financiers. Work has been going on for a long time to strengthen state-owned companies' sustainable business efforts. According to the Riksdag, the companies should set a good example of sustainable business and the character of their operations should be open and exemplary. The State is a major company owner in terms of both company value and turnover, as well as the number of employees. By showing a good and responsible example, the State can contribute to development beyond its own companies.

The Swedish National Audit Office (Swedish NAO) has audited whether the Government's governance towards sustainable business in state-owned companies has led to the achievement of the ambitions expressed by the Government in the State's ownership policy and how they are put into practice. The overall audit question will be answered through the following sub-questions:

1. Through its governance, does the Government provide effective incentives for state-owned companies' sustainable business efforts?
2. Is the Government's follow-up of state-owned companies' sustainable business efforts sufficient in relation to the ambitions in the area?
3. Does the Government inform the Riksdag about state-owned companies' performance in sustainable business and about the data on which the information is based?

### Audit findings

The audit shows that it is clear that the State endeavours to be an active and professional owner in terms of sustainable business. This is expressed, for example, in the State's ownership policy and in the implementation of analyses and follow-up. The ambitions expressed by the Government, however, are to a

lesser degree and more vaguely concerned about concrete results in the operations of state-owned companies. Instead, the focus is more on processes for governance and follow-up of the companies' work. The audit shows that the actual implementation of these processes is not always consistent with how they are described by the Government, for example as regards frequency. The audit shows that there are development areas in the following respects.

### **The Government's governance should be clearer and stronger and thus provide better incentives**

The Government's governance regarding the international guidelines that state-owned companies must take into account needs to be clarified in order to give the companies stronger incentives to utilise them in their work on sustainable business. These guidelines are included in the State's ownership policy, which is one of the Government's main tools for governing state-owned companies. However, the ownership policy can be interpreted in different ways and thus companies' compliance with it may vary.

It is true that the review by the Swedish NAO of the state-owned companies' strategic sustainability goals shows that overall they are in line with the Government's governance. At the same time, there are examples of goals that may need to be reviewed and of goals that can serve as good examples worth spreading. The Swedish NAO notes that state-owned companies have precisely called for good examples to be spread by the Government in connection with the various follow-up processes.

### **The Government's follow-up needs to be carried out more regularly and with better information from the state-owned companies**

The Government's follow-up of state-owned companies' efforts plays an important role as a basis for identifying development areas in the companies' work with sustainable business that the Government's governance needs to deal with. The audit shows that the Government follows up the state-owned companies' work in a number of ways. Some, such as owner dialogues and sustainability analyses, need to be carried out more regularly and systematically. Other follow-ups, for instance in the environmental area, show problems in collecting information from the companies.

### **The Government's information to the Riksdag lacks basic facts**

The Government's information to the Riksdag does not fully reflect either the implementation of the governance or what the available follow-up information shows. The communication to the Riksdag certainly contains many essential elements. But it is difficult to get an overall picture of the progress of state-owned companies with regard to social and environmental development.

The reporting of state-owned companies, and not least their sustainability reporting, is an important basis for the Government's information to the Riksdag. In the State's ownership policy and principles for state-owned companies the Government imposes requirements that all state-owned companies must prepare and publish quality-assured sustainability reports in accordance with international standards and a sustainability report in accordance with the rules of the Annual Accounts Act (1995:1554). The Government's requirements go beyond the requirements of the Annual Accounts Act.

The general requirements for evaluation and control of companies' sustainability reporting are clearly lower than the requirements for financial reporting. However, the Government, as owner, can of course impose higher requirements on state-owned companies to put the sustainability reporting more on a par with financial reporting.

## **Recommendations**

The audit shows that the Government's sustainable business ambitions for the state-owned companies in practice are very much about processes for governance and follow-up of the companies' work. But the Government's actual implementation of these processes is not always consistent with how they are described by the Government, for example as regards frequency.

Recommendations to the Government:

- Conduct follow-up of state-owned companies' sustainable business efforts more systematically and more frequently.
- Clarify the information to state-owned companies so that it becomes clear to them what international guidelines they should take into account and what that entails.
- Develop the information to the Riksdag so that it includes information on how governance has been implemented and how far the Government has come in balancing economically, socially and environmentally sustainable development in the state's company ownership.
- Consider introducing requirements for evaluation and control of the state-owned companies' sustainability reporting so that its treatment is more comparable to financial reporting.