



European Employment Observatory

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Finland

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1. Introduction

Finland has been characterised by the domination of big companies and salaried employment in the post-war rise to global success, so development promotion, social safety networks and attitudes have for a long time been geared to an 'industry-salaried employment' position.

Also the measures to promote entrepreneurship have been rather heavy industry and technology dominated and with an emphasis on growth – and thus not particularly suited to very small companies and self-employment. The picture has, however, been changing quite considerably. Although self-employment still remains a more precarious career, the gap to salaried employment, in terms of attractiveness, stability and security has narrowed. The supportive infrastructure to promote entrepreneurship has developed positively, albeit incrementally.

The number of enterprises has steadily increased since the depression in the first half of the 1990s. The increase is mainly due to an increase in SMEs, and within that to the increase in enterprises with less than five employees and particularly self-employment as one-person companies.

The grey side of entrepreneurship - involuntary, forced, bogus and exploited self-employment - is a marginal phenomenon in Finland. A rough estimate according to studies is that about 10 % of self-employment is involuntary (with the reservation that self-employment in general and the abuses of it remain an under-studied subject, so we have little empirical evidence about the characteristics and scope of involuntary self-employment).

The future of entrepreneurship and self-employment in Finland will be affected greatly by a few strategic factors. As a small country, with high dependence on exports and a limited workforce, Finland needs to invest in innovation and R&D. Translation of ideas and innovations into products and services is a continual challenge also in Finland. The taxation reform, now in the pipeline in Finland, will have important implications for entrepreneurship. The small workforce in Finland will be further limited by unfavourable Finnish demographics, forcing Finland to look into productivity across all sectors. Productivity is a particular challenge for public services, where the municipalities play a strategic role, especially in education, health and social services.

2. Assessment of national Labour Market policies and recovery measures

2.1. Learning a hard lesson from the earlier depression

Finland learned a hard lesson from the depression of 1990-1994, which hit Finland worse than many other European countries. The bank-sector was badly affected and thousands of businesses went bankrupt. Not enough attention was given to secure the financing of business to weather the storm. Having learnt from this experience, Finland was not so badly hit by the present global crisis. The bank sector has tended to make less high-risk investments, and thus was very mildly affected in comparison to many other European countries. Even if unemployment increased, the worst scenarios were avoided.

2.2. Increasing number of enterprises, particularly small enterprises, and positive attitudes to entrepreneurship

The number of enterprises has steadily increased since the depression in the first half of the 1990s. The increase is mainly due to an increase in SMEs, and within that the increase in

enterprises with less than five employees and particularly self-employment as one-person companies.

According to the Business Register of Statistics Finland, around 320 000 enterprises operated in Finland in 2010 including agriculture and forestry (around 260 000 if agriculture and forestry is excluded). They provided jobs for 1 500 000 persons as either employees or self-employed persons. Personnel increased in service activities and decreased in manufacturing, agriculture, forestry and fishery.

Ninety-nine per cent of all enterprises are small enterprises, i.e. employ fewer than 50 persons. Small enterprises employ 46.4 %, medium-size enterprises 16.4 % and large enterprises 37.2 % of all enterprise personnel.

However, the largest share (51.3 %) of the total turnover of self-employment is generated by the large enterprises. The share of small enterprises is 32.6 % and that of medium-size enterprises 16.1 %. In relative terms, the number of the very smallest enterprises employing fewer than five persons has increased the most.

Attitudes towards entrepreneurship and the image of entrepreneurs in Finland are positive, and have become even more positive in the last years. According to a comprehensive survey commissioned by EU DG Enterprise and Industry executed in December 2009 and published in May 2010¹ (Eurobarometer 2010), self-employment as a career choice has increased in Finland from 27 % in 2000 to 41 % in 2009, being mid-range in the EU-27. In just about all questions concerning the positive image of entrepreneurship – image, feasibility of becoming an entrepreneur, getting financial support, information and education – Finland ranked among the top five of the EU-27. In the survey 71 % of respondents saw entrepreneurship as opportunity driven against 13 % who saw it as necessity driven in Finland (ranking fourth after Denmark, Netherlands and Belgium).

2.3. Promoting entrepreneurship

2.3.1. National Government policy and entrepreneurship

The present national Government has paid attention to entrepreneurship and self-employment via a special policy programme, Employment, Entrepreneurship and Work Life², which addresses several aspects of this. The programme states that although the motivation to start enterprises has developed positively – as is witnessed by the increase in the number of enterprises set-up – no increase has occurred in the willingness of Finnish entrepreneurs and enterprises to expand their operations. This willingness has remained at the same level for years. Measures have therefore been directed, in particular, at encouraging enterprises to grow.

Measures have been continued to diversify and expand entrepreneur education in comprehensive schools and upper secondary schools. The opportunities for studying entrepreneurship and for obtaining entrepreneurial qualifications have increased in vocational education and in the various disciplines of higher education, which now all have courses on

¹ In the survey overall 26 000 random respondents over 15 were interviewed across the EU-27, the US, Japan and some other countries.

² <http://www.valtioneuvosto.fi/toiminta/politiikkaohjelmat/tyo-yrittaminen-tyoelama/en.jsp>

entrepreneurship. Reforms of taxation to encourage start-ups, transfer of skills, growth, and internationalisation of enterprises have been introduced. Tax credits for home-help, which has had an effect on small service companies, have been introduced.

Various business start-up and development accelerators and platforms have been enhanced and introduced. The Start-up Grant scheme, one of the key measures to promote particularly self-employment, has been made permanent. Female entrepreneurship was encouraged by offering special funding. Special programmes have been launched to promote entrepreneurial development in the creative sectors. Development of entrepreneurs' social security has been continued, and the possibility for personal bankruptcy and further reliefs for debts are in the pipeline. Some of these initiatives and measures will be discussed in more detail below.

2.3.2. Public Organisational Development Enhancing Entrepreneurship

The promotion of entrepreneurship might gain positive momentum from the recent (from the beginning of 2008) amalgamation of the Ministry of Labour and the Ministry of Trade and Industry in Finland into the Ministry of Employment and the Economy (MEE). In strategic terms, this means an emphasis on innovation, business, competition and demand.

This amalgamation has also meant a re-positioning of the public employment services (PES), an important player in terms of promoting entrepreneurial careers, now re-named the Employment and Economic Development Offices (TE offices). The plans of the new Ministry are to make the new PES more geared to the needs of industries, companies and the development of working life. In all, more emphasis will be put on developing special services for entrepreneurs and promoting entrepreneurial careers and start-ups. It is still too early to make any judgements as to what extent the new PES will provide a genuinely new position and service.

There are 15 Centres for Economic Development, Transport and the Environment that started operating on 1 January 2010. They foster regional development by implementing and developing government activities in the regions. The Centres promote entrepreneurship, functioning of the labour market, competence and cultural activities.

2.3.3. Start-up Grants

On certain conditions, the Employment and Economic Development Offices (the former employment offices) may provide grants for business start-ups. The purpose of a start-up grant is to help secure the entrepreneur's subsistence for the period they are estimated to require for starting up their business and becoming established. The Ministry of Employment and the Economy (MEE), with its regional offices, organises training for prospective entrepreneurs as labour market training. The start-up grants were extended also to people moving from salaried employment to entrepreneurship (excluding working in the same area as your former job). Start-up grants can be granted for a maximum of 18 months in total. For 2009, the average grant was approximately EUR 590 per month.

2.3.4. Enterprise Finland

Enterprise Finland is a free online service.³ It provides information about the kinds of assistance available to companies and entrepreneurs for establishing and developing their business. Enterprise Finland is particularly targeted at small and medium sized enterprises

(SMEs). Collected into a single location, the information is readily available, up-to-date and comprehensive. Enterprise Finland is coordinated by the Ministry of Employment and the Economy. Opintoluotsi, a one-stop portal on education in Finland, also provides information on education and training opportunities for entrepreneurs.⁴

2.3.5. Female entrepreneurship

About a third of entrepreneurs are women in Finland, which is quite a high figure in European terms. Self-employed women mostly work in services, and national policy wants to further raise the share and supportive infrastructure for women entrepreneurs. Several actors and working groups have been active in promoting women's businesses, among them the Women's Enterprise Agency, Naisyrittäjäyyskeskus,⁵ and the Central Association of Women Entrepreneurs in Finland⁶.

2.3.6. Investment support: Finnvera and Veraventure

Finnvera is a specialised financing company owned by the State of Finland. It provides its clients with loans, guarantees, venture capital investments and export credit guarantees. The clients sought by Finnvera are enterprises in a state of change and with the potential for successful business. Finnvera enables comprehensive financing solutions that encompass the Finnvera Group's own products and the services offered by other public and private financiers. Within the Finnvera Group, venture capital investments are carried out by Finnvera's subsidiaries: Veraventure Ltd, Aloitusrahasto Vera Oy and Matkailunkehitys Nordia Oy.

Veraventure is a Finnish venture capital investor focussing on SMEs and on participation through networking. Veraventure's goal is to ensure the availability of financing options for start-ups and to support regional industrial policy. Their operations focus on long-term investments and social effectiveness.

2.3.7. Business accelerators: Vigo

The Ministry of the Employment and the Economy (MEE) has launched the Vigo Start-up Accelerator programme to boost the development of fast-growing start-ups.⁷

The Vigo programme, still in its pilot phase, is managed by the MEE and coordinated by its innovation agency TEKES⁸. Finnvera participates in the programme via its subsidiary the venture capital company Seed Fund Veraventure by investing in enterprises being accelerated.

The aim is to use public sector incentives to get the best, internationally experienced top experts in enterprise development to transform start-ups into new growth enterprises. The programme has established start-up accelerators where seasoned professionals coach start-ups into rapid growth and increased investment-readiness.

At this point there are six Vigo accelerators focussing on different sectors that have chosen a set of companies to support with their expertise, know-how and funding: *Cleantech Invest*

³ <http://www.yrityssuomi.fi/default.aspx?ContentID=11751&NodeID=13019>

⁴ <http://www.opintoluotsi.fi/Linkkihakemisto/Kategoriat.aspx?classID=875cf28b-1c2b-4e32-9800-c5cc764b5b66>

⁵ <http://www.naisyrittajyyskeskus.fi/index.php?k=11280>

⁶ <http://www.yrittajanaiset.fi/index.php?k=3979>

⁷ <http://www.vigo.fi/www/en/index.php>

⁸ <http://www.tekes.fi/en/community/Home/351/Home/473>

focuses on early stage clean tech (environmentally sustainable) ventures; *Food Process Innovations Ltd.* on human nutrition innovations; *KoppiCatch* on web/mobile businesses; *Lifeline Ventures* on life sciences and telecommunications; *Lots* on media technology products and services like gaming, graphics technology, user interfaces, and all digital content creation technologies; and *Veturi* on all other business growth ventures..

2.3.8. Promoting Entrepreneurship and Development in Creative Industries

Considerable hopes for business development in the creative industries exist in Finland, in particular this sector is seen to offer a major prospect to self-employed workers, small companies and their networks.

*Creative Economy (Luova Talous)*⁹

According to the Ministry of Employment (MEE) and the Economy, using creative expertise in business creates a wealth of opportunities for innovation, growth and internationalisation, which can improve Finland's competitiveness. In the creative industries, small companies, self-employed workers and their networks play a particularly important role, but their situation has traditionally been precarious and the fact that you have to be either 100 % an entrepreneur or 100 % an employee is not suited to the realities of self-employment in general or the creative industries in particular. More flexible 'third-way' arrangements are needed.

In order to achieve progress in this field, the MEE has established a two-year Development Strategy for the Creative Economy running from 2008 to the end of 2010. The purpose is to develop the operating environment of creative enterprises, look at new product development and financing models, and improve the effective use of creative work and expertise in the labour market. Also the project produces research on the creative economy and forecasts changes in the market. The Minister of Labour chairs the project and the management group consists of representatives of all the central departments of the Ministry, as well as members from Tekes, Finnvera, Finpro and the SME Foundation.

*Creative Industries Finland (Luova Suomi)*¹⁰

Creative Industries Finland (CIF) is funded by the European Social Fund and the Centre for Economic Development, Transport and the Environment, as well as the cities of Helsinki and Tampere.

CIF provides information and services for creative industries' developers, policy-makers and key interest groups. It publishes news, facts and figures that support the understanding and development of the creative economy as well as provide the basis for identifying trends and making forecasts. CIF was launched in 2008 as a coordinator of the national development programme for business growth and internationalisation in the creative industries 2007-2013, a programme directed by the Ministry of Education and Culture. It also coordinates and supports the realisation of 10 to 20 development projects funded by the national development programme. Creative Industries Finland is coordinated by the Aalto University School of

⁹ <http://www.tem.fi/?l=en&s=3038>

¹⁰ <http://www.creativeindustries.fi/>

Economics and Small Business Centre,¹¹ Creative Tampere,¹² and the Finnish Foundation for Cultural Policy Research¹³.

3. Quality of self-employment jobs

3.1. *Involuntary vs. voluntary entrepreneurship and abuse of self-employment*

Self-employment is an under-researched subject in Finland, so knowledge about self-employment, especially about informal activity and other grey areas, is inconclusive and patchy. Nevertheless, even with these reservations negative aspects of self-employment seem to be marginal in Finland.

According to a couple of recent studies (Kautonen et al 2009; Hyttinen 2007) involuntary self-employment is a marginal phenomenon in Finland. A rough estimate would be that 75 % of self-employment is voluntary, 10 % involuntary, and 15 % in-between.

Self-employed workers without employees are quite a new phenomenon, at least as a research topic. There are only a few studies focusing on the working conditions of self-employed workers, despite the number of self-employed workers steadily increasing from 120 000 in 2000 to 160 000 in 2009.

3.2. *Social security*

The social security of self-employed workers has steadily improved over the last decades. Each political coalition in government has made small improvements to the status of self-employed workers and thus narrowed the gap existing between the social security of salaried employees and entrepreneurs.

Further improvements have been suggested by representatives of entrepreneurs, the most important being the Federation of Finnish Enterprises¹⁴ (who represent around 100 000 enterprises or 34 % of the total self-employed) and Suomen Pienyrittäjät (Finnish Small Enterprises)¹⁵. These include further narrowing the gap between the social security of entrepreneurs and salaried workers and reforms in taxation to encourage entrepreneurship.

Self-employed workers are formally covered by the same social security regime as employees, but in practice the social benefits of self-employed workers are often not as great as those enjoyed by employees. Pensions are calculated according to the Entrepreneurs' Pension Act (Finnish acronym YEL). The YEL takes into account entrepreneurial activities that have lasted for at least four months after the time a person turned 18 years of age if their confirmed income exceeds the minimum of EUR 6 775 a year in 2010. With a yearly income of EUR 8 520 one can join the unemployment fund of entrepreneurs¹⁶. However, the main reason for self-employed workers' low level of social security is the fact that self-employed workers often choose the minimum level of contribution, which in turn results in a low level of coverage.

¹¹ http://www.pyk.hkkk.fi/saimaeduhome/E_index.html?jsessionid=0CE35CD7C412C5B9C7152B093C7FB073.s3w1

¹² <http://www.luovatampere.fi/eng>

¹³ http://www.cupore.fi/index_en.php

¹⁴ <http://www.yrittajat.fi/en-GB/>

¹⁵ http://www.pienyrittajat.fi/suomen_pienyrittajat/

¹⁶ http://www.syt.fi/index.php?option=com_frontpage&Itemid=202

In Finland, there are no legal forms of mid-way contractual relationships. Either you are an entrepreneur or a wage-earner. People who carry out an employment contract and subordinate themselves to a single business are employees, and people who run their own business or contract out their products and services are independent contractors. In legal terms, there is no third category of performing work. Creative thinking will be needed to find new 'third-way' solutions, where more flexibility and security would exist in combining salaried work, self-employment and safety in periods of unemployment.

3.3. Quality of work and job-satisfaction

The quality of work, job-satisfaction and occupational health of self-employed workers and wage earners is not covered in research terms and the information available is patchy. It is more satisfying to be self-employed than to work as an employee for an organisation according to Finnish and international studies, but there are also pressures involved in self-employment, especially in terms of time-use (Hyttinen 2007).

A large part of this difference in job satisfaction is attributed in the literature to the strong perception of independence by the self-employed. However, the self-employed work longer hours than employees, as well as more in the evenings and at weekends. Although being able to choose one's own working times may be a signal of the flexibility within self-employment, the self-employed have less pure leisure time and tend to be less frequently absent from work in general and particularly so on weekdays due to sickness. The self-employed perceive that they are more often than employees under time pressure. The average earnings of self-employed workers are lower than that of employees, and according to Statistics Finland 2008 more self-employed people (17 % of the self-employed) fall into the low-paid category (receiving less than two-thirds of the median wage) compared to employees (12 %).

4. Conclusions

As a general conclusion one can say that the topic of entrepreneurship and self-employment has moved forward in Finland, and further improvements are in the pipeline. Also the unwanted characteristics of self-employment are marginal.

Despite all this improvement, self-employment still remains more risk-prone and precarious in comparison to being an employee in an organisation, and the measures to promote self-employment are still not attuned well enough to the highly individual, small-scale and rapidly changing world of self-employment.

The future of self-employment in Finland will be greatly affected by creating a favourable environment for services and creative industries entrepreneurship. Particularly in developing health and social care entrepreneurs the local government and the municipalities have a pivotal role to play. In order to make self-employment a real choice, new, more flexible arrangements are needed and also 'growth' has to be understood in different terms, since micro-companies do not necessarily want to grow in the traditional sense of employing more people, but rather as networks of independent agents.

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