



European
Commission

SOCIAL ENTERPRISES
AND THEIR ECOSYSTEMS
IN EUROPE

Country report
FINLAND
Harri Kostilainen

This report is part of the study “Social enterprises and their ecosystems in Europe” and it provides an overview of the social enterprise landscape in Finland based on available information as of March 2019. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

This publication is an outcome of an assignment financed entirely by the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult: <http://ec.europa.eu/social/easi>

Manuscript completed in August 2019

1st edition

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Luxembourg: Publications Office of the European Union, 2019

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Catalogue number KE-07-18-054-EN-N

ISBN 978-92-79-97909-5 | DOI 10.2767/044718

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FINLAND

Harri Kostilainen

This report provides an overview of the social enterprise landscape in Finland based on available information as of March 2019. The report updates a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Harri Kostilainen from Diaconia University of Applied Sciences was responsible for the revision of the report.

The author acknowledges the EU-level coordination team: Carlo Borzaga, Giulia Galera, Barbara Franchini, Stefania Chiomento, and Chiara Carini (Euricse) and Rocío Nogales, Sarah Waring and Teresa Bolaños (EMES), as well as Bernard Enjolras (member of the advisory board), Lars Hulgård (regional coordinator) and the various stakeholders who contributed with valuable input, in particular. Anna-Maija Aalto from The Finnish Innovation Fund (SITRA), Kimmo Lipponen from the Finnish Social Enterprise Coalition (ARVO), Hanna Muukka from Coop Center Pellervo, Lippe Koivuneva from the Ministry of Employment and Economy and Soilikki Viljanen from University of Jyväskylä.

Recommended citation:

European Commission (2019) *Social enterprises and their ecosystems in Europe. Updated country report: Finland*. Author: Harri Kostilainen. Luxembourg: Publications Office of the European Union. Available at <https://europa.eu/!Qq64ny>

Countries included in the three social enterprise mappings by the European Commission

| No | Country | TYPE | 2014 | 2016 | 2018-19 |
|----|---------------------------------------|--------|------|------|---------|
| 1 | Albania | Fiche | - | - | ✓ |
| 2 | Austria | Report | ✓ | - | ✓ |
| 3 | Belgium | Report | ✓ | ✓ | - |
| 4 | Bulgaria | Report | ✓ | - | ✓ |
| 5 | Croatia | Report | ✓ | - | ✓ |
| 6 | Cyprus | Report | ✓ | - | ✓ |
| 7 | Czech Republic | Report | ✓ | - | ✓ |
| 8 | Denmark | Report | ✓ | - | ✓ |
| 9 | Estonia | Report | ✓ | - | ✓ |
| 10 | Finland | Report | ✓ | - | ✓ |
| 11 | France | Report | ✓ | ✓ | - |
| 12 | Former Yugoslav Republic of Macedonia | Fiche | - | - | ✓ |
| 13 | Germany | Report | ✓ | - | ✓ |
| 14 | Greece | Report | ✓ | - | ✓ |
| 15 | Hungary | Report | ✓ | - | ✓ |
| 16 | Iceland | Fiche | - | - | ✓ |
| 17 | Ireland | Report | ✓ | ✓ | - |
| 18 | Italy | Report | ✓ | ✓ | - |
| 19 | Latvia | Report | ✓ | - | ✓ |
| 20 | Lithuania | Report | ✓ | - | ✓ |
| 21 | Luxembourg | Report | ✓ | - | ✓ |
| 22 | Malta | Report | ✓ | - | ✓ |
| 23 | Montenegro | Fiche | - | - | ✓ |
| 24 | The Netherlands | Report | ✓ | - | ✓ |
| 25 | Norway | Fiche | - | - | ✓ |
| 26 | Poland | Report | ✓ | ✓ | - |
| 27 | Portugal | Report | ✓ | - | ✓ |
| 28 | Romania | Report | ✓ | - | ✓ |
| 29 | Serbia | Fiche | - | - | ✓ |
| 30 | Slovakia | Report | ✓ | ✓ | - |
| 31 | Slovenia | Report | ✓ | - | ✓ |
| 32 | Spain | Report | ✓ | ✓ | - |
| 33 | Sweden | Report | ✓ | - | ✓ |
| 34 | Switzerland | Report | ✓ | - | - |
| 35 | Turkey | Fiche | - | - | ✓ |
| 36 | United Kingdom | Report | ✓ | - | ✓ |

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List of acronyms

- > **ARVO** Finnish Social Enterprise Coalition
- > **CNS** Co-op Network Studies
- > **EaSI** European Union Programme for Employment and Social Innovation
- > **EC** European Commission
- > **EMES** EMES International Research Network
- > **EIF** European Investment Fund
- > **ESF** European Social Fund
- > **FinSERN** Finnish Social Enterprise Research Network
- > **GECEs** Commission Expert Group on the social business initiative (*Groupe d'experts de la Commission sur l'entrepreneuriat social*)
- > **KELA** Social Insurance Institution of Finland
- > **SBI** Social Business Initiative
- > **SDG** Sustainable Development Goals
- > **SEM** Social Enterprise Mark
- > **SERTY** Producer association of importers and manufacturers of electrical and electronic equipment
- > **SIB** Social Impact Bond
- > **SITRA** Finnish Innovation Fund Sitra
- > **SME** Small and Medium-sized Enterprises
- > **SOSTE** Finnish Federation for Social Affairs and Health
- > **STEA** Funding Centre for Social Welfare and Health Organisations
- > **VAT** Value Added Tax
- > **WEEE** Waste of electrical and electronic equipment
- > **WISE** Work Integration Social Enterprise

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Executive summary

Background

During the 19th century, a rather large Finnish public sector was developed that provided citizens with welfare, employment support and other social services. Private for-profit or non-profit organisations meanwhile offered limited services in the same sectors. However, various examples of private organisations that specifically supported public sector services are evident from that time. Over the last decade, there has been a rapid increase in private sector actors that provide social services.

Concept, legal evolution and fiscal framework

Finnish social enterprise is an emergent sector. National welfare state reform provides certain opportunities for social enterprise growth. Yet government support is largely limited to European Social Fund (ESF), the legal approval of work integration social enterprises (WISE) and the Social Enterprise Mark (SEM).

Societal needs and the priorities of available funding have focused Finnish social enterprise development on work integration and welfare service provision. Social entrepreneurial activities have simultaneously diversified and are finding new ground.

Mapping

There are reliable data on Finnish institutionalised forms of social enterprises (WISE and SEM), non-profit welfare organisations (associations and foundations) and cooperatives. However, there is insufficient knowledge and data about organisations that are self-identified as social enterprises. Therefore, their special features, needs and impact are less evident.

Ecosystem

Finland's breadth of social enterprise engagement and its ecosystem have been shaped by the rise and diversification of societal needs and available funding scheme priorities. The ESF has been a major player in developing different forms of social enterprises. The country's ecosystem has only recently benefited from more stable and sustainable social enterprises.

Perspectives

There is little public awareness and lack of knowledge regarding Finland's social enterprise business model. The main constraining factors for the growth of social enterprises includes: the absence of a conducive social enterprise policy framework; underdeveloped social investment markets; and, more generally, a lack of understanding regarding specific social enterprise characteristics and the social value they create.

The development of social enterprises in Finland is hindered by a nascent ecosystem that does not support specific social enterprise business model characteristics. Organisations have difficulty finding financial support. In addition, most financial tools are designed either for conventional business or not-for-profit associations and therefore do not cater specifically for social enterprises.

Public service reform encourages different types of enterprises to become service providers. As a result, social enterprises are finding their niche within welfare and employment service marketisation.

Public procurement's improved capacity to take social impact into account for both sellers and buyers might also lead to new opportunities for social enterprises. Indeed, there is an urgent need to develop public procurement schemes that can invest in social value rather than simply following the most economic option. Trials are being undertaken that apply Social Impact Bonds (SIB) and social clauses to public procurement.




FINLAND

1

BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

This section identifies the roots and drivers of existing Finnish social enterprises. Finland has a rich and established social economy and civil society sector. Many organisations fit the social enterprise concept but are not officially recognised. Traditional forms of Finnish social economy organisations have counteracted inequality and fostered social and economic development. They emerged where there was a lack of basic services and resources. Meanwhile, recent social enterprise developments, though rooted in strong social economy traditions, have been influenced by international examples. These organisations mainly provide welfare services. Others focus on work integration and capacity-building activities. In addition, some social enterprises provide sustainable energy solutions and recycling and environmental services.



14 | Background: social enterprise roots and drivers

Finland has a rich and established social economy and civil society sector. Its organisations include cooperatives, mutuals, associations and foundations.¹ Although many fit within the social enterprise model, they are not considered social enterprises as the concept did not exist when they were established.

In particular, these organisations have played an important role in delivering services for various disadvantage groups. Traditional forms of **social economy organisations have counteracted prior inequalities and fostered Finland's social and economic development** (Kostilainen and Pättiniemi 2016, Kostilainen 2019).²

From the 1880s to the late 1950s, traditional forms of social economy organisations provided self-help and self-protection measures during the nation's transition from agricultural to industrial work (Laurinkari 2007). Organisations **emerged to cover a lack of basic services and resources**. Consumer cooperatives were established throughout the country to facilitate social policy measures, aims and practices (Inkinen 2001). A key role was played by volunteer associations that developed and organised services to further the interests of vulnerable groups in particular. Foundations also became an important means of funding and maintaining many welfare services that required specialist expertise. Sectors where foundations still play a major role include work integration and social housing. Mutual societies continue to have a significant impact on the provision of insurance.

The role of civil society and social economy organisations changed when welfare state institutions were consolidated after World War II. From the 1940s to the 1980s, as Finland's welfare state developed, some of **the social innovation that had been triggered by traditional social organisations was transferred to the public sector**. Municipalities took fresh responsibility for organising and financing universal welfare service functions, which they achieved through relatively high levels of taxation. In addition to social and health care, widespread welfare policies were extended to cover education, employment, housing and leisure (Niiranen *et al.* 2009). **Traditional social economy** organisations, especially diverse social and welfare associations and foundations, **acquired a new role in delivering services to vulnerable groups** (e.g., those with hearing and speech difficulties, the visually impaired, disabled war veterans, people with respiratory problems and other disadvantaged groups).

Since the early 1990s, Finland has witnessed a further significant change to its welfare and employment service provision. The country's welfare model is being challenged by a changing operational environment, which includes: labour

(1) Organisations need to comply with the *Cooperative Law* (Cooperatives Act 22/1901), *Law on Association* (Associations Act 1/1919), *Foundation Law* (Foundations Act 109/1930). Insurance and financial mutual

(2) The findings of this mapping study are partly recognised in the author's doctoral dissertation (Kostilainen 2019).

market developments, spending cuts, increased demand for a variety of services, cross-sectorial collaboration and political ideologies that foster the **marketisation of public services**. Changing Finnish values and motivations have also concurrently impacted a number of new social service requirements.

Public providers face the financial challenge of delivering new services posed by a rise of diverse needs and demand for individualised welfare services. Most difficulties relate to social and health care service staff recruitment and existing staff motivational issues. **Sparsely populated areas of Finland face particularly extreme challenges** and yet receive scarce investment from municipalities and the public sector (Pihlaja 2010). As a consequence, competition for financing and **delivering public services within quasi-markets is on the increase**. Over the past two decades, **a progressive shift from public to private social service provision has become the predominant trend**, which involves different types of social economy organisations and social enterprises. Clients, investors and staff appreciate the meaningful work ethic, social responsibility and entrepreneurship associated with finding business solutions to current social problems. As a result, new staff are motivated to join social enterprises.

Since the beginning of the 1990s, new types of enterprises, including some large, private, for profit companies, have emerged alongside new tasks and activities. Social service sector company growth can be partially explained by the fact that non-profit organisations in general, including social enterprises, are not competitive enough for the market: most are economically vulnerable due to their limited size, resources, staff numbers, and business and managerial skills. However, only a few major Finnish cities have been able to develop market-driven welfare services. Therefore, **gaps in social service delivery, especially in smaller cities, towns and remote territories, could be potentially filled by social enterprises** (Pihlaja 2010).

While still strongly rooted in social economy traditions, Finnish social enterprise has recently been **influenced by international examples**, especially from Italy, the United Kingdom and Spain. In particular, Italian A and B-type social cooperatives³ and the United Kingdom's public sector service reform have provided key guidance and direction. A short parliamentary debate, encouraged by the impressive results of certain **experimental projects funded by the European Social Fund (ESF)**, resulted in the *Act on Social Enterprises* (Act 1351/2003 revised 924/2012) coming into force in 2004. The act was implemented with the support of European Structural Fund programmes (2000-2006),

(3) A-type social cooperatives bring social service providers and beneficiaries together as joint members. They provide health, social or educational services. B-type social cooperatives bring permanent workers and previously unemployed people who want to integrate into the labour market together. They integrate disadvantaged people into the labour market. The categories of disadvantaged people targeted by B-type social cooperatives may include: the physically and mentally disabled, drug and alcohol addicts, those with developmental disorders and others who have had problems with the law.

16 | Background: social enterprise roots and drivers

which were also used to develop new national social enterprise operational models. This was soon followed by Finland's implementation of its Social Enterprise Mark (SEM).

Most institutionalised social enterprises—i.e. those registered as Work Integration Social Enterprise (WISEs) and maintained by the Ministry of Employment and the Economy or have been awarded a SEM—have developed as a result of **welfare provision changes that now aim to deliver a mix of public services**. The public sector, particularly municipalities, use public procurement, service vouchers and other forms of contracting to engage organisations in the social enterprise market. Many enterprises provide welfare services. Work integration and capacity-building activities are also well serviced. In addition, other social enterprises provide sustainable energy solutions, recycling and environmental services. Some *de facto* social enterprises have been established that use alternative economic models to provide services with social impact or that contribute to social change. These organisations consist of limited companies, cooperatives and associations with community, equality, and ecology-related values. Although the social enterprise organisational model is essential to the values of these initiatives, some cooperatives have also grown well economically and manage to compete with private sector firms; as a result, however, they may have fewer connections to grassroots actors than before.

2

CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

This section analyses the different forms, legal evolution and fiscal framework of Finnish social enterprises with reference to the EU operational definition. Firstly, Finland acknowledges WISEs, which offer employment to the disabled and long-term unemployed and are regulated by law. Secondly, there are those organisations that have been awarded the Finnish SEM based on the European Commission's Social Business Initiative definition, which is intended for businesses with social aims that address social or ecological issues. They invest the majority of their profits in promoting their aims. This business model features openness and transparency. Thirdly, there are a number of non-profit welfare associations and foundations that perform economic activities. And lastly, new cooperatives are emerging in Finland. The country has adopted a policy decision that treats all social enterprise types the same as any other enterprise or organisation in relation to public support. They are entitled to use the same instruments as all other businesses.

2.1. Defining social enterprise borders

2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can combine in different ways; it is their balanced combination that matters most when identifying the boundaries of social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined them again for the purpose of the current phase of the study (see appendix 1 for further details).

2.1.2. Application of the EU operational definition of social enterprise in Finland

Finland's two most common social enterprises definitions correspond to previously institutionalised forms of social provision. The first defines **work integration social enterprises** (*sosiaalinen yritys*) regulated by law (Act 1351/2003 revised 924/2012), which **offer employment opportunities to the disabled and long-term unemployed**. The second refers to enterprises that hold a SEM (*yhteiskunnallinen yritys*). The **SEM is intended for businesses that address social or ecological issues and invest the majority of their profits in promoting their social aims**. It is a business model that features openness and transparency.

All types of enterprises and social economy organisations that include business activities are eligible to register on the WISE list or be awarded a SEM.

Organisations within the WISE category need meet criteria set out in the *Regulation Act* (1351/2003 revised 924/2012). SEM organisations need to follow Social Enterprise Mark criteria. WISE-registered organisations can additionally be awarded SEM status.

As a consequence, **social enterprises can adopt a variety of legal forms and ownership structures**. The majority of social enterprises are limited companies (*osakeyhtiö*), but some are also cooperatives, foundations and associations. Even a few sole proprietors are registered as WISEs and have been awarded SEM status. According to the EU operational definition of social enterprises, sole proprietors are not considered social enterprises; therefore, sole proprietors are not covered in detail within this report. Some social enterprises (limited companies) are fully owned subsidiaries of foundations and/or associations. Some of these have a mixed ownership structure that include both foundations and associations.

Non-profit welfare associations and foundations

Traditional non-profit welfare associations (*yhdistys*) and foundations (*säätiö*) provide different kinds of voluntary and non-profit activities to various citizen groups. They were established to provide services to their members and/or target groups. These organisations have emerged in three waves: first, during Finland's early urbanisation and industrialisation period from 1860 to 1920; second, after World War II, from 1945 to the 1960s; and, finally, from the 1990s to the present day (Nygård 2001, Nylund and Yeung 2005, Kostilainen and Pättiniemi 2016). **These periods correspond to times of change and fast-growing social needs**. Recently, some of these organisations have established enterprises in order to professionalise their activities, adapt to ongoing public sector reforms and participate in public procurement processes. In Finland there are about 10,000 social and health service associations; about 10% of these provide various services both within the public sector and to other users.⁴

A non-profit welfare association can practice business activities determined within its specifications and others that are otherwise directly connected to its aims yet not economically significant (Act 503/1989). According to the renewed *Foundation Law* (487/2015), a non-profit welfare foundation can partake in business that is directly related to its activities and other business predetermined in its financial specifications that support its activities. The foundation's purpose must not be the business itself but it can use business operations to finance its actual 'public utility' operation or use a subsidiary company to do business on its behalf. Should the level of business of foundations or association increase substantially, it is advisable to move the business to a separate company with a business transfer.

In the 1990s welfare system reform encouraged a shift towards more entrepreneurial action. Some associations and foundations have since altered

(4) See www.soste.fi/ajankohtaista/lahes-tuhat-jarjestoa-tuottaa-sosiaali-ja-terveyspalveluja.html.

their activities and now provide welfare services as businesses. These new and more entrepreneurial actors are considered social enterprises and several have been awarded the Finnish SEM.

Non-profit welfare associations and foundations are mainly citizen-driven organisations with social aims. However, most of them do not fulfil the EU operational definition regarding the entrepreneurial dimension for social enterprises. **Many of these organisations do not even identify themselves as social enterprises.** Nevertheless, a growing number of non-profit welfare associations and foundations have applied for and been awarded the Finnish SEM; a few of these associations are also registered as WISEs. They fulfil the EU operational definition of both entrepreneurial and social dimensions for social enterprises by selling services or goods and undertaking business in relation to their social goals. The Finnish SEM has a governance aspect that limits profit distribution and requires transparency. In contrast, the law that governs WISEs does not explicitly limit their profit distribution.

Cooperatives

The purpose of a cooperative is to promote the economic and business interests of its members through the pursuit of economic activity. Members are expected to use services that are provided or arranged by the cooperative. According to the renewed *Cooperative Act (421/2013)*, a cooperative is still defined as an organisation whose membership and capital have not been defined in advance. The act's major amendment now enables an individual to establish a cooperative. However, it is not yet known whether this possibility has been utilised. A cooperative is not required to invest a minimum amount of capital. But its main aim should be the achievement of a common social goal, as regulated by cooperation rules. If the cooperative wishes to distribute surplus profit to its members, regulatory distribution-principles have to be followed. Any surplus is normally allocated to members primarily as service-users rather than as investors in direct proportion to their transactions with the cooperative.

Some new cooperatives pursue general societal interests by employing people in weak labor market positions or delivering services of general public interest (e.g., social and/or environmental services). If a cooperative's purpose is of general interest to the public and goes beyond the mutualistic scope of its members' interests, this should be defined within its by-laws. In such cases, how the cooperative's equity will be used also has to be predetermined. Other criteria, including democracy within decision-making and operational transparency, should also be ensured within its rules and regulations. The overall rules of a cooperative can be set in a relatively flexible manner.

In practice, Finland benefits from a wide range of cooperative typologies. During the 1990s economic crisis (Pättiniemi 2006), new cooperatives played an important role in

engaging the unemployed, which has since continued.⁵ **The labour cooperative model is a Finnish social innovation that enables waged income and unemployment benefits to be combined, thus offering a flexible way for individuals to continue receiving social security.** Equally, these cooperatives are seen as a means to provide welfare services through decentralised ownership that can integrate those who have found it difficult to find work into the labour market. The Ministry of Employment and the Economy developed an approach that flexibly combines unemployment benefits with salaries in established worker cooperatives with at least seven members. The aim was to lower the barrier between entrepreneurship and paid work (see exploratory case study 3 in appendix 3).

Worker cooperatives based on self-help have reached a credible and established position within the Finnish business counselling and education system. For example, a number of universities that teach Applied Sciences have established entrepreneurial education programmes within student cooperatives that 'learn by doing'. These new cooperatives are particularly well known despite their relatively marginal share of overall established enterprises. About 200 new cooperatives are established annually (Pellervo 2017).

New small and medium-sized cooperatives also play a role in many sparsely populated areas and villages by organising services, for example for the elderly, and offering work opportunities to farmers and the unemployed in their spare time. There are also local water and sewage cooperatives that provide fresh water mainly to households and farms, which play an important ecological role in protecting the environment. **Although new cooperatives are marginal in number, their work is meaningful within their local context** (Pihlaja 2010).

Finland's cooperatives are member-based organisations and some of them have explicit social aims. Cooperatives are businesses and therefore fulfil the EU operational definition of the entrepreneurial dimension for social enterprises. However, **most cooperatives identify themselves as part of the cooperative movement as opposed to being social enterprises.** Some cooperatives have applied for and been awarded the Finnish SEM and a couple of cooperatives are registered as WISEs. They fulfil the EU operational definition of both the entrepreneurial and social dimensions for social enterprise by selling services or goods and doing business in relation to their social goals. The Finnish SEM has a governance aspect that limits profit distribution and requires transparency. In contrast, the law that governs WISEs does not explicitly limit their profit distribution.

(5) New cooperatives are 'new wave' organisations that have set up different lines of business since the late 1980s.

Limited liability companies

The limited liability company can be used to establish a social enterprise especially under the law related to WISEs (Act 1351/2003 revised 924/2012) and the Finnish SEM. Relevant sectors include: social and health care, work integration initiatives, businesses development in rural areas working with local communities, sustainable energy solutions (see exploratory case study 4, appendix 3), recycling, arts and culture initiatives and businesses, and **social impact-oriented start-up companies promoting Sustainable Development Goals (SDG) with social values or impact within their aims.**⁶ A growing number of small Finnish enterprises and individual entrepreneurs see business opportunities in solving complex contemporary problems and choose a legal business organisation form to achieve positive social or societal impact (Houtbeckers 2016).

While many of their values echo those of emerging alternative economic activities, these types rely on models that enable the accumulation of wealth by a limited number of people, do not have asset locks and do not enforce any profit distribution constraints. However, they may determine the company's purpose as a public utility or non-profit company in their by-laws.

Limited liability companies fulfil the EU operational definition of the entrepreneurial dimension for social enterprises. Some limited liability companies have applied for and been awarded the Finnish SEM and are registered as WISEs. They fulfil the EU operational definition of both the entrepreneurial and social dimensions for social enterprises by selling services or goods and doing business in relation to their social goals. The Finnish SEM has a governance aspect that limits profit distribution and requires transparency. In contrast, the law that governs WISEs does not explicitly limit their profit distribution.

2.2. Legal evolution

In 2010 the Ministry of Employment and the Economy established a working group to explore the development of a Finnish social enterprise business model and its legislation. The group, which was operational from June 2010 to January 2011, analysed the role that social enterprises could play in renewing social services from within a business-orientated framework. In particular, it assessed **how a Finnish business model could be developed to deliver social services such as statutory municipality care and work integration by commercialising certain aspects of traditional social economy organisation activities.** In particular, services provided by associations and

(6) Sustainable Development Goals (2015). Available at <https://sustainabledevelopment.un.org>.

foundations delivered separately from their non-profit activities were considered for their entrepreneurial worth.

The working group defined a social enterprise as follows:

“The general goal of social enterprises is to create public benefit. Its founding principle is to solve social problems and to strive for social goals. In order to meet these goals, a social enterprise uses over a half of its profits to promote its aims and to develop its ways of action. In addition, the characteristics of a social enterprise include also openness, client centric approach, transparency of business and generating social impact” (Laiho et al. 2011).

Its findings supported the social enterprise business model as an appropriate means to complement existing forms of public service delivery that could diversify their provision. In fact, it noted that social enterprises were already operating in the market on a level playing field with other organisations and were not disadvantaged in relation to the mainstream in any way. Therefore, it concluded that:

- > specific support mechanisms (such as direct support and tax benefits) targeting social enterprises were not necessary;
- > all existing support mechanisms were also available to social enterprises and therefore social enterprises did not require any specific forms of tailored support.

However, the group also **suggested that current public business service structures and the social enterprise business model’s definition should be developed to recognise the specific characteristics of social enterprises as distinct from corporate social responsibility and charity.** Furthermore, it was noted that social enterprises would benefit from advice on their status.

The group made other important recommendations for improvements regarding how the market functions and the potential role of social enterprises in the marketplace. However, the following points have not yet been implemented at a national level due to the next government’s lack of engagement on the topic:

- > When public service delivery is reconsidered at a national level, the development of social enterprises should be considered alongside other developments;
- > Municipalities should include ‘social impact criteria’ within their public procurement criteria;
- > When developing services that target unemployment, the character and operating environment of social enterprises should be taken into account, allowing them to participate in work integration and employment activation.

Despite these omissions, the government has acted on one very specific recommendation to aid social enterprise development: **the creation of a new social enterprise business mark** (Laiho *et al.* 2011). Finland's SEM was created in December 2011 to distinguish the social enterprise business model from other types of enterprises. **The mark takes the European Commission's definition of the 'Social Business Initiative' into consideration.** It serves enterprises that aim to solve social and ecological problems and promote social initiatives with the aid of business operations. The majority of their profits need to benefit society according to their goals and values. Their business model should also be characterised by openness and transparency.

When the Ministry of Employment and the Economy instigated the SEM, it also steered a national development project (Pöyhönen *et al.* 2010) for WISEs. The project produced policy recommendations that aim to improve their operational preconditions and offer guidance and support for their establishment, development and growth (Grönberg and Kostilainen 2012). The main results of the two group's activities were minor revisions on the *Act on Social Enterprise* and the launch of Finland's SEM.

Work integration social enterprises

The *Act on Social Enterprise* (1351/2003 revised 924/2012) limits social enterprises to work integration initiatives. Although parliamentary discussions and two working groups came to the common conclusion that **social enterprises do not require specialised legislation**, the potential role for WISEs has raised interest and encouraged intermediate labour market developments. Finland's WISE legislation aims to facilitate the employment of those who are in a weak labour market position and improve the effectiveness of labour market policy measures for this target group. In addition, it supports the employment impact of Finland's third sector and sheltered workshops. WISEs were initially intended as alternatives to occupational therapy for the disabled; legislation stipulates that a WISE should be the final stage in subsidised employment before the disadvantaged find a regular job. Various interest groups inspired by ESF projects have developed the WISE as a means to employ not only disabled people but also the long-term unemployed since the economic recession.

Any type of enterprise, non-profit association, foundation, cooperative and limited liability company is eligible to register as a WISE if it meets the following social enterprise act's criteria:

- > it is listed in the trade register;
- > it has a social goal;
- > it is run as a business to produce commodities (services and goods);
- > at least 30% of its employees are disabled and/or long-term unemployed (required percentage of subsidised employment);

- > all of its employees are paid a collectively agreed wage that is considered appropriate for employees with full work ability within the given sector regardless of their productivity or, if such a collective agreement does not exist, a normal and reasonable wage or salary.

A WISE will be removed from the register if the entrepreneur so requests or if it no longer fulfils the aforementioned criteria.

WISEs are best suited to sectors where work duties and instruction can be organised in a cost efficient manner. For instance, care work, which requires trust to be built up through long-term relationships or other personal services, would struggle to use the WISE operating model. As cost-effective instruction and job coaching would be difficult to arrange, the organisation would find it difficult to engage in a competitive market. Physically demanding work duties are also not appropriate for WISEs. Duties requiring advanced occupational competence and special expertise are well suited for people with various disabilities only if well organised and enabled through up-to-date technology (Grönberg and Kostilainen 2012).

The overall incentives to register as a WISE have not been compelling enough for many organisations. So far, only a few labour cooperatives and other social economy organisations active within work integration have registered. Politicians and civil servants were highly aware of the possible issues related to freedom of competition and public procurement legislation when preparing and introducing the new social enterprise legislation. As a result, their act does not provide any special support or incentives to establish WISEs. Once registered, a company has the right to use the 'Butterfly Mark', but its use is rare and therefore not as yet well recognised.

The act fulfils the EU operational definition of entrepreneurial and social dimension for social enterprise: WISEs sell services or goods and do business in relation to their social goals. However, governmental limits on profit distribution have not been explicitly applied to the laws that guide these organisations.

The Finnish Social Enterprise Mark

The Finnish SEM was a key recommendation of the Ministry of Employment and the Economy's working group (2010-11) commissioned to investigate Finland's potential social enterprise business model and its legislation. Its acceptance led the ministry to canvas for organisations willing and able to build the mark in spring 2011; by December that same year, the Association for Finnish Work, which was tasked with granting and administering the project, had launched the SEM based on the working group's definition and extensive consultations with relevant stakeholders. The association, which was established 100 years ago, is a politically independent non-profit organisation that raises most of its revenue from membership fees. Its prior experience of building brands

26 | Concept, legal evolution and fiscal framework

includes the Finnish Mark of Origin, the Key Flag, which was established in 1965 and is now recognised by 96% of Finns (Eljala *et al.* 2013).

The SEM aims to differentiate social enterprises from traditional social service organisations and raise awareness of the social enterprise business model. It is a stakeholder-driven label that is not legally regulated. An organisation's eligibility for the label is dependent on three primary criteria and at least one of its secondary criteria.

The primary criteria that every social enterprise has to comply with are:

1. Its main purpose and objective has to focus on the social good of Finnish citizens whilst engaging in responsible business activities.
2. Its profits are restricted in their distribution. The social enterprise has to use most of its profits to contribute to social good in accordance with its business idea, either by developing its own operations or donating profits in accordance with its mission.
3. Its business activities need to be open and transparent.

A social enterprise must also meet one or more of the following three secondary criteria:

1. Employees participate in and influence the enterprise's decision-making process, which includes employee ownership.
2. It measures its social effectiveness and generated social impact.
3. It employs people who have a weak position in the labour market.

The Association for Finnish Work's board nominated a committee of experts that grants the SEM based on applications from enterprises. In principle, the committee grants each SEM for a three year period after which it has to be applied for again. However, the committee can also grant the mark for one year only if for example an enterprise is in the middle of its first financial year. Additionally, the SEM's primary criteria are checked annually.

It is important to note that though not explicitly specified in the SEM criteria, **Finnish social enterprise status is understood as a category for business actors, that is to say, for commercial organisations.** However, almost half of all organisations that have been awarded the SEM are non-profit associations or foundations that run commercial activities in their business sector.

WISE and Finnish SEM laws fulfil the EU operational definition of both entrepreneurial and social dimension for social enterprises: these organisations sell services or goods and do business in relation to their social goals. Whereas governmental limits on profit

distribution have not been explicitly applied to the laws that guide WISEs, the Finnish SEM limits an organisation's profit distribution and requires transparency.

Table 1. Matching legal forms with the EU operational definition

Registered work integration social enterprises (1351/2003 revised 924/2012)

| Definition dimension | Non-profit associations and foundations | Cooperatives | Limited liability companies |
|-------------------------|---|--------------|-----------------------------|
| Social dimension | Yes | Yes | Yes |
| Economic dimension | Yes | Yes | Yes |
| Participatory dimension | Normally yes | Normally yes | Normally no |

Social Enterprise Mark organisations

| Definition dimension | Non-profit associations and foundations | Cooperatives | Limited liability companies |
|-------------------------|---|--------------|-----------------------------|
| Social dimension | Yes | Yes | Yes |
| Economic dimension | Yes | Yes | Yes |
| Participatory dimension | Yes | Yes | Yes |

Other non-institutionalised forms of social enterprise (*de facto* social enterprises)

| Definition dimension | Non-profit associations and foundations | Cooperatives | Limited liability companies |
|-------------------------|--|--------------|---|
| Social dimension | Yes | May have | The public benefit aim may be stated in the company's by-laws |
| Economic dimension | When generating income from market activity (e.g., via public contracts) | Yes | Yes |
| Participatory dimension | Normally yes | Normally yes | Normally no |

2.3. Fiscal framework

Finland deliberately employs a policy decision that treats all types of social enterprises the same as any other enterprise or organisation that seeks public support. As a result, social enterprises can use the same instruments as any other business but receive no fiscal exemptions or advantages either. The previously mentioned working group recognised a distinct social mission and particular characteristics for social enterprises but stated that they should be in an equal position to other enterprises that are granted support (Laiho *et al.* 2011).

Work integration social enterprises

WISEs are almost on a par with any other businesses as far as their rights to obtain private or public funding. However, they may also be granted public wage subsidies (Act 916/2012) and, in some circumstances, an additional wage subsidy as compensation for employing people with reduced working ability and the resultant productivity shortfall.⁷ Registration brings with it eligibility for start-up support as with other enterprises.

In certain circumstances, WISEs can be granted a wage subsidy by an Employment and Economic Development Office when they hire an unemployed jobseeker (table 2). Wage subsidised employment aims to improve the long-term unemployed jobseeker's occupational skills and competence, and enhance their opportunities to re-enter the open labour market. A WISE can also be granted a wage subsidy to employ a disabled person or someone who has been long-term unemployed that includes an increment: the combined basic subsidy and increment represents 50% of the person's salary costs, up to a maximum of 1,300 EUR per month. For someone who is considered difficult to employ, the basic subsidy can be granted alongside an increment that amounts to no more than 50% of the overall sum for two years. A wage subsidy can be paid for a maximum of 36 months from the time of hiring an unemployed disabled person, 12 months for a long-term unemployed person or 24 months for a person difficult to employ. The wage subsidy is available for all employers under the near equivalent conditions as those stipulated for WISEs.

(7) See <https://tem.fi/en/state-support>.

Table 2. Wage subsidy for WISEs and other employees

| Wage subsidy type | WISEs | Other employees |
|-----------------------------------|--|---|
| Unemployment of at least one year | Max. 50% of payroll costs Max. 12 months | Max. 40 % of payroll costs Max. 12 months |
| Unemployment of at least 2 years | Max. 50% of payroll costs Max. 24 months | Max. 50% of payroll costs Max. 12 months |
| A permanent disability | Max. 50% of payroll costs Max. of 36 months at a time | Max. 50% of payroll costs Max. 24 months at a time |

A WISE can be granted up to a maximum 75% of accepted start-up employment policy assistance and establishment costs for its anticipated set-up period. **Only WISEs and 'labour cooperatives' qualify for employment policy assistance** (see instructions for the Ministry of Employment and the Economy's employment policy assistance application).

A decision issued on 18 October 2006, by the Ministry of Trade and Industry simplifies the principles for granting investment support that make it easier for organisations to obtain funding. As WISEs are less productive, they can be granted augmented investment support up to 10% higher than the norm in development areas and 5% higher elsewhere. In practice, this investment opportunity is rarely used (see committee report on working life and equality 18/2006 vp.).

There are no specific support systems or tax relief specifically designed for social enterprises. Finnish tax legislation allows a non-profit organisation to freely choose its legal form and regulates when/how income is taxable. However, interpretations on taxation are made on a case by case basis. An organisation with a non-profit objective might encounter problems if its taxation status becomes ambiguous. In such situations, a non-profit organisation can divide its activities and engage a separate enterprise to perform its trading activities.

A company or other organisation's form of corporate entity will largely determine its income-tax obligations.⁸

(8) See www.vero.fi/en/businesses-and-corporations/about-corporate-taxes/income_taxation.

Limited liability companies and cooperatives

Limited liability companies and cooperatives are independently liable to pay their income tax as taxpayers. All receipts of income are taxed as income attributable to the entity itself. The Finnish corporate income tax rate is 20%. If a limited liability company distributes its dividends to its shareholders, shareholder-beneficiaries will be taxed as per specified rules.

Limited liability companies can operate as a public utility or non-profit company but they do not enjoy any fiscal advantages.

Non-profit welfare associations and foundations

If a corporate entity is an association or foundation promoting the public good, any revenue of commercial activity or income derived from real property is tax deductible. If an association or foundation is not deemed an entity promoting the public good, it is liable to pay 20% tax on all of its income. Associations and foundations engaged in commercial activities are also considered companies from a taxation point of view.

VAT can only be deducted on purchases that a non-profit organisation has made for VAT-liable activities.⁹ Deductions are not permitted if the purchases were made for the following purposes: activities promoting the public good; and activities for which there is no VAT liability such as healthcare and medical services, social services and real estate rental.

The Finnish *Value Added Tax Act*¹⁰ specifies the kinds of business operations that are not subject to value-added taxation at all. These include important areas for most Finnish social enterprises, including: health care and medical services, social services, services for general education and vocational training, financial services and insurance services, lottery and gambling services, and activities that involve fees paid to certain performers.


(9) See www.vero.fi/en/businesses-and-corporations/about-corporate-taxes/vat/deducting-vat-on-purchases.

(10) See www.vero.fi/en/businesses-and-corporations/about-corporate-taxes/vat/rates-of-vat/business-operations-exempt-from-vat.

3

MAPPING

This section attempts to map, analyse and measure the scale and characteristics of different, recognised social enterprise types in Finland. There are reliable data on WISEs and SEM organisations, non-profit welfare organisations and cooperatives. However, there is insufficient knowledge and data about organisations that are self-identified as social enterprises. Therefore, their special features, needs and impact are less evident.



3.1. Measuring social enterprises

There are reliable data on Finnish institutionalised forms of social enterprises (WISEs and SEM organisations), non-profit welfare organisations (associations and foundations) and cooperatives. The Ministry of Economy and Employment frequently updates its WISE register. The Association of Finnish Work has an up-to-date list of SEM organisations. SOSTE, the Finnish Federation for Social Affairs and Health, publishes annual information on the development of welfare organisations that provide social services. Coop Center Pellervo follows the development of Finnish cooperatives.

Meanwhile, **there is insufficient knowledge and data about organisations that self-identify as social enterprises and their impact**; therefore their special features and needs are less known. Self-identified social enterprises are mentioned here but not further analysed in this report. The Research Institute of the Finnish Economy conducted a comprehensive survey (Kotiranta and Widgrén 2015) to analyse the state of Finnish social enterprises. The study estimated that there are around 19,000 self-identified social enterprises that employ around 125,000 people. These self-identified social enterprises produce social value through their products and/or services. They are mostly engaged in the following fields of activity: delivery of social and welfare services, work integration, the promotion of initiatives that develop rural areas, arts and culture, and the start-up of companies promoting SDG that undertake socially-oriented business.¹¹

Social Enterprise Mark organisations

A total of 214 organisations have so far been awarded the SEM label (table 3). Explanations for **growing interest in the award might be that socially and environmentally oriented organisations see the SEM as an advantage when competing in open social and health service sectors.**

Table 3. The evolution of Social Enterprise Mark organisation numbers by year

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|------|------|------|------|------|------|------|
| Number of organisations | 31 | 47 | 62 | 88 | 114 | 175 | 214 |

(11) See <https://sustainabledevelopment.un.org>.

Non-profit welfare associations and foundations

According to the annual analysis of Finnish non-profit welfare associations and foundations conducted by SOSTE (Puhakka *et al.* 2018), **approximately 10% of non-profit welfare associations and foundations perform economic activity**, and are therefore considered social enterprises based on the EU definition. From a total 930 organisations, 926 are associations. As of 2 January 2018, 41 foundations listed in the Finnish Patent and Registration Offices Trade Register performed business activities. Out of these, 37 have been awarded the SEM.

Cooperatives

As mentioned in section 2.1.2, cooperatives normally pursue their members' interests. However, **some cooperatives do pursue the general interests of society** and can be considered social enterprises. Nevertheless, it is impossible to identify them precisely or estimate their number.

Table 4 summarises the different forms of Finnish social enterprises that fit the EU operational definition.

Table 4. Finnish social enterprises that fit the EU operational definition

| Legal form and organisational data | WISEs | SEM | Non-profit welfare organisations | New cooperatives | Total |
|------------------------------------|----------------|----------------|----------------------------------|----------------------|-------------------------|
| Number | 37 | 214 | 930 | Not available | 1,181 |
| Limited companies | 27 | 100 | - | - | 127 |
| Cooperatives | 2 | 13 | - | Not available | 15 |
| Foundations | - | 37 | 4 | - | 41 |
| Associations | 4 | 58 | 926 | - | 988 |
| Other | 4 | 6 | - | - | 10 |
| Turnover | 20 million EUR | 56 million EUR | 1.8 million EUR | - | ~ 58 million EUR |
| Number of employees | 272 | 18,750 | 33,500 | - | ~ 52,500 |

3.2. Social enterprise characteristics

Fields of activity

According to Grönberg and Kostilainen's 2012 study, the most common sectors in which Finnish WISEs operated was proximity services 39%, recycling 27%, manufacturing 26% and staffing service 8% (Grönberg and Kostilainen 2012). Based on the WISE register, those sectors with the most potential are: small industry, property maintenance, home care services, laundry services, retail trade, temporary agency work, job coaching, training, social welfare and health care services, tourism and restaurants, and environmental management and recycling. This diverse range of sectors prompts the conclusion that WISEs are not sector-dependent. Although there are some sports clubs listed, no cultural enterprises or non-profit associations are WISE registered.

The ownership and backgrounds of these organisations can be categorised as follows: 1) WISEs developed from sheltered workshops owned by municipalities and/or foundations and volunteer associations; 2) social enterprises established as cooperatives and owned by self-help groups and local organisations; 3) volunteer associations for the unemployed and community associations; and 4) entrepreneurial initiatives (Pättiniemi 2006).

Traditional social economy organisations have increased their service provision in the field of diverse social and health services for both the public and private sector.

Social enterprises awarded the Finnish SEM operate in the following sectors: social work activities without accommodation (34%), social and health care with residential care activities (14%), health activities (11%), waste collection and recycling (8%), management consultancy activities and other professional, scientific and technical activities (6%), temporary employment agency activities (5%), activities of membership organisations (5%) and real estate activities (3%), and sector unknown/other activities (13%).¹²

Number of employees and turnover

According to their employability and turnover, **WISEs are micro and small firms, whereas SEM holders are larger companies.** There is no information available for non-profit welfare organisations or cooperatives. The following tables summarise Finnish social enterprises according to their size (employees) (table 5) and turnover (table 6).

(12) According to Standard Industrial Classification TOL 2008.

Table 5. Size (employees) of Finnish social enterprises

| Number of employees | WISEs | Social Enterprise Mark |
|----------------------------------|----------|------------------------|
| Less than 50 employees | | 130 (61%) |
| 1-5 employees | 27 (73%) | |
| 6-10 employees | 7 (19%) | |
| 11-20 employees | 1 (3%) | |
| 21 or more employees | 2 (5%) | |
| 51-100 employees | - | 35 (16%) |
| 100-500 employees | - | 40 (19%) |
| 501-1,000 employees | - | 2 (1%) |
| More than 1,000 employees | - | 2 (1%) |
| Missing information | - | 5 |

Table 6. Turnover of Finnish social enterprises

| Turnover | WISEs | Social Enterprise Mark |
|------------------------------------|----------|------------------------|
| Less than 10,000 EUR | - | 6 (3%) |
| 10,001 - 50,000 EUR | 2 (5%) | 8 (4%) |
| 50,001 - 500,000 EUR | 16 (43%) | 32 (16%) |
| 500,001 - 1,000,000 EUR | 6 (16%) | 18 (9%) |
| 1,000,001 - 10,000,000 EUR | 4 (11%) | 99 (49%) |
| 10,000,001 - 99,999,999 EUR | - | 34 (17%) |
| Over 100,000,000 EUR | - | 4 (2%) |
| Missing information | 9 | 13 |

Regional differences

Most social enterprises, regardless of their legal form, are located in southern Finland, where most of the country's population lives. In these regions, there are more opportunities and developed markets for the delivery of services by different kinds of organisations, including different types of social enterprises. However, social enterprises also operate in remote rural areas where there are no other service providers.

WISE and SEM organisations are located in different Finnish regions (19) as outlined in table 7 below.


Table 7. Finnish social enterprises by region

| Region | WISEs | Social Enterprise Mark |
|----------------------|-----------|------------------------|
| Uusimaa | 11 (30%) | 74 (35%) |
| Varsinais-Suomi | 1 (3%) | 8 (4%) |
| Satakunta | - | 6 (3%) |
| Kanta-Häme | - | 8 (4%) |
| Pirkanmaa | 14 (38%) | 35 (17%) |
| Päijät-Häme | - | 7 (3%) |
| Kymenlaakso | - | 13 (6%) |
| South Karelia | | 9 (4%) |
| Etelä-Savo | 2 (5%) | 7 (3%) |
| Pohjois-Savo | 1 (3%) | 5 (2%) |
| North Karelia | - | 8 (4%) |
| Central Finland | 2 (5%) | 8 (4%) |
| South Ostrobothnia | 2 (5%) | 4 (2%) |
| Ostrobothnia | 1 (3%) | 3 (2%) |
| Central Ostrobothnia | 2 (5%) | 2 (1%) |
| North Ostrobothnia | 1 (3%) | 10 (5%) |
| Kainuu | - | 1 (1%) |
| Lapland | - | 3 (2%) |
| Åland | - | - |
| Missing information | - | 3 |
| Total | 37 | 214 |

4

ECOSYSTEM

The Finnish social enterprise ecosystem is shaped by the interplay between key actors that acknowledge the specificity of social enterprises, have developed policies and measures that support their incubation and scaling and have helped to make the social enterprise phenomenon more visible. They include national and local policymakers, research and education providers, social enterprise networks, incubators and financial intermediaries. The country's ecosystem has only recently benefited from more stable and sustainable social enterprises.



Finland's breadth of social enterprise engagement and its ecosystem have been shaped by the rise and diversification of societal needs and available funding scheme priorities. **The ESF has been a major player in developing different forms of social enterprises.** Key sectors include work integration and welfare service provision. The country's ecosystem has only recently benefited from more stable and sustainable social enterprises that have continued to operate after ESF funding ceased.

4.1. Key actors

Finland's social enterprise ecosystem is shaped by the interplay between key actors that have acknowledged the specificity of social enterprises, developed support policies and measures for their incubation and scaling, and helped recognise the social enterprise phenomenon. They include national and local policymakers, research and education providers, social enterprise networks, incubators and financial intermediaries, as presented in table 8 (see also section 4.4).

Table 8. Key Finnish social enterprise ecosystem actors

| Type of institution/Organisation | Actor |
|---|--|
| <p>Governmental departments/institutions</p> <p>The main ministries influencing Finnish social enterprise policies and developments</p> | <ul style="list-style-type: none"> > The Ministry of Economy and Employment > The Ministry of Social Affairs and Health > The Ministry of Agriculture and Forestry > The Ministry of Education and Culture > The Ministry of Justice > The Ministry of Finance |
| <p>Authorities designing, enforcing and implementing public procurement legislation</p> <p>The main actors implementing and developing (socially responsible) public procurement practices and legislation</p> | <ul style="list-style-type: none"> > The Ministry of Economy and Employment > The Association of Finnish Local and Regional Authorities > National Institute for Health and Welfare > Municipalities and regional councils |
| <p>Authorities designing and enforcing legal, fiscal and regulatory frameworks</p> <p>The main actors designing and implementing legislation, fiscal and regulatory frameworks</p> | <ul style="list-style-type: none"> > The Ministry of Employment and Economy > The Ministry of Justice > The Ministry of Finance > Finnish Consumer and Customer Authority |

| Type of institution/Organisation | Actor |
|---|---|
| <p>Interest group and lobbying organisations</p> <p>The main actors promoting, certifying and awarding labels, business prizes, social reporting systems and other mechanism to generate awareness and acknowledge the social value or products, services or ways of production of social enterprises, organisers of social enterprise networks, associations and pacts that engage in advocacy, mutual learning and facilitating joint action</p> | <ul style="list-style-type: none"> > The Association of Finnish Work > The Finnish Social Enterprise Coalition (ARVO) > Coop Center Pellervo > Coop Finland > Finnish Federation for Social Affairs and Health (SOSTE) > VATES Foundation > Finnish Innovation Fund (SITRA) > Helsinki Think Company > Impact Iglu > Slush Global Impact Accelerator > Demos Helsinki > + Impact by Danske > Impactor > University network for multidisciplinary studies and research into cooperative and social economy (CNS) > Rural Development Programme (The Ministry of Agriculture and Forestry) > The Finnish Social Enterprise Research Network (FinSERN) |
| <p>Financial intermediaries for social enterprises and support infrastructures</p> <p>Organisations providing funds and assistance to enhance the investment and contract readiness of social enterprises</p> | <ul style="list-style-type: none"> > The Ministry of Economic and Employment (European Structural Funds) > Regional Councils (18) (European Structural Funds) > Business Finland > Finnvera > The Finnish Enterprise Agencies > The Finnish Innovation Fund (SITRA) > Epiqus > Mesenaatti > Ehtaraha |

4.2. Policy schemes and support measures for social enterprises

4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (and which may benefit social enterprises)

The Finnish government's strategic objectives include promoting the start-up, growth and sustainability of enterprises, especially small and micro-sized companies. There are a number of public support systems (funding, training, guidance, counselling, etc.) that are open to mainstream enterprises as well as social

enterprises in Finland. All of these business support services are available at 'My Enterprise Finland', which is owned and maintained by the Ministry of Economic Affairs and Employment.¹³ Other information on business operations and services, including all public funding and grants for companies, is also available online.¹⁴

These support measures include, for example, the start-up grant, which is an allowance granted by the local TE Office to a new entrepreneur.¹⁵ Its purpose is to secure a new, full-time entrepreneur's livelihood at the company's starting phase when its income is still low. The start-up grant can be agreed for a maximum of 12 months and applied for in six-month periods. It equals the basic unemployment allowance.

The other common support measure is business development aid, which is granted by the government on a discretionary basis.¹⁶ It can be granted to small and medium-sized enterprises (SME) that pursue the comprehensive and significant development of their operations, meet profitable business requirements and already have sufficient resources to improve their competitiveness. A company can be compensated for up to 50% of its labour, consulting, travel, exhibition and other expenses related to development measures declared as the basis for aid. Investments in the project can be supported with 10–35% of the expenses used as the basis for aid, depending on the company's size and location.

Finnvera is a specialised financing company owned by the state of Finland.¹⁷ It provides financing such as loans and guarantees to support the start-up and growth of enterprises.

The Structural Funds for 2014–2020 include no particular objective to support social enterprises. However, they are eligible for funding to start or develop their businesses. Funding is available to develop social innovations that can be social enterprises. It is also specifically available for measures that increase work ability and the employment of disadvantaged groups, as well as for improving the quality of working life (e.g., by establishing more flexible working methods and better work organisation).

In general there are **no specific policy or support measures for Finnish social enterprises.** However, wage subsidies, employment policy assistance and investment support can be granted to WISEs in exceptional circumstances (see section 2.3).

(13) See <https://oma.yrityssuomi.fi/en>.

(14) See www.suomi.fi/company.

(15) Local Public employment and business services. See www.te-palvelut.fi/te/en/employers/for_entrepreneurs/services_new_entrepreneurs/startup_grant/index.html.

(16) See www.suomi.fi/services/business-development-aid-centre-for-economic-development-transport-and-the-environment/1d85ba74-3ca9-4945-a4c8-1ce7cf30e269.

(17) See www.finnvera.fi/eng/.

4.2.2. Support measures addressing non-profit associations and foundations (and which may benefit social enterprises)

European Structural Funds have played a crucial role in introducing and testing different Finnish social enterprise models. During the country's first structural fund period in the European Union from 1995 to 1999, a new Finnish model of small cooperatives (*osuuskunta*) was developed mainly through ESF projects. Hundreds of new cooperatives were established at that time. Research and studies on new cooperatives were lively. Various development measures were set up including, among others, the development of the regional concept 'how to start-up cooperative enterprises'. For the same purpose, study groups were set up for consultants and civil servants. Managers of new cooperatives were trained in cooperative entrepreneurship and participative management.

During the ESF period from 2007 to 2013, several projects and initiatives developed forms of assistance to encourage innovation and social enterprise development and growth. For example, civil servants and enterprise advisors were advised and educated in a project carried out by Tampere Region Cooperative Centre, which was commissioned and steered by the Ministry of Employment and the Economy. At that time, research into social enterprise activities took organised form, and international connections and interaction were brought about.

The National Equal Theme Network coordinated and integrated development projects relating to social enterprises in order to make recommendations on different experiments. This high-level forum gathered interest groups that could discuss the Finnish social enterprise model. Networking groups collected and mainstreamed good practices that had been created throughout the country with the aim of improving overall social enterprise growth.

4.2.3. Dedicated funding for non-profit social and health organisations

The Funding Centre for Social Welfare and Health Organisations (STEA) is a state-aid authority operating in connection with the Ministry of Social Affairs and Health.¹⁸ **STEA is the most significant funding operator for Finnish organisational operations within social and health services.** It is responsible for the preparation, payment, monitoring and impact evaluation of funds granted to social and health organisations from the SEM awarded Veikkaus Oy's gaming income.

Non-profit associations that are listed on the Register of Associations, foundations, non-profit limited companies and cooperatives can apply for STEA funding if the purpose of their operations is to promote health and social wellbeing. **Funding is not intended for the use of statutory public services or business activities.** Neither is STEA

(18) See www.stea.fi/web/en/frontpage.

funding granted to organisations for extensive activities involving the exchange of money that approaches a commercial activity or for financing statutory public services.

Organisations receive grants for general or targeted activities, investments, development projects, introductory projects and other projects with a defined purpose. STEA funds organisations that focus on people whose wellbeing is promoted by their activities with a particular leaning towards preventive measures and help and support for those in need.

STEA receives some 2,500 funding applications per year. In 2019 STEA funded 887 non-profit social and health organisations across Finland with about 360 million EUR in total.¹⁹ In 2018 respective figures were 994 funded non-profit social and health organisations with about 350 million EUR.

STEA monitors changes and the general development of health and social welfare and non-profit organisation sectors. The centre's long-term funding goal is to ensure that there will be an active and versatile breadth of organisations to promote the health and social wellbeing of Finnish citizens in the future. The economic use of funds and operational transparency are basic preconditions for funding being granted.

The following statutes regulate how STEA grants are awarded: the *Lotteries Act* (1047/2001), general prerequisites for funding being granted are collected in the *Act on Discretionary Government Transfers* (Valtionavustuslaki, 688/2001) and, within this framework, STEA considers applications on a case-by-case basis when it prepares its funding proposal for the Ministry of Social Affairs and Health's *Government Decree on State grants to non-profit organisations and foundations for the promotion of health and social welfare* (1552/2016) and the *Government Decree on the advisory board for social welfare and health organisations* (1555/2016).

4.3. Public procurement framework

Each year, Finland's central government and local authorities make procurements valued at about 35,000 million EUR (about 18% of Finnish Gross Domestic Product); achieving social impact also equates to the profitable use of billions of tax revenue. Finnish public procurement is subject to national legislation that derives from the European Community's public procurement directives. Under these rules public sector procurement has to follow transparent open procedures ensuring fair and non-discriminatory conditions for those who compete to supply services. Public procurement

(19) See https://stm.fi/artikkeli/-/asset_publisher/sosiaali-ja-terveysalan-jarjestojen-toimintaan-lahes-362-miljoonaa-euroa-vuonna-2019.

regulation promotes a more efficient use of public funds to ensure value for money. A further aim is to enhance the competitiveness of national and European enterprises. When procuring goods, services or works, the contracting authority must consider existing market conditions and improve how the markets function.²⁰ The acquisition of social and health services in Finland results in service contracts exceeding the threshold of 400,000 EUR.²¹ Competition in tendering procedures enables contracting authorities to secure economically efficient purchases; public contracts are awarded based on either the most economically advantageous tender or the lowest price. **There is now a need to develop public procurement schemes that prioritise social value instead of the cheapest price, at least in terms of social and health and employment services.**

In Finland social enterprises do not receive any special treatment in public procurement procedures. However, based on the *Act on Public Procurement* (1397/2016), a contracting entity may reserve participation in competitive tendering to work programmes, sheltered workshops or similar suppliers whose main aim is the social and occupational integration of disabled and otherwise disadvantaged people. In these instances, at least 30% of employees from the sheltered workshop, supplier or work programme should be disabled or disadvantaged for conditions of the competitive tender to be met. The contract notice must state that work will be implemented by the sheltered workshop or work programme. A registered WISE may only take part in a call for tenders reserved for sheltered workshops if it meets the criteria set for workshops. In practice, this opportunity has rarely if ever been used as yet.

A pilot experiment is being trialled in major cities to develop public procurements that set out employment criteria in different ways. The project aims to strengthen the knowledge and experiences of participating municipalities so that they can improve employment criteria in their public procurements. The Finnish Innovation Fund Sitra²² promotes impact driven procurement and has published a handbook on strategic public sector procurement. The sector can use this tool to develop its procurement procedures, moving away from simply purchasing goods and services towards acquiring results and impact.

(20) See www.publicprocurement.fi.

(21) See www.hankinnat.fi/sote-hankinta.

(22) See www.sitra.fi/en.

4.4. Networks and mutual support mechanisms

Finnish Social Enterprise Coalition ARVO

In autumn 2014, the Finnish Social Enterprise Coalition 'Arvo-liitto ry' (ARVO) was launched as a member of the country's employers' organisation, the Confederation of Finnish Industries.²³ All of the coalition's current 50 members are social enterprises and impact actors primarily owned by traditional welfare associations and foundations. Member organisations operate in the following lines of business: social and health, wellbeing and education, housing, work integration and consulting and funding. **The aim of the coalition is to enhance the Finnish social enterprise business model and its viability.** It can be assumed that ARVO has increased the visibility and influence of social enterprises and other social impact oriented organisations. Alongside other institutes focused on measuring social impact, ARVO assesses the performance and social impact of different social service actors to gain a comprehensive understanding of their activities.

Finnish Federation for Social Affairs and Health SOSTE

The Finnish Federation for Social Affairs and Health, is a national umbrella organisation that gathers together 200 non-profit welfare organisations and other partner members. Among other responsibilities, SOSTE influences social and health policy and other relevant sectors of societal policy, develops cooperation amongst social and health organisations and their engagement with other parties, conducts research and offers information that supports its influence.

VATES Foundation

The VATES Foundation is a specialist organisation for the equal employment of people with disabilities, long-term illnesses and those with partial work capacity. Its actual development themes include: a holistic approach to support individual pathways through rehabilitation and vocational training towards employment in mainstream workplaces, Flexicurity, job coaching and supported employment through social entrepreneurship and WISEs.

Coop Center Pellervo

Coop Center Pellervo is a service organisation for Finnish cooperatives with almost 300 members that supports a breadth of cooperative activities. Pellervo strives to influence the legislative work and economic and financial policies in Finland and Europe to accommodate the cooperative business model.

(23) See www.arvoliitto.fi.

It works to make the cooperative business model recognised as a competitive alternative for new businesses. However, as the cooperative model is still relatively unknown, its operating and developing conditions are somewhat hindered. Current issues include the *Cooperative Act*, cooperative taxation, and the position of cooperative issues in education and research as well as trade and competition policy.

Traditional cooperatives (Coop Center Pellervo)²⁴ and welfare associations (SOSTE Finnish Federation for Social Affairs and Health)²⁵ have established lobbying and other support structures. Their attitudes towards social enterprises are mixed. Social enterprises might be seen as rivals or as an important and vital business model for their member organisations.

4.5. Research, education and skills development

The research community FinSERN, which was established in 2010, **brings together around 100 Finnish researchers and eight organisations interested in social enterprise.**²⁶ FinSERN applies its research knowledge by organising conferences and annual thesis competitions and publishing news on social enterprise research-related topics. Some of its members are active in international social enterprise research networks and initiatives.

The Co-op Network Studies (CNS) was established by a group of ten universities.²⁷ Teaching within the network's framework is developed, produced and coordinated by the Ruralia Institute of the University of Helsinki together with other participating universities. The university network was established in 2005 and **offers multidisciplinary, web-based, minor subject courses and modules related to the cooperative sector, social economy and social enterprise.** Moreover, the CNS coordination unit is actively involved in developing and investigating matters affecting the cooperative sector in cooperation with its partners. The studies receive support and funding from Finnish

(24) See www.pellervo.fi/english.

(25) See www.soste.fi/soste/soste-in-english.html.

(26) FinSERN's institutional members are: the Association for Finnish Work, Coop Finland, Finnish Innovation Fund Sitra, Diaconia University of Applied Sciences, Helsinki Deaconess Institute, Idekoop Cooperative, Lappeenranta University of Technology and the National Institute for Health and Welfare. See www.facebook.com/finsern

(27) The network currently comprises of ten Finnish universities: Aalto University School of Business, University of Helsinki (coordinating university), University of Eastern Finland, University of Jyväskylä, University of Lapland, Lappeenranta University of Technology, University of Oulu, University of Tampere, University of Turku and University of Vaasa.

cooperatives and mutual companies through the Finnish Cooperative Advisory Board, the Pellervo Society and the University of Helsinki.²⁸

4.6. Financing

There are no systematic studies on Finnish social enterprise financing demands. However, additional funding is very much needed in the sector that currently attracts most of its outside financing from the public sector and struggles to find critical finance for future growth.²⁹ WISEs also experience difficulties with late wage subsidy payments.³⁰ Finnish social enterprises struggle, as all SMEs do, with growth and investment financing issues.

The funding channels for social enterprises are in principle the same as those for mainstream enterprises. So far, no investment market exists as such and no specific public or private specialist fund has been set up to finance just social enterprises. However, in November 2018, the European Investment Fund (EIF) and Finnish bank *Oma Säästöpankki Oyj* signed the first guaranteed agreement for social entrepreneurship in Finland under the EU Programme for Employment and Social Innovation (EaSI). Under this agreement the bank will support approximately 100 social enterprises with 10 million EUR in loans, focusing primarily on cooperatives that contribute to increased social and economic inclusion. The social enterprises will be able to benefit from loans at a reduced interest rate with lower collateral requirements under the EU supported programme.³¹

Social impact re-distributors generate income or funds for social impact-oriented social entrepreneurial activities, some of which belong to institutionalised forms of social enterprises (for more information on social impact re-distributors see section 4.1. and table 8 for financial intermediaries and support infrastructures such as Epiqus and Ehtaraha). Re-distributors are solid businesses that generate funds for reinvestment into the innovation-oriented social goals of organisations or other social objectives.

Social enterprises can be caught between being ‘too commercial’ for STEA grants and ‘too social’ for business funding. Some attempts have been made to map and organise dedicated financial instruments for social enterprises. There are also various

(28) See www.helsinki.fi/en/ruralia-institute/education/co-op-network-studies.

(29) Kotiranta, A. & Widgrén, J. (2015) *Esiselvitys yhteiskunnallisesta yrittämisestä – Katsaus yhteiskunnallisiin yrityksiin ja vaikuttavuusinvestoimiseen Suomessa*. ETLA Raportit 46. Available at <http://pub.etla.fi/ETLA-Raportit-Reports-46.pdf>.

(30) Grönberg, V. & Kostilainen, H. (2012) *Sosiaalisten yritysten tila ja tulevaisuus*. Työ- ja elinkeinoministeriön julkaisu 12/2012. Helsinki: Edita Publishing Ltd.

(31) See www.eif.org/what_we_do/guarantees/news/2018/efsi-easi-finland.htm.

ethical crowdfunding initiatives (e.g., the cooperative Ehtaraha³² and mesenaatti.me³³). **For the moment, the Finnish Innovation Fund Sitra is initiating impact investment and has piloted SIBs in Finland.³⁴ The bonds are open to all impact-oriented organisations to use and are not reserved solely for social enterprises.** The public sector can employ them to develop its procurement procedures, moving away from simply purchasing goods and services towards acquiring results and impact. The SIB is a form of impact investment whereby institutional and private investors can fund services that promote wellbeing and assume the risks associated with their provision. SIBs are given precise, measurable targets, which reflect an increase in wellbeing. The public sector only pays for results that are in line with set targets. There are seven SIB portfolios up and running in Finland: occupational wellbeing; fast employment and the integration of immigrants; the promotion of children, family and youth wellbeing; reducing unemployment; support for elderly independence; Type 2 diabetes prevention; and the Environmental Impact Bond.³⁵

(32) See www.ehtaraha.fi.

(33) See mesenaatti.me/en.


(34) See www.sitra.fi/en/projects/sib-funds.

(35) See www.sitra.fi/en/projects/sib-funds/#what-is-it-about.

5

PERSPECTIVES

This section discusses the extent to which social enterprises in Finland could find their niche by identifying those factors that enable or hinder their developmental perspectives. The Finnish social enterprise landscape is still emerging. However, Finnish welfare state employment and social welfare service reform has provided some opportunities for social enterprise growth. Two future social enterprise scenarios are presented.



5.1. Overview of the social enterprise debate at the national level

Freedom of choice is due to increase for clients of health and social services as a result of pending reform; they will soon have the right to choose where to get their health and social services by using, for example, service vouchers and a personal budget. **Publicly funded health and social services are going to be provided by public, private and non-profit operators, such as associations and foundations.**

This situation will be problematic for registered WISEs (Act 1351/2003 revised 924/2012). Politicians and civil servants were highly aware of the possible issues related to freedom of competition and public procurement legislation when preparing and introducing the new WISE legislation. Therefore, **the act does not provide any special support or incentives to encourage the establishment of these organisations.** As mentioned in section 2.2, incentives to register as a WISE have not been compelling enough for many organisations. Only a few labour cooperatives and other social economy organisations active in work integration have registered. The anticipated uptake has not been met: in 2018 only 37 organisations were WISE registered, employing 121 workers from the disabled and long-term unemployed target groups.

In addition, **new types of social enterprises are expected to combine private enterprise business skills with strong social missions.** Public administrations expect social innovation to come from the private sector that might have an important role in delivering welfare and employment services, especially labour market integration. In Finland, as elsewhere, social enterprises are expected to improve the quality of public services, generate innovations, improve productivity and have a preventive effect on harmful social, environmental and health problems. WISEs have an innovative approach but, so far, only a marginal means of enhancing the employment opportunities of the disabled and long-term unemployed. However, social enterprises are at least partly seen as a counter to increasing international commercial competition in open welfare markets.

5.2. Constraining factors and opportunities

Constraining factors

The stakeholders consulted for this report identified that there is low public awareness of the Finnish social enterprise business model. They consider that there is still **a lot of confusion regarding different social enterprise model definitions**. The main factors that stakeholder's consider a constraint to social enterprise growth are: **the lack of a conducive social enterprise policy framework; underdeveloped social investment markets**; and, more generally, **a lack of understanding regarding specific social enterprise characteristics and the social value they create**.

Despite the development of certain institutional practices and social enterprise experiments, **Finland does not have any specific policy framework for their role within a welfare society**; therefore, it is a challenge to develop a viable social enterprise ecosystem.

The country's **emerging social and welfare market is relative new and investors are just learning how to evaluate investment opportunities**. Most social enterprises have difficulty proving the value of their 'impact'. Data are scarce and in many cases difficult to translate into monetary terms.

The lack of dedicated financing and support structures for social enterprises may have caused their marginal position; the social enterprise concept is blurred and contested and the majority of social enterprises are fragile and not well organised. They have difficulty finding finance; most financial tools are designed either for conventional business or not-for-profit associations.

In recent decades, **the lack of a national vision regarding a strategic approach and role for social enterprises in Finnish society has led to the ineffective use of different social enterprise development measures and activities**. Furthermore, the programme approaches adopted by recent Finnish governments pose a potential risk to social enterprises that could subordinate their missions and goals to those tasks that the administration has given them: to further employ those in weak labour market positions and take care of marginalised people through measures such as providing welfare services in remote areas. **Finnish social enterprise development is also hindered by the currently nascent ecosystem that does not support the specific characteristics of a social enterprise business model**. For example, business opportunities are prioritised instead of social needs and user participation is seldom included.

Opportunities

A growing number of small Finnish enterprises and individual entrepreneurs see **business opportunities in solving complex, contemporary, socioecological problems** and choose a legal business organisation form to achieve positive social or societal impact (Houtbeckers 2016). For some, social entrepreneurship is a more meaningful career choice than the work of large established organisations whose activities may be seen as unethical or where work contracts may be unstable (Demos Helsinki 2010).

The marketisation of public social and healthcare services encourages different types of enterprises to become service providers. Sector reform also concerns welfare and employment services. Experiments are being trialled that apply SIB and social clauses to public procurements. The reform opens up employment service provision for private for-profit and non-profit organisations that was on the whole previously provided by public organisations. **Social enterprises are also trying to find their niche in this marketisation of welfare and employment services.**

From a stakeholder's perspective, **improved options for both buyers and sellers to take social impact into account within public procurement might also present new opportunities for social enterprises.** There is now an urgent need to develop public procurement schemes that invest in social value rather than simply upholding the cheapest price.

5.3. Trends and future challenges

Social enterprise is a relatively new concept in Finland. Awareness and understanding of its concepts are lacking among the general public and policymakers: for example, only 32% of municipal decision-makers are aware of the Finnish SEM.³⁶

The Finnish social enterprise business model has some promising elements but might still be in danger of being diluted due to: 1) competition neutrality, a view raised mainly by certain interest groups and federations of employers and businesses; and 2) the fear raised by trade unions that there may be a qualitative deterioration in working conditions (Laiho *et al.* 2011). One of the main issues appears to be that decision-makers do not have enough information on social enterprises and therefore do not understand how the business model works. The above misconceptions appear to have generally limited Finnish social enterprise development. **There is also a danger that an ahistorical reading of social entrepreneurship ignores the rich tradition of prior-functioning social economy organisations and enterprises.** Such an unfortunate

(36) Association for Finnish Work.

situation would potentially disregard knowledge that has been accumulated over the years (Kostilainen *et al.* forthcoming).

If more self-identified social enterprises became interested in applying for the SEM or operating as registered WISEs, the Finnish social enterprise sector could grow. The core idea of combining business with societal value might then be more widely acknowledged and impact actors fully supported. Traditional social economy organisation actors that recognised the potential of the social business model could help invest in this development. Stakeholders' views support the hope for better social enterprise visibility, greater clarity of different social enterprise business models and the implementation of public procurement processes that might open opportunities for social enterprises in the future. **There is a need to further develop fragmented networks of different social enterprises and actors in their ecosystem.**

During discussions with stakeholders, two possible future scenarios for social enterprise development in Finland were foreseen:

- > The '**flourishing scenario**': social enterprises are able to better communicate their importance and proven impact while developing their businesses. The social enterprise business model becomes clearer and the distinguishing features that constitute a social business are understood. Social enterprises are able to capture new business opportunities and trends. They become attractive work opportunities for highly skilled employees.
- > The '**regressive scenario**': social enterprises will remain a marginal entrepreneurial form that eventually dissipates.

6

APPENDICES

Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.³⁷

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--|---|---|---|--|
| Entrepreneurial/ economic dimension | Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the typical characteristics that are shared by all enterprises . | <ul style="list-style-type: none"> > Whether the organisation is or is not incorporated (it is included in specific registers). > Whether the organisation is or is not autonomous (it is controlled or not by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial). > Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers. > Whether there is an established procedure in case of SE bankruptcy. > Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income). > Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider. > Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services. | SEs must be market-oriented (incidence of trading should be ideally above 25%). | <ul style="list-style-type: none"> > We suggest that attention is paid to the development dynamic of SEs (i.e. SEs at an embryonic stage of development may rely only on volunteers and mainly on grants). |

(37) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--------------------------------------|---|---|--|---|
| Social dimension (social aim) | <p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. “Social” shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p> | <ul style="list-style-type: none"> > Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE’s members. > Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions. > Whether SEs’ action has induced changes in legislation. > Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing. | <p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p> | <ul style="list-style-type: none"> > The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level. > In EU-15 countries (and especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g. educational services up to water supply). > What is conceived to be of meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what “public benefit” means in her/his country. |

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--|---|--|---|--|
| Inclusive governance-ownership dimension (social means) | <p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalised in different ways.</p> | <ul style="list-style-type: none"> > Whether SEs are open to the participation and/or involvement of new stakeholders. > Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels -give voice to users and workers in special committees?). > Whether a multi-stakeholder ownership structure is imposed by law (e.g. France). > Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to. > Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE). > Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long term. > Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws. > Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits). | <p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p> | <ul style="list-style-type: none"> > Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time—hence giving ground to a multi-stakeholder ownership asset. > SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency. > Different combinations concerning limitations to profit distribution envisaged (e.g. most successful solution: capped dividends supported by total asset lock – Italian social coops, CIC, SCICs). |

Appendix 2. Data availability report

| Legal typology | Source of data (name, type & link) | Data provider (name & type) | Year of reference timeline of updates | N° of organisations | N° of workers | Turnover | Degree of reliability (1 to 4) and explanation |
|---|---|---|---------------------------------------|---------------------|---------------|----------|---|
| WISEs (not a legal typology but a status awarded to different legal types as per Act 1351/2003) | Register of WISEs Administrative register (see excel sheet from end of the list of WISE 's) | Ministry of Employment and Economy Government institution | 2018 Yearly | ✓ | ✓ | N.A. | 3 - Data is available per legal form (in Finnish). |
| SEs registered with the Finnish Social Enterprise Mark (not a legal typology but a status awarded to different legal types by a representative body) | Finnish Social Enterprise Mark Administrative register | Association for Finnish Work Non-profit organisation | 2018 Yearly | ✓ | ✓ | ✓ | 3 - Data is available per legal form (in Finnish). |
| Cooperatives | Annual analysis on development of Finnish cooperatives Other: Annual analysis on development of Finnish cooperatives | Coop Center Pellervo Representative body | 2018 Yearly | ✓ | N.A. | N.A. | 2 - Secondary data is used. No web link. Printed version only: Last issue: Osuustoiminnan vuosikirja 2017 published 30.8.2018. |
| Non-profit welfare associations and foundations | Analysis of Finnish welfare associations as service providers Research project | SOSTE Finnish Federation for Social Affairs and Health Representative body | 2018 | ✓ | ✓ | N.A. | 2 - Secondary data. |

Appendix 3. Exploratory case studies

Exploratory case 1

The Reuse Centre³⁸

In 1985 a group of ecologically aware people successfully organised 'goods exchange days' around Helsinki. From this initiative, the idea of designing something more structured and permanent developed. By December 1989 the environmental activists had joined forces with various environmental associations to found the Helsinki Metropolitan Area Reuse Centre Ltd (Reuse Centre). The initial organisation succeeded in obtaining a grant from the Ministry of the Environment to pay for the rent of its premises. Then, in late October 1990, The Reuse Centre opened to the public. Today, it is registered as a non-profit limited liability company by law and has two department stores and five smaller shops in the Helsinki metropolitan area, as well as an online shop.³⁹ In its stores recycled products are sold at reasonable prices and information is provided about sustainable models of consumption. Plan B is a unique line of local, handmade, 100% up-cycled products. The Reuse Centre accepts donations of usable items which it then sells in its stores or donate to others.

The centre has set three objectives: to decrease the use of natural resources, increase environmental awareness and improve work and participation opportunities. The first two objectives focus on the environment and the third on social good. Since its beginning the Reuse Centre has helped reintegrate the long-term unemployed back to work. It offers fixed-term jobs for unemployed jobseekers and support for further employment.

The social enterprise provides environmental education and consulting services to more than 40,000 children, adolescents, adults and educators each year to reach these goals. It also organises environmental awareness events and provides educational material. Part of its income from selling reused items is used for environmental education; in 2016 about 2,500,000 reused items were sold. As an employer, the Reuse Centre guarantees to act responsibly as a diverse workplace and offers meaningful work for volunteers. The organisation has about 290 full-time paid staff (45% are women) and about 85 part-time workers (of which, 75% are women). Another 130 employment relations include on-the-job trainees, apprentices, and people performing community service and short-term voluntary activities that are being trialled within this social enterprise setting.

The collection of electrical and electronic equipment waste (WEEE) is regulated and statutory in Finland. Consumers can take old electrical and electronic equipment for

(38) See www.kierratyskeskus.fi/in_english.

(39) See <https://kauppa.kierratyskeskus.fi/>.

recycling free of charge to regional WEEE collection facilities; its recycling fee has been paid for in the device's purchase price. The Reuse Centre cooperates closely with the producer organisation SERTY, which takes care of WEEE recycling alongside the Association of Finnish Recycling Centers and the Foundation for Environmental Education. It is certified with the Finnish SEM and is registered as a WISE (Act 1351/2003).

The company is co-owned by four cities from the Helsinki Metropolitan Area and Regional Environmental Service Agency, eight environmental and other associations, one public benefit company and one fair-trade company. There are also 13 individual shareholders.

The social enterprise's economic activity is a mix of various trade activities for private and public entities and public grants and subsidies. About 60% of its revenue comes from private sector sales about 10% from the public sector and about 30% from public pay subsidies and grants. In the company's financial statements from 2016, the social enterprise's turnover was about 7.4 million EUR. Sales to private and public customers amounted to about 4.8 million EUR and various public grants and subsidies to about 3.1 million EUR. Its net income was about 100,000 EUR, total assets about 2.57 million EUR and net assets about 1.57 million EUR.

Over its 30 years of operation, the Reuse Centre has grown considerably. During this period its turnover has almost doubled, having grown to a large extent since 2010.

As a non-profit limited liability company by law, the Reuse Centre does not share profits with its owners. Instead, it invests them in the company's maintenance and development to further achieve its purpose and mission of environmental work and social good.

The social enterprise faces uncertainties regarding pay subsidies and its representatives would like to see more precise legislation of WISEs. They are concerned about possible amendments to the WISE Act. The financial requirements of the company's activities are secondary to its environmental and social aims: even though its financial sustainability is needed, a break-even situation is sufficient and acceptable as long as other benefits are gained.

Exploratory case 2

Social Enterprise Group (HDL)⁴⁰

This charitable foundation, which was established by a philanthropist in the mid-1900s, forms a social enterprise group together with its subsidiary limited liability companies that provides effective social welfare and health services for groups facing severe societal issues. The group produces these services jointly with clients and partners. Civic activity is a strong feature of all of their operations. Educational services also form part of the group's activities. Its aim is to ensure that everyone has the chance of a dignified life and no one is left behind. Initially, the group ran a hospital and training facility for young women in Helsinki. Its work then diversified in the 20th century and by the 2000s it had begun targeting its resources at services for underprivileged groups. Today, the group identifies itself as an expert and leader in tackling difficult social issues in Finland's major cities that collaborates with a range of municipalities, companies and communities.

The social enterprise group employs more than 1,000 professionals (about 75% are women). Alongside its usual service provision, the social enterprise group has also recently begun empowering civic activity for all parties: about 2,000 volunteers (some 75% are again women) take part with peer support. The group believes that culture can complement social work and be an effective addition to welfare services.

The social enterprise's administration and governance is based on principles of good governance. The foundation's delegation is a statutory body which elects its board members, chairperson and vice chairperson. Finance is planned to avoid unnecessary risks and ensure a wide, positive social impact. The foundation acts according to the Finnish Foundation Act (109/1930 amendments up to 487/2015) and its subsidiaries follow company law (Act 349/2017). The group has been awarded the Finnish SEM.

The group's social value creation lies in providing specialised social and health services to the public sector. Its business model has been developed based on its owner's mission to create new solutions in parts of society where, for one reason or another, people are in danger of falling beyond the reach of conventional services. The group's social objective is to uphold human dignity by providing help to those at risk of social exclusion.

The social enterprise group is an active player in local, national and international networks that help realise its mission. It is also a member of ARVO and collaborates extensively with various companies to promote scientific research and publish material in its field of interest. This it achieves by cooperating with various university research units concerned with inclusion and preventing social exclusion. Its international development cooperation operates in south Africa and throughout Europe.

(40) See www.hdl.fi/en/.

The pending Finnish social and health care administration process will have a major impact on this social enterprise group's operating environment and profitability: both potential opportunities and risks seem evident; the reform poses a challenge to private and social economy actors and yet opens opportunities for wholly different innovative options.

The social enterprise group has used a lot of its resources to create innovative ways of addressing the social problems of the most vulnerable. Often its development models and methods are given free of charge to the public sector and other organisations. This approach has been a challenge to the group's financial sustainability.

In its last financial statements (2017), the social enterprise group's total assets were almost 274,000,000,000 EUR (187 million EUR in 2016). Its profits amounted to about 87 million EUR (in 2016 the deficit was 2.4 million EUR) mainly due to the foundation's sale of one of its subsidiaries to Finland's largest healthcare service company. The deal resulted in the foundation taking about 10% of the company's shares. The group's equity ratio was 89% at the end of the 2017 financial year (66% in 2016). Its operating income was about 99 million EUR in 2017 and returned a 3.5 million EUR deficit (147.5 million EUR and 4.3 million EUR deficit in 2016). The foundation's public utility operations and projects are mainly financed with public grants and subsidies. These operations were assisted with a total 6.5 million EUR from 15 different financiers in 2017. The largest financial supporters were STEA, ESF and the city of Helsinki. The foundation itself used about 900,000 EUR for its projects from self-financing supposed by some of the financiers.

The social enterprise group delivers its key mission of upholding human dignity through the revenue its receives from its various operations and property.

Exploratory case 3

Employees' Interpreting Cooperative (VIA)⁴¹

This employee-owned interpreting cooperative enhances equality by producing interpreting and sign language-supported speech training and related services. The staff-founded worker cooperative was established in 1999 to develop a safe, pleasant and innovative working community, in addition to a secure income.

The cooperative has grown steadily and provides a professional community for interpreters and trainers nationwide and various services for its clients in all of the regions where it operates. Around fifty interpreter members collectively own the cooperative. New members can be accepted on application. The cooperative employs and operates efficiently in interpreter teams with over a hundred professionals in total, including: sign language and speech-to-text interpreters, Finnish sign language trainers, training planners and administrative staff. The vast majority of its staff is employed with permanent, monthly-paid salary contracts. All work terms and conditions are defined in its extensive collective agreement. There are separate agreements for monthly and hourly paid employees. About 95% of its workers are women.

The cooperative invests in staff training and welfare and aims to deliver the best possible quality of work. For example, its employees have access to a sign language term bank that consists of thousands of signs collected in the field. It has also created innovative tools for assessing the quality of sign language interpretation, which it uses both internally and offers to other companies for their skills assessments. Additionally, the cooperative provides annual internships of varying lengths mainly to interpreting students.

As a non-profit enterprise it strives for profitability and follows cooperative law. The annual general meeting's decision-making is democratic: each member has one vote. Its rules require members to work in a professional, independent and entrepreneurial manner in one of the cooperative's fields of operation, according to its operating principles. It follows international cooperative principles aimed at actively and legitimately developing the entire interpreting field. Every employee and cooperative member has the possibility to influence the company's operations. The cooperative has been awarded the Finnish SEM.

The social enterprise's creation of social value lies in enhancing equality through interpretation, sign language and sign-supported speech services. It offers services to the deaf, hard of hearing, deaf/blind people and hearing people from different language backgrounds. The cooperative's interpreting services are usually either booked by

(41) See www.via-ok.net/en.

authorities or customers themselves if legally entitled to the service. The same services are also available to other organisations and individuals.

The cooperative's customers include the Social Insurance Institution of Finland (Kela), municipalities, companies, associations, federations, educational institutions, congregations and other institutions. It offers training in Finnish sign language, signed speech and sign-supported speech for individuals, families and groups. To workplaces and educational institutions, it also offers ready-made and tailored courses according to clients' needs. Other services include skills assessment, coordinating interpreting services at large events, training, consultation and lectures regarding Finnish sign language, co-working, conference interpreting, interpreting in language classes, and voicing Finnish sign language into spoken Finnish, as well as business consultation concerning cooperatives.

Kela arranges interpreter services for disabled people who live in Finland. This service aims to promote the possibilities of people with hearing impairment, vision and hearing impairment or speech impairment to become active members of society on equal terms with others. It is free of charge to its users. The service can be used for work, studies, personal matters and hobbies. Kela grants a certain number of interpreter service hours per year. The Centre for Interpreting Services for the Disabled allocates an interpreter who is suitable for user needs on the basis of the customer's reported data. Kela completes contracts for the provision of disabled interpreting services with various service providers through public procurement. The cooperative is one of these service providers.

Educational interpreting takes place at the educational institution where the student is studying. From secondary school onwards, educational interpreting is financed by The Social Insurance Institution of Finland. Interpreting in compulsory schools is financed by their municipalities.

Training that is given as a form of rehabilitation is free of charge for families of disabled people. Each family needs to apply for a training decision from their local authority's social and welfare service disability department.

These services are considered a public responsibility and their target group is often a minority group, which causes some difficulties for the cooperative to sell its services to the private sector. The other challenge it faces is short-term public procurement contracts and uncertainties related to its participation in public procurement processes.

The cooperative's economic activity relies purely on trade activities. From its revenues about 80% comes from sales to various public entities but mainly from Kela and local municipalities. Sales to private entities account for about 20% of its overall revenue. In its financial statements from 2016, the social enterprise's turnover was about

4,500,000 EUR, profits were about 80,000 EUR, total assets about 880,000 EUR and net assets about 175,000 EUR.

The cooperative's net income distribution practice is decided annually by the general assembly, which either reinvests in the social enterprise or shares profits amongst its members.

Exploratory case 4

Wind Energy Ltd. (*Lumituuli*)⁴²

In late 1990s a group of environmental activists established the first Finnish, nationwide, customer-owned green electricity company producing wind power as an association. The recently established company won the Vision of the Year 1998 prize in Finland. Today it has more than 1,200 shareholders including private citizens, companies, societies and local rural communities. The social enterprise employs one person to run its daily activities.

This ethical business model's development was made possible by the liberation of the Finnish electricity market. The social enterprise benefits from the opportunity that opened for small producers to penetrate the market with highly differentiated products.

The company's mission is to create and provide new, sustainable, green energy solutions. Its operation was realised by constructing wind generators and lobbying the public and decision-makers. This social enterprise's social value creation is based on producing green energy that is only sold to shareholders. The price of its electricity is competitive within the Finnish electricity market. It is priced to cover the depreciation of the company's initial investment and yield a roughly 5% return on its investment.

The supply of wind power in Finland was once amongst the lowest in the whole EU. Now its competitiveness has risen rapidly. Furthermore, wind power's price reduction is expected to continue, whereas fossil fuel-based resources face CO2 taxes and other environmental taxation pressures. Wind power's price reduction is largely due to the growing unit size of commercial wind turbines.

In principle, Finland has the wind production potential to cover tens of percents of the country's electricity demand. Due to technological development, the wind power industry forecast is excellent. The domestic manufacture of various wind turbine components has also had a direct employment effect in Finland. The construction of wind parks also employs a significant local workforce. However, high development costs,

(42) See www.lumituuli.fi/english.html.

slow regulatory approval and grid connection costs are still obstacles to extensive wind power adoption in Finland.

The enterprise follows company law (Act 349/2017). According to the company's by-laws, surplus profit should target new investments into wind energy generators. The company holds the SEM and identifies itself as a forerunner of sustainable energy solutions due to its unique customer ownership concept.

The enterprise is active in the national network of wind energy producers and cooperates with Finland's largest company offering green electricity.

The social enterprise's economic activity combines trade activities and public energy provision-related subsidies. Of its revenues, about 50% comes from private sector sales and about 50% from public grants and subsidies. In its financial statements from 2016, the social enterprise's turnover was about 675,000 EUR, its net loss about 80,000 EUR, total assets about 5.1 million EUR and net assets about 1.4 million EUR.

According to the laws for non-profit limited liability companies, the distribution of its net income is reinvested in the social enterprise's activities, namely the construction of new wind energy turbines.

The company's growth model is based on a combination of different funding measures, including crowdfunding and bonds. So far, it has raised about 3.7 million EUR in total crowdfunding through shares (2 million EUR) and bonds (1.7 million EUR).

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Appendix 5. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a ‘stakeholders engagement strategy’ to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policymaker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such a structure enabled the sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below.

| Full name | Organisation | Role | Stakeholder category |
|--------------------------|--|------------------------------|----------------------|
| Anna-Maija Aalto | The Finnish Innovation Fund (SITRA) | Specialist, Impact Investing | SUP |
| Lippe Koivuneva | Ministry of Employment and Economy (GECES) | Senior Advisor | POL |
| Kimmo Lipponen | The Finnish Social Enterprise Coalition (ARVO) | CEO | PRAC |
| Hanna Muukka | Coop Center Pellervo | Organisation coordinator | PRAC |
| Soilikki Viljanen | University of Jyväskylä | Researcher | ACA |

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