

India Roland

The European Commission's Social Business Initiative in Terms of Finland

Evaluating the Strengths and Weaknesses of the Social Business Initiative in Relation to Finland's Environment for Social Entrepreneurship

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<p>The objective of this paper is to investigate the environment for Social Entrepreneurship in Finland in terms of the European Commission's Social Business Initiative introduced in November 2011. The Social Business Initiative presents eleven key actions for creating a favourable environment for social enterprises. These key actions contain measures divided under funding, visibility and the legal environment for social enterprises. The intention of this thesis is to evaluate the Social Business Initiative and bring forth its biggest strengths and weaknesses within the context of the Finnish environment for social entrepreneurship.</p> <p>Qualitative research was conducted for the thesis including a semi-structured interview with the Head of Development of the Association for Finnish Work. The interview enabled the thesis to examine the situation of social entrepreneurship in Finland with deeper insight. Investigating reports – this including especially reports by the Finnish Ministry of Employment and the Economy on social entrepreneurship – was also an essential part of the implemented research. Since the topic holds a strong interconnection to the European Commission, the stands and work of the Commission were also investigated.</p> <p>It was found that many of the measures introduced in the European Commission's Social Business Initiative such as funding through structural funds, introducing societal criteria in public procurement and strengthening EU community programmes could be and are especially useful for promoting social entrepreneurship in Finland and have already been quite well established. In turn, the key actions also show weaknesses in the applicability of introducing new legislation and the capabilities for introducing social criteria in public pro-</p>	

curement. This paper will first present the concept and definition of social entrepreneurship in relation to the EU and in Finland, then explain the key actions of the Social Business Initiative and lastly tie this in with the context of the Finnish environment.

Keywords

social entrepreneurship, European Commission, Social Business Initiative

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1 Introduction

Social Entrepreneurship is currently a relevant topic in the European Union as it is seen as an answer to building more sustainable and inclusive growth by addressing social issues such as unemployment and social innovation (European Commission 2011:4). This type of entrepreneurship creates societal good by operating similarly as regular businesses do. This is why the win-win concept of social entrepreneurship is indeed unique and on account of this also extremely interesting.

According to estimates, one out of every four businesses established in Europe is a social enterprise. In Finland, the estimate is even higher with every one out of three businesses started being a social enterprise (European Commission 2011:1). In fact, when followed more closely, it is easy to notice how much social entrepreneurship one is actually surrounded with. In May 2012 the Children's Day Association that maintains the well-known amusement park Linnanmäki was certified as a social enterprise (Suomalaisen Työn Liitto 2012). In spring 2011, the Big Issue, magazine which enables people of limited means to make earnings by selling the paper, was introduced in Helsinki. This summer an even bigger volume of the issue was printed (Kansan uutiset 2012).

The EU's Europe 2020 growth strategy sees social enterprises as key for diminishing poverty, social inclusion and other societal problems (Bland and Tykkyläinen 2012) and in November 2011 the European Commission introduced the Social Business Initiative which contains eleven key actions to be launched before 2012 (European Commission 2011: 6). The initiative presents suggestions concerning the funding, visibility and legal environment of social enterprises in Europe.

Since the Social Business Initiative addresses social entrepreneurship in an EU wide context, it raises questions of how applicable and how useful it has the potential to be in Finland. Reports on social entrepreneurship within Europe show that there are various understandings, support methods, legislation and stands on social entrepreneurship. Finland too is different from many other countries in how social entrepreneurship is perceived. As a result of the novelty of social entrepreneurship and its comparatively frequent existence in Finland, there are lots of topical issues relating to it. Therefore,

this thesis will, in the context of the Social Business Initiative, evaluate what Finland is need of and what it could do without concerning social entrepreneurship.

This paper is divided into nine chapters. In the first chapters, it will aim at defining social entrepreneurship and introduce the concept both within the context of the European Union and within Finland. Next, it will bring forth relevant literature and sources of information on the topic and introduce the interesting and relevant observations found. The sixth section of the thesis brings forth the substance of the Social Business Initiative and begins to slightly cover their relevance in Finland. The paper will then move on to explaining the methodology used in the thesis and continue by presenting the results and analysis. Lastly, the content of the thesis is recapitulated and the writer's thoughts on the issue are summed up in the conclusion.

2 Definition of Social Entrepreneurship

Social enterprises dedicate themselves to implementing societal and communal goals by combining the private-sector business forms with a strong societal mission. The main fields of social enterprises within the EU are integrating people facing disadvantages in to the labour market through employment, training, rehabilitation, personal services for example for elderly people, regional development for low-achieving regions and producing services for the public good (Hänninen, Kostilainen, Lilja, Mankki, Merenmies, Pöyhönen 2010: 1).

However, on an EU level there does not exist a common definition or statistic for social entrepreneurship therefore making it difficult to measure the actual amount of social enterprises. In some countries, the role of social enterprises is to maintain services and communality in declining areas whereas in others, focus is on producing products and services for the general interest. Nonetheless, it has been evaluated that social enterprises employ around 11 million people in Europe (Bland and Tykkyläinen 2012) and it has been estimated that in Finland as many as every third established enterprise is a social enterprise (European Commission 2011).

3 Social Entrepreneurship in the European Union

The concept of social entrepreneurship was first introduced in the late 80s and became a more commonly used concept in the mid-90s. Although, the concept of social entrepreneurship can still be considered somewhat vague in a Europe-wide context and is not even recognised in all EU countries, it has a growing significance. (Hänninen et al. 2011:7). Social enterprises are often associated with the concept of *social economy* that consists of cooperatives, mutual organisations, associations, foundations and social enterprises. In social the economy, these actors do not aim at maximising profits, but at serving the social need of its members or looking out for advancing social interests.

Ever since the concept of social economy became an official term in the EU, it has also had its role in political discussion. Social entrepreneurship has growing importance in preventing poverty and a meaningful role in strengthening social inclusion within the OECD countries. Furthermore, they contribute to strategies that enrich the business sector on social responsibility, innovativeness and competitiveness. Consequently, social enterprises and work integration social enterprises can have substantial effects on enhancing local economies and development (Hänninen et al. 2011: 7).

3.1 Social entrepreneurship in EU countries

Most European countries do not recognise a common concise definition; however, social entrepreneurship is a recognised concept in most countries. In a study conducted for the European Commission, the following features for social entrepreneurship were noticed:

- fulfils social goals
- has a trading income
- addresses a target population in need
- may operate under various legal forms
- deals with voluntary social work
- has a non-profit orientation or reinvests profits
- may receive public funding

(Aaltonen et al.: 17)

As a result of the high amount of definitions and interpretations existing for social enterprises within EU countries, addressing social enterprises exhaustively is rather complicated and when addressing the topic one is always susceptible to conforming to how social entrepreneurship operates in some countries more than it does in others.

Associations and organisations are significantly involved in implementing social entrepreneurship and in many European countries social enterprises are owned by non-profit organisations. However, social enterprises can also be owned by many different parties such as private individuals, the public sector, companies, associations and organisations. Commonly, it is perceived that social enterprises are privately owned and independent, but in some EU countries such as Austria and Finland, there also exist publically owned social enterprises (Hänninen et al. 2011:8).

In many countries the most common company form for social enterprises is a cooperative whereas in others social companies are most often limited companies. Then again, some countries, such as the United Kingdom with the Community Interested Company, (CIC, See Appendix 1) introduced in 2005, have even created their own company form for social enterprises and have been a forerunner for promoting social entrepreneurship (Hänninen et al. 2011:7). The Finnish Ministry of Employment and the Economy released a report in 2010 that investigates the actions taken to develop social entrepreneurship in the UK. This is of great relevance when looking into the environment for social entrepreneurship in Finland and in relation to the European Commission's Social Business Initiative introduced later on in this thesis.

In many countries there is no national legislation for defining social enterprises. Finland, Latvia, Belgium, Lithuania and the UK are among the European countries that do have an official definition for social entrepreneurship, although as in Finland's case, they may not apply to all forms of social enterprises. These official definitions and, in other countries, unofficial definitions stress social entrepreneurship differently; for instance in Finland only work integration social enterprises focused on disadvantaged people behold an official status. In turn, legislation in the UK beholds a loose definition of social entrepreneurship, which acknowledges both work integration social enterprise as well as other types of social enterprises. Therefore, the United Kingdom's definition approves enterprises of social input, such as those employing disabled persons and enterprises with social outcome (Aaltonen, Hecki, Pecher and Stenholm 2007:11).

4 Social Entrepreneurship in Finland

This section of the thesis will cover social entrepreneurship in Finland by explaining its definition and the extent to which it appears. On a Finnish level it is important to understand the distinction between *social enterprises* (Fin. yhteiskunnallinen yritys) as enterprises with communal and societal goals from *work integration social enterprises* (Fin. sosiaalinen yritys) which employ people who would otherwise have difficulty integrating into the labour market. Both forms of entrepreneurship have societal values and set goals for the common good. However, they differ in how these values are built into the enterprise.

Despite having social values, the purpose of a social enterprise is not set on employing people facing disadvantages in the labour market and should not be defined based on how many of these people it employs (Grönberg et al. 2011:44-45). Therefore, a social enterprise can build its social purpose on for example the types of services it produces. A work integrations social enterprise, although also a social enterprise, must build its social purpose on hiring people who are disadvantaged in the labour market in order to qualify as a work integration social enterprise and cannot base its social purpose on solely another societal aim.

4.1 Defining Finnish social enterprises

Work integration social enterprises hold an official status and need to qualify into the register of work integration social enterprises upheld by the Ministry of Employment and the Economy. Therefore, only the enterprises accepted into the register are allowed to operate under the name of a work integration social enterprise and have the possibility to qualify for state aid, in compensation for employing people facing disadvantages within the labour market (VATES Foundation n.d). Nonetheless, other social enterprises can also receive recognition despite not being legally defined and not receiving state aids.

For example, the Social Entrepreneurs Association of Finland (SYY ry) is a non-profit organisation promoting social entrepreneurship that offers a network for social enterprises through its membership. The Association for Finnish Work (Fin. Suomalaisen Työn Liitto) has created a mark for enterprises that fit the criteria for a social enterprise

and defines social entrepreneurship through two main features. Firstly the main goal of the enterprise is to solve societal or environmental challenges by operating in a profitable and business sense.

However, the success of the enterprise can be measured in how it has had an impact on society rather than on profits. Secondly, the profit of the social enterprise is channelled back into the business to enhance the social impact (SYY ry 2012). The Finnish Labour Association emphasises the same two criteria and in addition mentions that social enterprises must also operate in a manner that is open and transparent. For example in order to be a member of the Social Entrepreneurs Association of Finland the enterprise has to use at least 50% of its profit to benefit its cause (Kutinlahti 2012).

Apart from work integration social enterprises, Finnish social enterprises do not receive special subsidies from the government. In fact, the Finnish Association of Social Enterprises is against giving subsidies to social enterprises as it would distort market competition. A social enterprise in Finland is an organisation carrying out business like any other enterprise; they sell their services to customers and seek profit. However, profit is not the social most important or only goal for a social enterprise. Therefore, a social enterprise can be distinguished from a charity as it receives payment for its products and services yet still seeks to maximise the impact of societal good (SYY ry 2012).

Among the member social enterprises of the SYY association, one can find enterprises that manufacture products from ecological raw materials, provide immigrants assistance in integrating into Finnish working life, nursing homes, ethical advertising services and child care services employing retired women. This goes to show that social enterprises can function in various fields. Social enterprises combine the goals of public services with the efficiency and agility of private players. Furthermore, they can answer to the needs of associations that wish to engage in business. Social enterprises can be an especially valid and necessary option in cases when public services are ineffective, expensive or of low quality or in areas where seeking profits can be considered unethical (Suomalaisen työn liitto n.d.).

4.2 The amount of social entrepreneurship in Finland

In Finland, legislation that was first introduced in 2003, has been created concerning work integration social enterprises. Section 4 of the legislation defines work integration social enterprises as follows;

A corporation, a foundation or another registered trader may on application be entered in the register of social enterprises under the Trade Register Act, provided that

- 1) it is entered in the trade register under the said Act;
- 2) it produces goods and services on a commercial principle;
- 3) at least 30 per cent of the employees in the company's employ are persons with disabilities, or at least 30 per cent of all employees are persons with disabilities and long-term unemployed (percentage of placed employees); and
- 4) it pays all its employees, irrespective of their productivity, the pay agreed in the collective agreement, and if no such agreement exists, customary and reasonable pay for the work done.

(Act on Social Enterprises 2003:1)

In May 2010, there were 154 of these types of work integration social enterprises in Finland (VATES Foundation 2010). Altogether, 318,951 enterprises were registered in Finland in 2010 (Statistics Finland). Therefore, at the time 4,8% of Finland's enterprises were work integration social enterprises.

A register for existing work integration social enterprises in Finland currently holds 168 enterprises (Ministry of Employment and the Economy 2012). However, this does not give indication as to how much social entrepreneurship exists in Finland as a whole including other types of social enterprises. Since Finnish legislation merely recognises work integration social entrepreneurship, it is more difficult to measure it in the EU context that distinguishes the social entrepreneurship sector in a larger framework. This framework includes organisations that also implement other activity for the good of the society or community.

Therefore, it can be stated that in its entirety social entrepreneurship in Finland, including Finnish organisations with other societal activity than employment, is much vaster than it initially appears when measuring work integration social entrepreneurship.

These social enterprises do not hold an official register, but the Social Entrepreneur's Association of Finland (SYY ry) does hold a list of its member enterprises. Also the Association for Finnish work has a record of social enterprises to which it has granted the social enterprise label.

In a study conducted by the Finnish Institute in London, it was found that according to their business functions, around 15 per cent of Finnish small and medium sized enterprises resemble social enterprises and would be categorised as social enterprises under the British definition for social entrepreneurship. Furthermore, in 2009 it was estimated that the turnover of these enterprises amounted to 27 billion and employed around 13 000 people (Karjalainen and Syrjänen 2009:5). Estimates conducted in 2011 have evaluated the amount of social entrepreneurship to be growing: according to the European Commission (2011), every fourth enterprise set up in Europe is a social enterprise and in Finland as many as every third established enterprise is a social enterprise. Of course it must be taken into account that such studies may measure social entrepreneurship differently some accepting a larger framework than others.

5 Literature Review

This chapter of the thesis will discuss the most relevant literature concerning the topic of the thesis. Observations and critique from these sources will also be presented in this section. The aim is to introduce the most topical issues brought forth in different source material.

The Social Business Initiative introducing eleven key actions for promoting social entrepreneurship in Europe has been one of the most important sources in this thesis. This initiative gives the reader a compact understanding on what actions the European Commission plans to pursue in the near future in order to promote social entrepreneurship. However, the topicality of the Social Business Initiative has brought some limitations to researching the issue since it is work in progress and there remains limited information on its proceedings.

Similarly to the Social Business Initiative, most sources on social entrepreneurship present information on the topic in a positive and optimistic light. Especially information presented by the European Commission gives highly optimistic prospects for social

enterprises in the future. Proposed actions by the Commission seem promising, but it must be kept in mind that texts by the Communication defend its actions and are meant to convince the reader to support and believe in the Commission's work.

...to enable social enterprises to use their full potential, the Commission proposes an action plan in general support of social innovation to help create a favourable climate, in close partnership with stakeholders in the sector and the Member States.

European Commission, Social Business Initiative 2011: 6

Publications by the Finnish Ministry of Employment and the Economy also investigate social entrepreneurship without presenting substantial criticism towards social entrepreneurship. Some things have to be read between the lines such as is the case here concerning work integration social enterprises that have not started off substantially despite supportive actions:

- "Social enterprises have succeeded better than their reputation indicates"

Grönberg and Kostilainen 2012

Nonetheless, positive outlooks on social entrepreneurship when investigating sources can reasonably be a result of the concept's novelty. Bringing fourth negative aspects affiliated to social entrepreneurship would condemn it prematurely. Furthermore, the newness of social entrepreneurship could explain that there still cannot be vast amounts of negative experiences to report on it.

However, there are some sources that do present counter-arguments for social entrepreneurship such as an article on the theory behind social entrepreneurship in *The Academy of Management Perspectives* (2010: 42-43). The article by Dacin, Dacin and Matear mentions that all successful enterprises generate social value whether it is directly by solving social problems or indirectly through producing tax revenues and employment. Consequently, as expressed in the article, this argument suggests that all entrepreneurial forms can more or less be defined as social (Dacin, Dacin and Matear 2010: 42-43). The same argument has also been appealed to by The Federation of Finnish Entrepreneurs who similarly do not see social entrepreneurs as any different from other types of entrepreneurs (Keppola 13.8.2012).

At the same time, both Finnish and international project reports give broad perspective on the situation of social entrepreneurship in Finland and in Europe. Especially Euro-

pean project reports such as the *Study on Practices and Policies in the Social Enterprise Sector in Europe* conducted by the Turku School of Economic and the Austrian Institute for SME research on behalf of the European Commission's DG for Enterprise and Industry (2007) helps distinguish common features of social enterprises in Europe and understand their differences as well as similarities in the area. Publications by the Ministry of Employment and the Economy explain the environment for social entrepreneurship in Finland and propose suggestions for improving the environment for social entrepreneurship. There are reports from covering different angles on the state of social entrepreneurship in Finland to exploring the model of social entrepreneurship in the UK. Since these reports provide analysis and are written by specialists in the field they provide helpful insight, but also require some reading beforehand into the topic of social entrepreneurship.

In order to find the most up-to-date information on social entrepreneurship, the blog of Mikko Kutinlahti, a University of Tampere business student specialising in social entrepreneurship has been followed. Also The Social Entrepreneurs Association of Finland (Syy ry) and Association of Finnish Work's social business label has been followed. These sources focus on the current events concerning social entrepreneurship such as new certified social enterprises. Rather than just focusing on reports that have been made in the past, these sources are lively in the sense that they update new information and follow what is most recent concerning social entrepreneurship – as this is important in order to have a timely outlook on social entrepreneurship.

6 The Social Business Initiative – eleven key actions

In November 2011 the European Commission introduced the Social Business Initiative which contains eleven key actions to be launched before 2012 (European Commission 2011: 6). In the communication from the Commission to the European Parliament, the Council, the European Social and Economic Committee and the Committee of Regions, the Commission sums up these key actions in the areas of facilitating funding, increasing the visibility of social entrepreneurship and creating a better legal environment for social enterprises.

The supranational and wide ranging character of the European Union's policy making distinguishes it from other forms of international cooperation. Even more exceptional

are the profound impacts the EU can have on the national legislation (Hämynen 2011:10). The Social Business Initiative can require actions from the Finnish government to include it in the government platform and relevant ministries to see the changes through.

The European Commission itself will follow the progress of the initiative in the Member States. In the initiative the Commission (2011:13) mentions “implementing its initiatives in partnership with the Member States, in accordance with principle of subsidiarity” meaning that the Member States including Finland can implement the actions that it can more effectively handle nationally, regionally or locally itself (European Union 2010). This is significant when evaluating how the actions of the initiative are best implemented and also whether the EU is actually capable of advancing them. Nationally the actions of the Social Business Initiative could be assumed to be included into the government platform and delegated to the relevant Ministry, in this case presumably the Ministry of Employment and the Economy.

Until April 9, 2012 as part of the follow up of the Social Business Initiative, there is a call for application for the European Commission’s Groups of Experts. This Group of Experts will examine the progress and measures outlined in the Social Business Initiative and will be consulted by the Commission in the actions defined in the initiative. Presumably the Group of Experts will also contain members from Finland. The key actions of the Social Business Initiative will be presented here in order to further indicate their relevance for social entrepreneurship in Finland. This section will also present evaluations of what the actions could mean for Finnish social enterprises.

6.1 Funding

The first four key actions of the Social Business Initiative contain improvements for the funding of social entrepreneurship. The following chapters will discuss improving funding by regulating social investments, creating a better environment for micro-credits, providing more funds by introducing a financial instrument and including an investment priority for social enterprises in the European Development Fund and the European Regional Fund.

6.1.1 Key Action 1

The first key action of the Social Business Initiative suggests setting up a European Regulatory Framework for social investment funds (European Commission 2011:7). This would facilitate finding funding for setting up social enterprises that have remained rather unknown in the eyes of investors. Therefore, the framework would assist in distinguishing financial instruments for funding of social enterprises and encourage investors to take notice and use these instruments. In practice this means establishing a “European Social Entrepreneurship Fund” label, which would help investors identify funds that concentrate on investing in European Social Businesses. In order to qualify for this label, at least 70% of the capital given by the investors into the fund would be spent on financing social businesses (European Commission 2011).

According to the European Commission social businesses are still facing problems in receiving funding to grow. The Commission believes investment funds could be the solution. However, it is expensive and difficult to set up these funds and gather funding from other Member States than the one they are based in. Consequently, these funds remain small and offer limited options for investors across Europe. Secondly, existing funds present their aims and achievements differently therefore making it difficult for investors to distinguish the ones which focus on social businesses. As a result of the “European Social Entrepreneurship Fund” label these funds would present information in a standardised manner for investors. Furthermore, the fund would make it possible for these funds to gather investments throughout the EU area without high costs. The rules would be followed by Member States in which the fund is based in (European Commission 2011).

In fact, similar funding action on a national level had already been up for discussion among the Finnish social enterprises. In 2009, the idea of setting up a fund for social entrepreneurship that would invest their usual aid funds for associations into social enterprises was presented in a meeting organised by the Finnish social enterprise Syfo. At the time, the biggest Finnish associations that attended the meeting took great interest in the idea (Lilja, Mankki 2010: 41). Think Tank Demos Helsinki and business consultancy Eera (Eera Oy) have also produced a report on setting up a 50€ million fund for social enterprises (Eera Oy 2011:5).

Furthermore, the Yhteinen yritys Project (See Appendix 1) in 2010 also formulated a proposal for action for a national development programme based on the project's findings. The proposal suggests setting up a fund or multiple social enterprise investment funds that would provide financing tailored for social enterprises, as current funding available does not take into account the societal goals and impacts in evaluating the enterprise's final earnings. This would ensure investors that their investments promote socially, ecologically and financially sustainable development and make social enterprises a more reliable investment (Yhteinen yritys 2011).

Presumably, for Finland, creating the "European Social Entrepreneurship Fund" label would require cooperation from authorities in supervising that the funds are operating according to the set rules. According to the Commission, developing the fund on an EU level would bring consistency and clarity concerning the information provided for investors across EU markets. The Commission has planned to have the proposal in effect by the end of 2012 and it is soon going to be examined and decided on by the EU Council and the European Parliament (European Commission 2011).

6.1.2 Key Action 2

The second key action supports creating a better environment for micro-credits through analysis, promotion and development of legal and institutional environment. A Progress Microfinance Facility instrument has already been established to support financing and setting up a small business by providing funding for micro loans as well as issuing guarantees (European Commission 2011:8). These support measures are not issued directly to entrepreneurs, but to selected microcredit providers such as banks, non-bank microfinance institutions and not-for-profit microcredit providers. The loans are targeted towards small micro sized enterprises of under 10 people and especially social enterprises as well as for people who have difficulties getting loans through other means (European Commission DG Employment, Social Affairs and Inclusion 2011). Therefore, these microloans can act as an important support measure for emerging social enterprises that would otherwise have difficulty funding their operations. However, currently in Finland, there can be found very little discussion on microcredit providers as funders of social enterprises.

6.1.3 Key Action 3

The third key action proposes introducing a 90-million euro European financial instrument (European Commission 2011:7). This financial instrument invests in European solidarity funds. In return, these solidarity investment funds can then enhance setting up, developing, expanding of social enterprises and provide them with own-capital and debt-financing instruments. Basically this key action proposes using funding for the investment funds operating under the European Social Investment Funds label. This could also benefit Finland, which currently has a rather non-existing financial sector for social enterprises (Tykkyläinen 2012). However, it does leave reason to doubt whether such funds can be afforded during these financially difficult times and from the Commission's current financial framework.

6.1.4 Key Action 4

Prioritising social enterprises in the European Regional Development Fund and European Social Fund (See Appendix 1), the Commission suggests that an investment priority for social enterprises is included in the regulations of the ERDF and ESF. As these funds finance projects in Member countries, this would mean that countries could more easily include projects enhancing social entrepreneurship in their ERDF and ESF programmes. The aim would be to be able to develop vaster and more efficient support measures for social enterprises in the next programming period 2014-2020 (EC 2011:8).

In Finland, ERDF and especially ESF funded projects are extremely important in discovering new aspects on social entrepreneurship as well as for developing the field. Many projects in Finland have focused on work-integration social entrepreneurship as well as on other forms of social entrepreneurship and aimed at establishing more social enterprises in certain areas as well as ways of improving them. For example the Yhteiskunnallinen yritys project that produced advisory services on social entrepreneurship and valuable information on social entrepreneurship in Finland was partially funded by the European Social Fund (VATES 2012). Including this investment priority would ensure social enterprises are given attention to in such programmes. The more is discovered on social entrepreneurship, the easier it is to understand what changes are needed.

6.2 Visibility

The following chapters in this part of thesis will demonstrate key actions for increasing the visibility of social enterprises. These key actions include distinguishing replicable models and best practices of social enterprises, creating a common database of labels and certifications for these enterprises, improving learning and competencies among governments of Member States, introducing an electronic exchange platform to increase interaction as well as substantiating EU community programmes to benefit social enterprises.

6.2.1 Key Action 5

Key action five aims at distinguishing replicable models and best practices. This would mean mapping all the social enterprises in Europe concerning special features, business models, economic value, supranational growth potential as well as existing labeling systems (EC 2011: 9). In practice, this means benchmarking different aspects of social entrepreneurship in Europe.

Similar suggestions on a national level have also been made in Finland as a result of the Yhteinen yritys project which suggested setting legislation for a register of Finnish social enterprises. This register would contain information on the social enterprises concerning information such as the fields they operate in, volume of business, amount of employees and societal impacts. This register would enable gathering up-to-date information on social entrepreneurship in Finland and would be incorporated with the National Board of Patents and Registers of Finland. The idea would also be to develop a unified model for reporting that would provide comparable information on the societal impacts of social enterprises. This system would also ensure that social enterprises make results and have social impact (Yhteinen yritys 2011).

Both proposals behold the same idea, but the other is to be implemented on an EU level whereas the other on a Finnish level. Although, there may be labels for social enterprises on a regional level such as there are in Finland, there does not exist a collective database on these enterprises that would allow exhaustive comparison. In order, to justify possible advantages given to social enterprises and make them a reliable investment, these registers are necessary. However, since Finland currently only has a register for work integration social enterprises and a label for other social enterprises it

can be assumed that mapping the features of all social enterprises within the EU can be complicated when they have hardly been mapped out nationally.

6.2.2 Key Action 6

This sixth key action suggests creating a public common database of labels and certifications for social enterprises in Europe (European Commission 2011:9). The Commission suggests that by doing this social enterprises will have improved visibility and comparison. This would mean that depicting social enterprises would become easier and understanding their similarities and differences as whole on the European level more easily comprehensible.

Although, there exists quite a lot of social entrepreneurship in Finland, it is still a rather new concept and not familiar to everyone. Consequently, in order to grow and become more affirmed, there needs to be more recognition for social entrepreneurship. In fact, currently some organisations may not even recognise that they would fit the criteria for a social enterprise. Recently in December 2011, the Social Enterprise label was introduced in Finland (Syy ry 2012) and its development is financed by the Ministry of Employment and the Economy and the Finnish Innovation Fund (Sitra). This label will provide social enterprises better recognition although it has not meant changes in the Finnish legislation. In February 2011, the label was provided to eleven Finnish social enterprises that create solutions for societal problems and use profits to improve their operations (Suomalaisen Työn Liitto 2012). In relation to the Social Business Initiative, introducing the label will most likely benefit Finland's participation in the database and contributing to the improvements suggested by the Commission.

6.2.3 Key Action 7

This key action proposes improving mutual learning and competencies among national and regional governments concerning social entrepreneurship. This would enable the implementation of comprehensive strategies for support, promotion and financing social enterprises through structural funds and a result of analysis, sharing best practices, raising awareness and increasing knowledge through networking and spreading information (EC 2011:9).

As mentioned in relation to Key Action 6, in Finland as in many other European countries, social entrepreneurship has remained quite an unfamiliar concept due to its novelty. In addition to national and regional administrations also to funders, business advisors and to educational institutions social entrepreneurship is a rather new and vague concept (Yhteinen yritys 2011). Therefore, improving the awareness of national and regional governments would also assist these actors and enable social entrepreneurship gain visibility in more areas.

6.2.4 Key Action 8

To increase interaction between social enterprises, innovative entrepreneurs and the academic institutions, which can help social enterprises to acquire the necessary skills for administrating and creating growth for their business, the Commission suggests creating a multilingual electronic information and exchange platform for social entrepreneurs, business incubators and clusters and social investors. These hubs should facilitate cross-fertilisation between these actors. The Commission also wishes to promote its programmes such as Erasmus for Young Entrepreneurs as a means for social entrepreneurs to obtain funding (EC 2011). This key action could potentially help Finnish social entrepreneurs to learn from the experiences of others and discover funding, if put properly into effect.

6.3. Legal environment

The last section introducing the key actions of the Social Business Initiative presents the key actions focused on the legal environment of social enterprises. The following chapters will first discuss adjusting the Statute for a European Cooperative Society and introducing a new statute for foundations. After this, the section will present the key action that suggests highlighting quality aspect and social criteria in public procurement contracts. The final chapter will look into revising EU rules concerning state aid regulation of services for the general economic interest.

6.3.1 Key Action 9

The Commission has previously introduced a Statute for a European Cooperative Society to enable setting up cooperatives at a European level, but in a recent consultation

the provision was found problematic; cooperatives still find it difficult to operate within the internal market. According to the study, SCE regulation has performed merely a symbolic function since the complexity of it has hindered it from being used (Fici, EURICSE, University of Molise 2010: 29).

In Finland, nine of the thirty options recommended in the Statute have been used and two have not been applicable (Fici et al. 2010: 66). The taxation of capital income paid to owners favours limited liability companies more than cooperatives putting owners of cooperatives in an unequal position when comparing to limited liability company owners. (Fici et al. 2010:96). According to the study this is a legal obstacle for the development of cooperatives in Finland. On one hand, given that Finland has only adopted close to one thirds of the Statute, making simplifications could allow Finland to also implement more improvements. On the other hand, social enterprises are allowed to operate as limited companies as well which could be an alternative option to a social cooperative.

Furthermore, the Commission suggests establishing a European Foundation Statute enabling foundations to operate internationally. The Statute could be implemented optionally alongside national legal forms (European Commission 2011:10). Furthermore, as another action the Commission wants to commence a study on the situation of mutual societies in EU Member States so that it would be easier to investigate their cross-border activity (EC 2011:10, EC 2011).

All the proposals concerning the legal environment for social enterprises emphasize creating a more internationally applicable framework without compromising national legislation. However, concerning the Statute for a European Cooperative Society it seems that cooperatives have not been able to tap into the potential of the statute. In Finland, there also exist social enterprises in the forms of cooperatives and foundations (Ministry of Employment and the Economy 2010:96), therefore statutes to improve cross-border activity could be helpful to them.

In Finland, the most suited business forms for social enterprises are limited companies and cooperatives where it is easy to include the conditions for a social enterprise in the shareholder's agreement and articles of association (Ministry of Employment and the Economy 2010:26-27). The law on cooperatives adjusted in 2001 has been successful

and cooperatives have been setup substantially since (Ministry of Employment and the Economy 2010: 104).

In Finland, the most common legal company and organisational models that social enterprises can be built upon are limited companies, cooperatives, foundations and associations. As there already exists legislation for each of these models, they can to a certain extent conform to social entrepreneurship and therefore operate as social enterprises. For example limited companies operate under the Finnish Companies Act and Act's content concerning the Articles of Association is quite relevant for Finnish social enterprises. This is because the Articles formulate the code of conduct in corporate matters and obligates the company to behave in accordance with the Articles during the its existence. Although, this applies only if the Articles of Association have not been amended after the company has been formed (Toiviainen 2008:279).

As the Companies Act contains a legal presumption that the sole objective of the company is to make profit (Toiviainen 2008:279), a social enterprise in the form of a limited company has to add a clause to its articles of association that defines its objectives. In the case of a social enterprise, these objectives could go under the "promoting, in part or entirely, noneconomic objectives" (Toivianen 2008:279). In practice this means declaring the enterprise's societal objectives and limited profit distribution when part of the profits are used to promote the cause of the enterprise or when they are channelled back in to its operations.

In turn, cooperatives are governed by the Cooperative Societies Act that defines cooperative societies as owned by their member who pay for their share in the cooperative (Toiviainen 2008:122). A special characteristic for cooperatives is that its members participate in it as consumers or producers (Toiviainen 2008:738) and therefore support the finances and livelihood of those members, although it is possible cooperatives may also operate for an ideological or non-profit cause (Villa, Ossa and Saarnilehto 2007:120).

For instance, a workers' cooperative that for example that offers employment opportunities for unemployed persons is one example of a cooperative resembling a social enterprise. These workers' cooperatives are established by a group of unemployed persons who through the cooperative offer labour force to the needs of companies or households (Federation of Finnish Enterprises 2012). Pursuant to the description of

cooperatives within the Cooperative Societies Act, the unemployed who form the cooperatives are its members, participate as producers and gain their livelihood through the cooperative. Social enterprises combine a communal goal with economic activity and these two can also be effectuated in a cooperative (Kutinlahti 2012), therefore allowing a cooperative to operate as a social enterprise.

Associations follow the Law of Foundations that controls permits granted to foundations. The permit is not granted in cases where the objective of the foundation is to gain instant financial benefit to the foundation or its employee. According to Section 8a of the Act, foundations should not be allowed to practice other operations than those defined in its rules or that advances its purpose (Finlex 2012). According to Kutinlahti, foundations are associations for the public good that are allowed to practice business for goals of common good. One good example of this in Finland is the Children's Day Foundations (recently given the Finnish work social enterprise certification) that runs the amusement park Linnanmäki and uses surplus profits for six different children welfare organisations (Association of Finnish Work 2012).

However, concerning for example foundations it can be questioned whether they can truly function as social enterprises due to the legislative limitations on the profits they can make. If a foundation is not allowed to maximize its profits, it is difficult for it to maximize its social impact as well. Therefore, does a foundation really aim to maximize their social impact if they cannot foster their operations (Kutinlahti 2012)? Change, however, may not be far from occurring concerning this legislation. In January 2012, the Ministry for Justice announced it had set up a working group that would assess proposing a new Law on Foundations. The proposal includes defining the practice of business by foundations more clearly. The objective being to enable foundations to function as efficiently, flexibly and in a foreseeable way as possible (Ministry of Justice 2012).

All in all, social enterprises combine existing modus operandi and goals that can be found in established business or organisational forms. The Commission's proposal focuses on facilitating the operations of social enterprises within the internal market. The foremost question is whether this can actually help Finland, which already has business and organisational forms suited for operating as a social enterprise. Furthermore, questions still lie in investigating organisational forms on an international level, perhaps introducing forms for social enterprises for all European social enterprises can

help them expand abroad in the future. At the end of the day, what is important is that the forms used are not restricted for social enterprises, freedom to choose their registration form enables social enterprises to use the organisational forms most suited for their purpose.

6.3.2 Key Action 10

Public procurement could be one of the many solutions for improving the situation of social entrepreneurship. According to the European Commission there still exist substantial boundaries concerning public contracts. One the problems of this is that many countries have made additional provisions which hinder the use of public procurement directives to their full potential. Therefore, the Commission suggests highlighting the quality aspects in public contracts (EC 2011). Furthermore, the Commission has already published a handbook on green public procurement and a guide to taking social considerations in public procurement (Yhteinen yritys 2011, European Commission 2011).

Since 17% of the GDP of EU Member States consists of public procurement (EC 2011), changes in public procurement practice are to be noted in Finland as well. In its improvement suggestions the Yhteinen yritys project suggests reinforcing the use of social and environmental criteria in public procurement. Taking societal impacts into consideration in public procurement can enable more efficient usage of public funds and should be paid attention to especially in times when public resources are scarce. Therefore, establishing societal criteria into the Finnish public procurement practice should, according to the suggestions by the project, systematically be integrated into the public procurement process. This could be done by educating related parties on the issue who advise and implement public procurement (Yhteinen yritys 2011)

6.3.3. Key Action 11

Even though Member States are for the most part allowed to define which services are of general economic interest, the Commission must monitor that public funding given to these services does not unjustifiably distort competition within the internal market (European Commission Press Release 2011). In the final key action, the Commission refers to a revised package to reform EU rules concerning state aid applicable to services of general economic interest (EC 2011:11). This reform could be helpful to social

enterprises providing services in the field of general economic interest. Consequently, it would allow social services to not notify the aid received to the Commission and allow other services of general economic interest to be exempted when aids are under 15 million a year. Furthermore, the proposal for a *de minimis* regulation releases all compensation for services of general economic interest below a certain threshold from state aid scrutiny in order to reduce red tape for small services of general economic interest. The proposal is anticipated to be adopted in spring 2012 (EC press release 2011).

In Finland, the importance of incentives for social enterprises has also been noted to facilitate social enterprises to reach their societal goals. They may even operate as compensation for the societal mission that social enterprises implement and are necessary particularly in cases when generating profits is limited for a social enterprise (such is the case with social enterprises as associations). Furthermore, incentives also attract new social entrepreneurs into the field. However, according to Mikko Kutinlahti's blog (Unelmasta totta 2011) unlike Finnish work-integration social enterprises, Finnish social enterprises do not receive and do not wish to receive state aid that would distort competition. This statement is somewhat controversial in relation to the support actions promoted by the Commission, but once again highlights the complexity and novelty of social entrepreneurship that does not yet have set conduct for ways of operating.

7 Research Question and Methodology

The objective of the thesis is to investigate the relevance of the Social Business Initiative in the case of Finland. Through this, the thesis aims to also pin down the constituent aspects of social entrepreneurship within Finland. Although, the main focus is on social entrepreneurship in Finland, it was important to look into the European framework. This framework quintessentially relates to the research question of how the European Commission's Initiative applies nationally and what its most substantial weaknesses and strengths are in the Finnish setting. This chapter of thesis will explain and validate the research methods used to answer the research question.

Initially, the thesis was meant to investigate the Social Business Initiative by conducting a questionnaire that would be given to Finnish social enterprises. However, due to the fact that Finnish social enterprises represent such a vast range of services and in sev-

eral different business forms, it would have been difficult to exhaustively cover all kind of social enterprises and build a consensus that truly represents all Finnish social enterprises. In addition, although, the writer had become acquainted with the concept of social entrepreneurship and researched the topic for this thesis, as a student studying many different business fields, she did not have long-term experience or professional expertise on assessing the situation of social entrepreneurship that would have allowed profoundly enough to analyse the results of the questionnaire.

In order to gain more thorough, in-depth and current understanding of social entrepreneurship and distinguish the most relevant issues concerning social entrepreneurship in Finland, the writer decided to conduct a semi-structured interview with Head of Development at the Association of Finnish work Salla Tykkyläinen. As she had previously worked at the Ministry of Employment and the Economy and currently is in charge of the new label granted to Finnish social enterprises, therefore having a long-time experience of social enterprises she was able to give more thorough information on social entrepreneurship in Finland. The semi-structured interview also enabled the writer to present additional questions and questions of more detail. A seminar on social entrepreneurship *Social, Entrepreneurial, Innovative?* held in Brussels 28 February 2012 was also attended, which assisted in understanding the stands of EU officials on social entrepreneurship.

Therefore, information from both primary sources, the interview with Salla Tykkyläinen and the seminar, as well as secondary sources including studies, reports, newspaper articles, literature on social entrepreneurship, business law, and websites especially ones of Social Entrepreneur's Association of Finland (Fin. SYY ry), Association of Finnish work as well as the European Commission have been used. Several reports by the Ministry of Employment and the Economy gave topical analysis on the situation of social enterprises in Finland and performed as an important source of secondary information in this thesis. Surprisingly, electronic databases turned out to provide very little use in studying social entrepreneurship, especially as most information from sources outside Europe were out of the question and since the objective of the thesis being to focus on social entrepreneurship in Europe and in particular Finland.

8 Results and analysis – Finland in terms of the Social Business Initiative

To more thoroughly understand what factors contribute the development of social entrepreneurship in Finland in terms of the Social Business Initiative the interview with the Head of Development of Association of Finnish work Salla Tykkyläinen was conducted. Tykkyläinen is in charge of the new Social Enterprise label for Finnish social enterprises. Furthermore, she was also consulted on the parts of the initiative less applicable to Finland. This portion of thesis will therefore focus on probing the strengths and weaknesses of the Social Business Initiative in the context of Finland. Material from a seminar *Social, Entrepreneurial, Innovative?* held in Brussels 28 February 2012 will also be used to support the arguments concerning the Social Business Initiative. As a result, many of the ideas following stem from these sources.

8.1. Strengths of the Social Business Initiative in Finland

The Social Business Initiative has certain strengths that would especially be useful for Finland. As will be presented in the following chapters, especially the elements of the key actions dealing with community programmes, microloans, internationalisation, social innovation and public procurement show promise.

8.1.1 Funding – Structural funds and microloans

Salla Tykkyläinen points out that unlike in the UK where the Community Interest Company (CIC) business form was set up to create trust in investing into social enterprises, in Finland there does not practically exist a finance sector for social enterprises. The Community Interest Company business form introduced in the UK allows investors to make more trustworthy investments into social enterprises as the business form ensures the money is being used for social good as the investors intend it.

In Finland, social enterprises are held as high risk investments as there remains lack of understanding concerning the goals and purposes of social enterprises. This is somewhat controversial since the ownership structure of social enterprises, such as in the case of cooperatives, makes the enterprise very hard to sell and this should be a strong positive for investors. Despite the lack of recognition - and as a result this - lack

of investors, there has been very little interest in defining social enterprises in legislation, both from the side of the government as well as the social enterprises in Finland.

The most potential funding for social enterprises are structural funds, also mentioned in the Social Business Initiative. Projects funded by structural funds have contributed in creating 32 000 new jobs and 13 000 newly established enterprises. During 2007-2013 Finland will receive around 1.7 billion euro from these structural funds (Ministry for Foreign Affairs of Finland 2010:7). The majority of European Regional Structural Funds are used to develop SMES and regarding the European Social Fund, the majority of funds are used for improving employment (Lintilä 2012), making social entrepreneurship related projects the perfect candidates. Salla Tykkyläinen estimates that the key actions for funding are important and adequate for Finland. Structural funds are one of the most important aspects of improving social entrepreneurship and enable actions for the development, visibility building and research of social entrepreneurship, all of which are crucial for promoting social entrepreneurship.

The key actions for funding also suggest improving the environment for micro-loans for social enterprises that currently are hardly used by social enterprises in Finland. It is easy for enterprises to find funding for up to the first 18 months since they are able to receive start up money from the Employment and Economic Development Office (Ministry of Employment and the Economy 2012). After this period, they may have trouble financing their operations, therefore for social enterprises, microloans could assist social enterprises past the difficult times when support runs out. Not to mention that enterprises handing out microloans, such as in the case of Mohammad Yunus' Grameen Bank, can also operate as social enterprises already themselves.

8.1.2 Community programmes – already well on the way

The second part of key action 8 mentions promoting and increasing accessibility of Community programmes in support of social entrepreneurs (European Commission 2011). Tykkyläinen mentions that these programmes are in fact already quite established in Finland and there are plenty of qualified people to implement them. For example CIMO, which is a state-owned organization for international mobility and cooperation (CIMO 2012) in Finland, administrates these programmes. CIMO promotes the Youth in Action programme on common projects for young people. In its annual priorities for 2012 this programme fosters, among others projects, addressing social exclu-

sion and involving young people in tackling these issues as well as projects on environmental challenges in order to build green skills and commitment to sustainable growth (European Commission 2012:5). Establishing new social enterprises could possibly be one of the results of these projects. What is more, focusing on young people can contribute to developing a whole new foundation for social entrepreneurship at the grass root level.

Where creating a single multilingual electronic data and exchange platform as suggested in key action 8 may be too laborious to implement as will be further explained later in this thesis, Community Programmes can enable exchange of experiences and enhance social entrepreneurship. For example Erasmus for Young Entrepreneurs encourages entrepreneurship of young people through collaboration with experienced entrepreneurs (European Commission 2012). In fact appealing to young people is quite essential when it comes to the future of social entrepreneurship and the internationalisation of youths valuable for future social enterprises to operate cross borders.

Therefore, fostering social responsibility among young people holds great importance which has also been noted in Finland. In June 2012, the Social Entrepreneurs' Association of Finland, along with Peace Education organisation CISV Finland arranged a two day workshop for 14 to 17-year-old youths on developing entrepreneurship for positive actions and for advancing common good (Syy ry 2012). At the end of the day, focusing on already existing tools such as in this case community programmes rather than trying to develop whole new methods can be more effective and less time consuming. Since we have organizations such as CIMO commanding some of these programmes on national level, there is a solid basis for making the best out of them.

8.1.3 International Comparison of Social Entrepreneurship

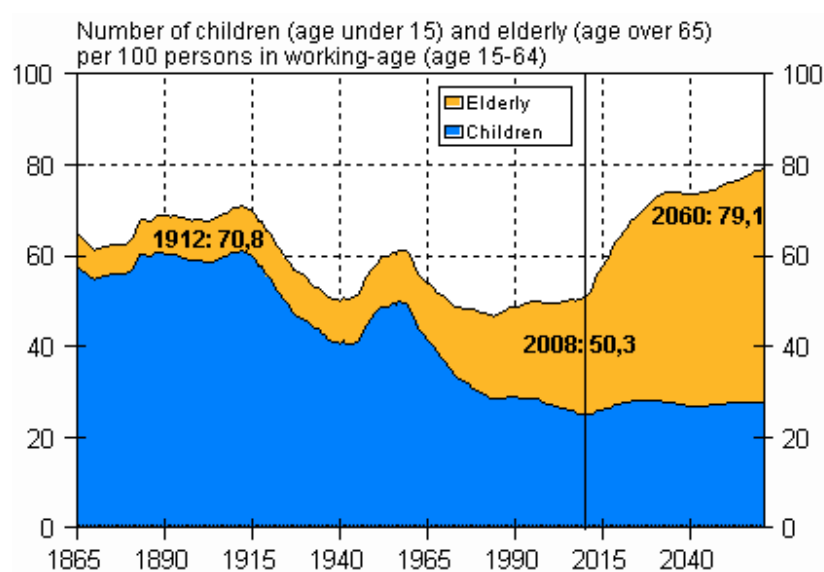
Key action 6 suggests creating a database of labels and certifications. Tykkyläinen sees this as positive allowing both authorities as well as consumers to make comparisons between social enterprises in different countries. This can also help social enterprises including Finnish social enterprises to begin to operate internationally. Since it is now possible for different kinds of Finnish social enterprises to receive the Social entrepreneurship label from the Association of Finnish work, it is also easier for them to be included into such a database. This database would also assist in understanding social entrepreneurship and enterprises abroad.

8.1.4 Social and Societal Innovation in Finland - finding new solutions to looming problems

In the seminar Social Entrepreneurial, innovative?, held in Brussels 28 February 2012 and organised by the Representation of the State of North Rhine-Westphalia. Mr. Vallen, a policy-coordinator at the internal market DG of the European Commission, pointed out reasons for why one ought to speak about social innovation. A growing number of societal challenges are causing budgetary difficulties on the EU and regional level and social innovation provides new solutions to these challenges. The Social Business Initiatives includes means for forging social innovation (European Commission 2011: 6).

Social Innovation is a valuable asset that should be focused on in Finland. Especially the maintenance of public welfare societies calls for new innovation in the future in relation to their maintenance. Sustaining welfare services will become more difficult particularly in Finland due to the demographic change, this meaning the retirement of large age groups (Grönberg et al. 2011:20). By 2060 there will be 80 over 65 year-olds toward every hundred people of working age, against the 50 over 65 year-olds there exist today towards a hundred people of working age (Statistics Finland 2009, Figure 1). Therefore solutions have to be found to make social welfare services more productive and prevent a sustainability deficit of the public economy.

Figure 1



Source: Statistics Finland 2009

8.1.5 Public procurement – Quality rather than quantity

As mentioned in the Ministry for Employment and the Economy's working groups report from 2011, procurement purchases could be more clearly utilised when developing services and motivating producers (Grönberg et al. 2011: 21). The report also mentions admittedly, that focus on making legally correct bids have been highlighted over objectives concerning the content of these contracts. Undoubtedly, concentrating on quality rather than on quantity would very likely lead to better results and improved services and social enterprises do have the potential to fulfil these requirements as they do not only focus on profits. Therefore, focusing on improving the quality aspects of public contracts would definitely be an asset for those social services providing matching services.

8.2 Weaknesses of the Social Business Initiative from the Perspective of Finland

Despite the many positive aspects of the Social Business Initiative some sections of it are problematic for Finland. Questions are raised on the capability of the EU and the suitability Finnish environment as well past experience giving contrary solutions to those of suggested in the Social Business Initiative.

8.2.1 Is the EU really the one to implement all key actions?

In the seminar Social Entrepreneurial, innovative?, held in Brussels 28 February 2012 Anita Rodert from the European Economic and Social Committee emphasized that it is important to have visibility for social enterprises enabling them to have better chances for public contracts, trust building in the sense of measuring social results and gaining recognition, building similar structures at member state level and being more creative and innovative in creating ways of funding. Visibility is also one of the main objectives of the Association of Finnish Work and as one of the primary goals of the association. However, there are doubts as to whether the EU is the right party for advancing visibility.

Key action 5 of the Social Business Initiative suggests identifying best practices and replicable models. This sort of benchmarking does sound promising, but the objectives lack specification and Tykkyläinen expresses doubts whether the EU can truly operate

as the executive body in this case. Concerning key action 8, the suggestion of the first part that proposes creating a platform for exchanging knowledge key action, lacks concreteness. Knowing the workload of EU officials and the amount of funding the key action would require, it is not probable that the key action could be among their top priorities.

8.2.2 Does Finland have the capabilities for quality public procurement?

Public procurement is of course essential for those social enterprises that produce public services. In fact, many Finnish cities such as Oulu, Tampere, Espoo and the social services department of the city of Helsinki already operate as fine examples of this. Nonetheless, there still exists notable dispersion between the capabilities of different municipalities concerning innovative public procurement. Consequently, according to Tykkyläinen, the Finnish Public Procurement Act does already allow innovative public procurement in the favour of social enterprises, but the problem is that not all municipalities have the know-how to implement this.

However, Tykkyläinen sees that increasing know-how is more relevant than making legislation for public procurement. An EU directive on the issue does not guarantee that Member Countries and their municipalities will act according to it, as has been noted in the Social Business Initiative that mentions problems with countries using their own additional directives (European Commission 2011:10). Furthermore, this key action cannot benefit all social enterprises as many social enterprises do not produce public services.

8.2.3 Finland and the environment for fair competition

In Finland competitive neutrality is given high importance as a means of ensuring equal operational preconditions to all players within the market, therefore seen as “a foundation for functional competition that directs the economy’s resources in the most efficient purposes of use” (Ministry of Employment and the Economy 2007:0). Competitive neutrality and ensuring it through competition policy, equal preconditions for both private and public service production as stated in the Finnish Competition Act is an important priority for Finnish authorities (OECD 2012:83). This complicates giving social enterprises special status or providing support that is not available to other regular enterprises.

A working group established by the Ministry of Employment and the Economy in 2010 used the strategy, definition and annual reports affiliated with the model of social enterprises in the UK as starting points for its report on developing the model for social enterprises in Finland (Ministry of Employment and the Economy 2011:0). According to Tykkyläinen, in order to be able to have approval from other business entrepreneurs concerning development of social enterprises, it had to be first agreed that there would not be any tax exemptions or direct public procurement advantage and no new legal form for social enterprises. Therefore, on the contrary to what can be implemented in Finland, giving incentives was part of the strategy for promoting social entrepreneurship in the UK.

Although the purpose of EU's state aid control obligates notifying the European commission on new aids and aid plans in advance and cannot be granted before the commission approval, the current *de minimis* regulation gives exemption to aids under 200 000 euro which can be considered insignificant enough not to be obligated to be notified to the European Commission (Ministry of Employment and the Economy:introduction). Key action 11 of the Social Business Initiative suggests simplifying rules concerning State aid to social and local services (European Commission 2011:11) making it easier for social enterprises to benefit from state aid.

Notwithstanding the potential the *de minimis* regulation could have for social enterprises, Tykkyläinen points out that introducing the *de minimis* regulation is quite tricky when considering the strong control for competitive neutrality. Furthermore the EU has put a lot of emphasis on creating fair and equal competition for all enterprises and has been harmonized to a large extent within the EU area (Confederation of Finnish Industries 2012). In Finland many interest groups are against distorting competition and consequently this means that changes proposed on the *de minimis* regulations are likely to face lots of resistance. This makes applying changes to the *de minimis* regulation quite problematic.

8.2.4 Legislation may not always be key – work integration social enterprises

At the seminar *Social Entrepreneurial, innovative?*, Member of European Parliament Jutta Steinruck pointed out that the current challenge of the European Commission and the European Parliament is coming up with legislation that makes sense in all 27 mem-

ber states. This can be thought of when considering the Statute for a European Cooperative that very likely may not be useful in all EU countries as a result of the different forms social enterprises operate in them as many countries already have organisational forms to apply. Moreover, changes made by the EU to the practice in *de minimis* regulation in 2009 decreased the length of state aid provided to work integration social enterprises (Esmerk 2009). Although, the results of this could be one of the reasons the Commission wishes to alter the regulation. According to the Finnish Ministry of Employment and the Economy (2012:31) the law was partly misunderstood and did not have such as negative effects on providing support as initially suspected. However, from 2009 to 2011 only 49 enterprises have been registered to the register of work integration social enterprises and 85 enterprises have been removed from the register (Ministry of Employment and the Economy 2012:31).

It can be concluded that becoming law does not always guarantee success. The Finnish Ministry of Employment and the Economy's report mentions that work integration social enterprises "have succeeded better than what their reputation indicates". Reading between the lines, the statement shows that although defined in law, social enterprises have not lived up to the expectations set. Despite having their own legislation that would allow them to receive public support in compensation for lowered capacity for work and gap in productivity (Grönberg and Kostilainen 2012:17), work integration social enterprises have not gained substantial leverage – they may not even always be funded any differently than other enterprises. In relevance to actions by the EU and as Tykkyläinen points out, at the end of the day, it is the extent to which Member States are bound to the changes that defines whether there is actual potential to have effects locally.

9 Conclusion

Comparing the three areas of improvement, it seems that the suggestions concerning funding are most relevant. Finnish social enterprises do not have a proper funding sector and are still considered a vague and risky investment. Special funds and microcredits could definitely work for Finnish social enterprises. Secondly, structural funds have already played an important role for Finnish social enterprises and prioritising social enterprises in the future would definitely be a positive improvement. Overall, when observing the area of funding in the Social Business Initiative, it does have substantial potential for bringing more money to the table for Finnish social enterprises.

The area of the initiative, in relation to the visibility, is the one which holds good and necessary intentions, but all of them may not be most effective if implemented by the EU. Although visibility is definitely a goal and sought for by the labels made for social enterprises in Finland, it would be better implemented by social enterprises themselves. On one hand, internationalisation can easiest occur through networking and that is why seminars and events would be one way for social entrepreneurs to learn from each other. Creating a platform is too laborious when such interaction could be built more easily. On the other hand, creating a database of already existing certifications is fairly simple to implement and can be helpful to social entrepreneurs. The last part of the key actions for visibility and community programmes is most relevant for Finland that is already well on the way with using them.

Lastly, the area of legislation in the Social Business Initiative holds valid points concerning public procurement. In Finland the environment is susceptible to making these changes. However, in many municipalities the know-how is not yet there and despite EU directives that do not even have to be effective immediately it may take time before changes can be taken in and have effects. Again, key actions for improving the European Cooperative Statute and establishing the European Association Statute are troublesome to actually work in every country. Since Member States have differing organisational forms preferred for social enterprises, it is hard to find a form that would exhaustively be effective everywhere including Finland that thus far has not taken to the European Cooperative Statute. Yet the study on cooperative societies could be useful to Finland since cooperatives are one of the most popular forms for social enterprises. Thirdly, the *de minimis* looses out to maintaining competition neutrality.

At the end of the day, Finland is on track for creating and improving social entrepreneurship. Although, the Social Business Initiative may not be completely applicable and in all aspects useful, given Finland's sustainability gap, the grown awareness of consumers and the challenges faced in developing rural areas (Bland and Tykkyläinen 2012) that should be responded to. Social entrepreneurship has come a long way in Finland during the past years since it has become more recognised and the environment also more responsive to social entrepreneurship as consumers' values change. The Social Business Initiative does answer to building a more favourable environment, but also behold many ambitious intentions that are not all applicable and relevant for Finland. On this account, applying the most focal is most crucial for Finland at this moment.

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Glossary

ERDF – European Regional Development Fund: The European Social Fund centres around building regional cohesion. Funds are used to support programmes for regional development, economic change, effective competitiveness and regional cooperation. In Finland, the ERDF is governed by the Ministry for Employment and the Economy and regional councils (Kallio et al. 2009:7)

ESF – European Social Fund: The European Social Fund promotes projects for employment and know-how. In Finland operations funded by the ESR focus on finding new solutions workforce, training and business policies and creating best practices and models. ESF funds are administrated by the Ministry for Employment and the Economy as well as Centres for Economic Development, Transport and the Environment (Kallio et al. 2009:7)

CIC – Community Interest Company: A Community Interest Company introduced in the UK in 2005 is a limited company created especially for social enterprises. The business form holds special criteria such as an asset lock, dividends and a 10% rate-cap. These companies are controlled by unit within the British Companies house which also approves registration for those enterprises that pass a community interest test (Business Link n.d.). A CIC must report each year on its contribution to serve community interests. Furthermore, if a CIC is liquidated funds must be redirected to another CIC or a charity (Bland 2010:38-39). The purpose of the CIC was to make social enterprises more reliable for investors and therefore improve their chances for funding (Bland 2010: 27).

Yhteinen yritys project: a project funded by ESR and the Finnish Ministry of Employment and the Economy and implemented by the National Institute for Health and Welfare, Syfo Ltd, Diaconia University of Applied Sciences, Association of Finnish Enterprise Agencies that aimed at developing advisory services for establishing social enterprises and support for regional and local government authorities.

Interview questions

Saila Tykkyläinen. 2011. Interview on the applicability of the Social Business Initiative in Finland. Interviewed by India Roland. [interview], Association of Finnish Work 11.4.2012.

Interview Questions (translated from Finnish), please note that as the interview was semi-structured few interview questions were prepared in advance.

1. Is a financial sector needed for Finnish social enterprises?
2. What are the most common organisational forms for Finnish Social Enterprises?
3. How do you feel about the key actions concerning networking and international exchange of experiences?
4. Do you think international cooperation and networking could be key for social enterprises?
5. Have British social enterprises been given too many privileges and incentives in relation to Finland's situation?
6. Which key actions do you find most irrelevant/negative about the Social Business Initiative?
7. Which key actions do you find most relevant/positive about the Social Business Initiative?