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Crowdfunding in Finland

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Abstract

Purpose of the Thesis is to find answers to three (3) questions which will define the position of crowdfunding industry in Finland. Questions are: *How crowdfunding operates in Finland. Which elements in Finland support or do not support crowdfunding industry? What is the future potential for the industry in Finland?*

In order to understand crowdfunding industry, paper will consist of general crowdfunding definitions and main crowdfunding forms which are used within the industry. As a form of financing projects and companies crowdfunding is still very new especially in Europe and Finland.

PESTL- Analyses tool will be used to conduct thorough country analysis which will determine crowdfunding's position in Finland. Selected sectors in the analysis all affect or have possible affection on the industry.

Currently Finnish economy is struggling with numerous problems in private and public sectors. Crowdfunding providing new and exciting alternative for financing businesses has not been recognized as tool for solving these national problems. However certain sectors such as technology sector provide realistic chances of increasing profitability and development within the sector.

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Research Plan

1.1 Research questions and objectives

Objective of this research is to determine crowdfunding industry's position in Finland. Investigating crowdfunding from very general perspective will help the research to determine applicability of crowdfunding in Finnish political system, economic system and jurisdiction. Currently these three sectors are the main decision makers regarding the development of the industry within Finland. This focus results in a following research questions: *How crowdfunding operates in Finland. Which elements in Finland support or do not support crowdfunding industry? What is the future potential for the industry in Finland?* Objective is to perform a thorough PESTL – Analyses about Finland and analyse how crowdfunding fits in the particular sectors analysed in PESTL – Analyses. Crowdfunding still being very new and young to Finland will force this paper to use empirical research approach in some parts of the thesis.

1.2 Structure of the Thesis

Chapter 1 will provide brief introduction to the main thesis research topic following by currently discussed topics around crowdfunding industry in Europe. Discussing regional (European Union) situation about the emerging industry is necessary. Second chapter will give definitions to particular crowdfunding forms used in this paper. All of the defined crowdfunding forms will be used in the PESTL – Analyses to determine their applicability in Finland. Due to complexity of the topic 3rd chapter explains structural aspects of crowdfunding platforms, why online crowdfunding platforms may be different from one another. Web 2.0 is by far the biggest infrastructural player for crowdfunding industry, 4th chapter explains the meaning of digitalization for crowdfunding. 4th chapter ends the first half of the thesis.

Finland's country analyses starts in the 5th chapter. Chapter will include information about Finnish economy along with other relevant sectors. 6th chapter fully dedicated to PESTL – Analyses which will give many results prior to Internationalization and Conclusive chapters.

1 Introduction to the topic - Crowdfunding

"Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions to relatively large number of individuals using internet, without standard financial intermediaries." (Ethan Mollick, 2013)

According to Bloomberg, "Finland is one of the most exciting startup nations and the 4th most innovative country in the world." (Geektime 2015). Petri Lehmuskoski who is one of the most active investors on Finnish soil, claims that "Finnish Startups are particularly good at building things" (Geektime 2015). Potential of Finnish entrepreneurship in connection with crowdfunding will be one of the topics discussed in this paper. Bloomberg and Lehmuskoski both who represent the top niche in their particular business operations give positive future statements about Finland. However before moving to the main topic of the Thesis Project; 'Crowdfunding in Finland' it is important to clarify and define the meaning of crowdfunding in general terms. How does it function and where crowdfunding can be performed? Idea behind singular crowdfunding form is the same in every country as the names of the forms define themselves; Donation-, Reward-, Equity- and Lending-based crowdfunding. Forms are explained in sections [2.3-2.6](#).

Internet has revolutionized interactivity between people and companies. Crowdfunding industry needs internet for bringing together the two main players of the business. First half are implementers of ideas and businesses, so called crowdfunding campaigns. Second half are the ones who contribute money: donators, investors, lenders or just buyers.

Conducting a thorough country research will require using a PESTL – Analyses tool in the 6th chapter in which selected sectors will describe the current situation of the crowdfunding industry in Finland. I have selected to highlight the *legal* subsection of PESTL – Analyses, to clarify aspects which cross each other in crowdfunding and Finnish legislation.

According to the "Report on Crowdfunding Survey" conducted by Kallio and Vento (2014) the increased popularity of crowdfunding has brought up large amounts of questions regarding legislative measures worldwide. "On the EU – level a central prob-

lem is that no separate or specific regulations exist for the sector, but provisions concerning the sector can be found in a number of different directives and regulations” (Kallio and Vento 2014: 5). Outcome of this confusing regulatory situation can be seen in current crowdfunding market in Europe. Different countries such as Italy, the United Kingdom, Germany and France are all launching and allowing different types of crowdfunding regulations. Therefore for EU it is very hard to control and oversee the current situation and even help in possible fraud cases. Kallio and Vento (2014: 5) declare that it is hard to conduct waterproof assessment about functionality of the region with so many procedures and regulations differentiating from one another. Finland has very strict regulations for fundraising which demands crowdfunding industry to take additional steps and manoeuvres in order to function by the means of law and fairness. One of the main crowdfunding forms, Donation-based crowdfunding cannot be performed at all in Finland.

Crowdfunding is providing an interesting solution for small and medium sized enterprises by allowing access to an alternative finance market. According to Center for Alternative Finance of Cambridge report on *European Alternative Finance Benchmarking* “The European alternative finance market grew by 144 % last year to €2,957m”¹. In 2014, SMEs² received in total €201 Million for early-stage, growth and working capital funding through alternative finance platforms. Economic part from the PESTL- Analyses will open some of the current problems and situations in which Finland and SMEs are. During the analyses crowdfunding will be used as a tool for analysing various possibilities which could be utilized through crowdfunding in the world of SMEs. Globally crowdfunding industry has grown to be bigger ever since the first online platform was formed in 2001³. Figures and growth percentages of crowdfunding industry are discussed under 1.2 History and Forecasts subtopic (see page 3).

¹ €2 957 millions.

² Small-medium sized enterprises

³ ArcticsShare was first online platform founded in United Kingdom Online Available <https://www.fundable.com/crowdfunding101/history-of-crowdfunding> Accessed

10.4.2015

1.1 Creative industry trajectory

Crowdfunding industry has changed a lot during the last decade and it will keep changing to various forms before the industry settles. Trajectories of Industry Change chart define different directions of industries. According to chart, crowdfunding is in the 'Creative' zone **Figure 1** (Annex I). Crowdfunding is influenced by creativeness. Project managers, innovators, game developers or just normal individuals with an idea are required to create something that will influence, affect and attract the crowd. On the other hand the crowd may be sometimes as involved in the product development as the *creator*. Giving comments and ideas to startups and crowdfunding campaigns has much bigger probability of being implemented than giving ideas for example to a multinational corporation like Apple. If given feedback is not taken into consideration or simply not implemented, investor might find another campaign to invest in.

In general, crowdfunding industry has very simple way of achieving market share and financial growth in financing market. Constantly growing amount of crowdfunding campaigns enables the possibility for reaching extraordinary results such as breakthrough products which not only attract consumers but new businesses to use crowdfunding. The example used by McGahan (2004) "unstable assets (in this case crowdfunding projects) and stable relationships (investors and developers) makes it possible to deliver superior performance over long term". Large amounts of project are implemented on a daily basis. Some of the crowdfunding campaigns fail already in the beginning and do not receive funding at all. Excellent example of a superior performance product for instance 'Pebble Watch' (fundraiser posted in 2012) which received support way beyond their expectations. The fully pledged amount was \$10,266,845. Originally requested amount was \$100,000. Establishing customer base is one of the most important factors of any business principals and according to Guardian (2012) "crowdfunded projects also provide a ready-made fan base in the event of project's completion, giving the audience exactly what they want as they are the ones choosing what deserves support".

Successful crowdfunding campaign does not mean that the startup or product which used crowdfunding as a financing tool will really break into the market. Establishing a crowdfunding campaign requires creativity in many different aspects. Basically all of the current crowdfunding campaigns are conducted on an online crowdfunding platform. Selection of the campaigns is wide for potential investor which means that step-

ping out of the shadows requires lots of effort. Constantly growing number of campaigns increases competition which forces campaign implementers to find the best ways of receiving backers⁴.

Further we will take a look on the historic background of crowdfunding in global measures.

1.2 History and forecasts

Crowdfunding as we see it today can be tracked down to the 1997. "The first recorded successful instance of crowdfunding occurred in 1997, when a British rock band funded their reunion tour through online donations from fans." quoted from the History of Crowdfunding article on Fundable. Inspired by this ArtistShare became the first online Crowdfunding platform in 2000. This British rock band example is merely to show how new crowdfunding is to current economic system.

Global financial crisis in 2008 increased global growth of crowdfunding industry as the requirements on the solvency and liquidity of the credit institutions tightened up (Kallio, Vento 2014). Generally speaking banks raised their interest rate on debt and reduced the risk of giving out "bad loans". Small and medium sized businesses started to look for alternative financing which used to be provided by banks. This situation can also be describes as *the death valley*⁵. Phase in which startups are lacking any cash inflows and investors seek only investing's with lower return but higher success rates.

In 2009 crowdfunding emerges as a major funding source tripling revenues from \$530 million to \$1.5 billion in 2011. Particularly entrepreneurs in United States of America and Europe recognized this as a good option to "validate their ideas, gain exposure, and gain funding" (Fundable). Global crowdfunding volumes in 2012 provided by Entrepreneur (2012) (**Figure 2** Annex I) indicates that the most popular areas of crowdfunding were USA (\$1,606 million)⁶ and Europe (\$945million)⁷ In 2011 President Barack Obama (USA) signed a 'Jumpstart Our Business Startups' (JOBS) Act which legalized equity crowdfunding and lessened regulation burden on small businesses (Funda-

⁴ Backers are the ones who actually invest/pledge money in the idea or project

⁵ Death Valley is colloquial term for the period of time before /after start-up companies receive venture capital funds before start-up companies generate revenues. Online Available:

http://www.investorwords.com/7812/death_valley_curve.html Accessed 10.4.2015

⁶ Total funds raised during 2012

⁷ Total funds raised during 2012

ble). The JOBS Act has had significant effect on the crowdfunding industry in the USA⁸, easing the legislative burden for SME-businesses⁹ and it has/is served/serving as an example for other countries and continents. There are high expectations for the current year (2015) in the crowdfunding industry and it is not surprising, as the industry has grown 1000 % in 5 years as reported by the Entrepreneur (2015) (**Figure 3** Annex I). The Tabb Group estimates that the accumulated investment within crowdfunding market will be \$17 billion (2014 \$10 billion) after 1000 of new crowdfunding platforms have been formed (Huffington post 2015).

2 Main forms of Crowdfunding

This chapter provides brief background information about the origins of crowdfunding, following with more practical and functional definition by using already existing crowdsourcing campaign as an example. In this section 4 of the main crowdfunding forms will be explained in terms of their fundraising features. Legal aspects which affect these forms will be explained in [6.5](#) section of the thesis.

2.1 Origins of crowdfunding

It is important to understand that superordinate term for concept of crowdfunding is actually crowdsourcing. Jeff Howe in his Crowdsourcing report (2008: 2) defines crowdsourcing to be a, quotation:

"...act of taking a task traditionally performed by a designated agent (such as an employer or a contractor) and outsourcing it by making an open call to an undefined but large group of people".

Then the "undefined" group of people share opinions and take actions in order to achieve mutual goal. In 2014 Finnish cancer association crowdsourced over 1300¹⁰ potential ideas and research topics which could be implemented in the future decisions. A brief example of how crowdsourcing can be conducted.

⁹ Small-Medium Enterprises

¹⁰ Crowdsourcing example in Finnish

<http://www.mynewsdesk.com/fi/syopajarjestot/pressreleases/syoepaesaeatioe-keraeae-koko-kesaen-ajatuksia-tutkimuksen-tukemisesta-1003364>

2.2 Evolution

Crowdfunding is a method of collecting many small contributions, by means of an online funding platform, to finance or capitalize a popular enterprise” (Freedman and Nutting 2015 : 1). Crowdfunding can be described as an evolved form of crowdsourcing. Crowdsourcing collected ideas and thoughts when crowdfunding collects contributions. Internet and online crowdfunding platforms are the tools for reaching large number of people who potentially are willing to give these contributions in a crowdfunding project (Hazen 2012).

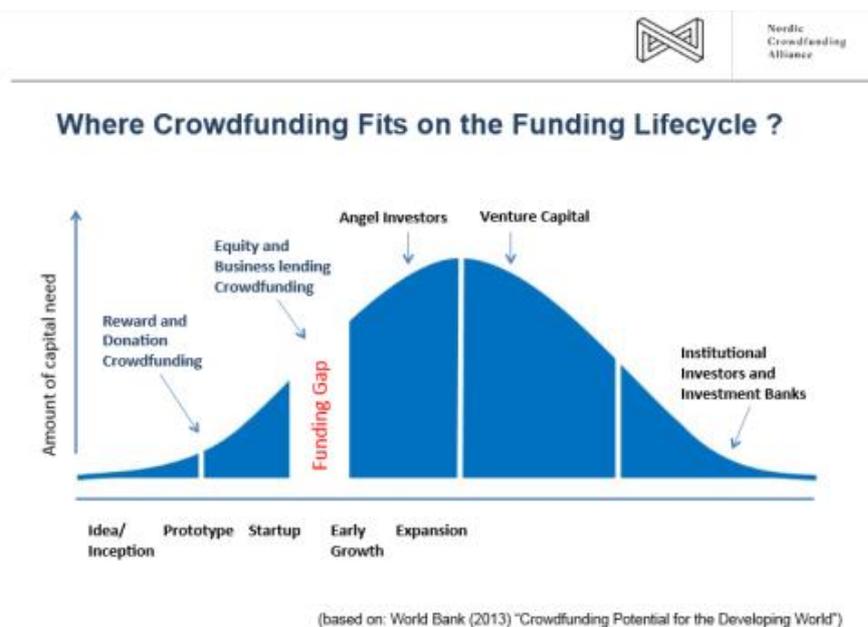


Figure 5 (Appendix I) - **Dr. Rotem Shneor report: Where the crowdfunding Fits on the Funding Lifecycle**

Dr. Rotem’s funding lifecycle represents the position in which crowdfunding supports entry level businesses. It is important to understand that Angel Investors and Venture Capitalists also belong to the earlier crowdfunding forms. “Titles” are given due to amount of capital invested and a form in which larger investments are conducted.

Before starting a crowdfunding campaign, the fundraiser needs to decide which form of crowdfunding will be used. The figure above shares an example when Idea/Inception, Prototype, Startup, and Early Growth firm or a firm which is seeking for market expansion should use specified crowdfunding form. Following that, fundraiser will have to decide which crowdfunding platform would be most suitable for his/hers particular crowdfunding campaign. Some of the crowdfunding platforms offer only one

or two forms which can be used on their platform. Sometimes performing certain form of crowdfunding is restricted by countries national law, for instance in Finland and Denmark.

Various financial investing forms of crowdfunding offer diverse possibilities for fund-raisers and investors, Mollick (2013 : 2) explains that entrepreneurs and individuals receive venture funding without financial intermediaries. Crowdfunding as a form of venture funding accelerates the implementation of the project. Entry level businesses and singular projects are not obligated to find funding for instance in banks or other financial institutions which is a longer and harder application process. "Alternative source of early seed funding for entrepreneurial ventures" as Dr. Rotem Shneor defines in his report: *Crowdfunding in the Nordics – Trends, Challenges and Opportunities for Entrepreneurial Growth (2015 :2)*. Crowdfunding can be preserved as an option for SMEs to raise cash inflows if other funding sources are not available.

Usually crowdfunding campaigns are rather short and the optimal length of a crowdfunding campaign is 45 days. Indiegogo released this information after conducting internal research for an optimal length of a successful crowdfunding project¹¹. In addition: Ambronite – Real Food Drinkable Supermeal firm from Finland broke the Indiegogo all-time record¹² for crowdfunded food products.

2.3 Donation-based Crowdfunding

Donation based crowdfunding as it suggests - contributor gives money for a charity purposes or the given amount is not even considered to make return on the investment. Usually such crowdfunding approaches are used for social causes, charities, political campaigns, rather than for entrepreneurial endeavours as stated in Entrepreneur publishing (Entrepreneur 2013, Financial Times). Donors can receive a good feeling for investing in a "good thing". Small reward for instance a brochure of a certain campaign or other minor benefits, this depends on the policy of fund requestors (Channel news Asia). Finnish national legislation has very strict regulations regarding the donation process. Current state of law does not allow practicing any Donation-based crowdfunding. Most likely the law will be redesigned in the near future.

¹¹ Optimal length for the crowdfunding campaign http://crowdfunding.cmf-fmc.ca/facts_and_stats/how-likely-is-your-crowdfunding-campaign-to-succeed

¹² All time record update <https://www.indiegogo.com/projects/ambronite-real-food-drinkable-supermeal>

2.4 Reward-based Crowdfunding

Reward-based crowdfunding is one of the most used crowdfunding forms (Crowdfundinsider 2014). Crowdfunding campaigns seek for contributors who are willing to invest in the project; in return they would receive a tangible reward. The reward may also vary in size and value. Rewards grow higher with bigger investments. Terms of receiving reward depend on the campaign implementer. Reward can either be ordered right away after the fundraising round or when first production stock is completed (aboutmoney, Crowdfundinsider 2014). Particularly this form has been successful in film, book and goods projects as the investor would receive for example a copy of the film or any other tangible asset. Entertainment is a good trigger for potential consumers. **Screenshot 1** (Annex II) simply shows how easy it is to give and receive different rewards.

2.5 Equity-based Crowdfunding

Equity-based crowdfunding is the latest form and it received enormous legislative releases after the JOBS Act in 2012 in United States of America. American entrepreneurs, citizens and companies included new way of practicing equity-based crowdfunding in to the industry making it equally important with rest of the crowdfunding forms. It is said this form possesses the highest potential in future investment world. Below caption from JOBS Act defines how equity-based crowdfunding can operate today:

"The crowdfunding provisions of the JOBS Act were designed to help provide start ups and small businesses with capital by making relatively low dollar offerings of securities less costly. They also permit Internet-based platforms to facilitate the offer and sale of securities without having to register with the Commission as brokers" (Federal Register 2013 : 1).

From the investors perspective equity-based crowdfunding is used to find campaigns which offer possibility to receive a share for return on the investment. It can be company or a singular product in which investor can receive a share of ownership.

2.6 Lending-based Crowdfunding

Lending-based crowdfunding is also called by other term '*peer-to-peer lending*'. "...individual borrowers can apply for unsecured loans (not backed by collateral)... ...borrow money from "the crowd," then pay it back with interest" (Freedman and Nutting 2015: 3) Crowd lends their money in small amounts (Crowdclan 2014) or larger

expecting the project founder to return the capital with some fixed interest. Usually lending process in crowdfunding is much faster allowing project to start fast. Lending can also be profitable if selecting successful campaigns which bring quick incomes in forms of interest. Borrowers have to prove their loan legitimacy to backers, this procedure is usually conducted by the online platform before allowing the project or company start crowdfunding campaign.

3 Various forms and channels of crowdfunding

All of the crowdfunding forms can be applied and used in a fundraiser but not all of the online platforms support all forms of crowdfunding. "Crowdfunding platforms vary widely in the way they are structured." (CMF-FMC 2015). One crowdfunding platform may only use one (Lending-based crowdfunding) model while other crowdfunding platforms use multiple models or a hybrid model which combines different elements of crowdfunding forms (CMF-FMC 2015). Examples of different crowdfunding platforms:

1. Fundable.com which offers both reward- and based-crowdfunding campaigns.
2. Rockethub.com on the other hand offers reward and donation as options for crowdfunding campaigns.
3. Pushfunder.com offers debt, reward, royalties and accredited equity as options for raising capital (Fungistitute 2015). Crowdfunding research blog of Fung Institute of Engineering Leadership states that hybrid platforms are an emerging trend in crowdfunding industry.

There is also variance regarding the success rate of performing a crowdfunding campaign. One of the most popular crowdfunding platforms is 'Kickstarter' pledging already over a \$ 1 Billion for successful crowdfunding campaigns. **Table 1** below illustrates Morrisons (2014) comparison between Kickstarter and Indiegogo which was posted on Adweek Social Times news post.

Table 1 Kickstarter Vs. Indiegogo. Scale B=billion, M=million, k=thousands

Comparing the Major Platforms		
	KICKSTARTER	INDIEGOGO
Pledged	\$1.2B	\$378M

Pledges	15.8M	4.9M
Traffic	23M	13.4M
Campaigns	154k	246k
Success Rate	43.4 %	9.8 %¹³
Which form of crowdfunding?	Donation- and Reward-based crowdfunding	All crowdfunding forms

3.1 Crowdfunding platforms based on categorization

Platforms also specialize in certain industry or area of products they offer for crowdfunding. This is one way of attracting specific product producers and investors who are mutually interested in the same industry or category of products. For example Technofunding.com is an online crowdfunding platform specifically concentrating on technology and science based projects. Capturing projects under the same platform creates a hub for people who want learn, invest and implement project with similar way of thinking. Kickstarter and Indiegogo offer variety of products with different categories from diverse industries. Pledged amounts in the **Table 1** illustrate that so far offering diverse groups of crowdfunding campaigns has been the most successful way of getting market share in the business. Finnish Invesdor.com online platform is the biggest Scandinavian crowdfunding platform and they also offer various crowdfunding campaigns from different industries.

3.1.1 "All-or-Nothing" and "Keep-What-you-Earn"

All of the before mentioned crowdfunding platforms and models come down to these two major models which are used in all of the online platforms as they indicate the receiving's of performed crowdfunding round, "All-or-Nothing¹⁴" model or the "Keep-What-you-Earn¹⁵" model. AON model is used for example on the most popular crowdfunding platform Kickstarter. In practice AON model works so that the entrepreneurial firms set a fundraising goal. If the goal is reached or over pledged then the campaign receives the capital, if not then the campaign fails (Cumming, Leboeuf, Schwienbacher 2014 : 3). In the KIA model you receive the entire amount which was pledged during

¹³ 17.1 % at fixed funding, 9.5 % at flex funding (95.6 %of Indiegogo campaigns are flex funding)

¹⁴ All-or Nothing Model = AON

¹⁵ Keep-What-you-Earn Model = KIA

the campaign. Even if the original goal was not reached the campaign owner receives the capital. Indiegogo offers this type of model. It is interesting how Kickstarter and Indiegogo representing two crowdfunding giants offer exactly the opposite service in terms of receiving pledged capital at the end of campaign.

4 Digitalization

Digitalization has made online crowdfunding as we see it today possible. It is in Finland's favour that ICT-sector has been developed over a longer time and computerization has been implemented early on into infrastructure, crowdfunding requires people who are able to access and use internet. In America ICT-sector has many times showed that distances does not matter and being involved in a matter which geographically is not near can be still practiced.

Technological part in PESTL – Analyses will discuss which competences Finland possesses in technology and how digitalization should be utilized in emerging crowdfunding industry in Finland. Crowdfunding is revolutionizing product development from the feedback perspective to more interactive and faster way of implementing development or ideas. Marketing these ideas has proven to be very efficient way of reaching target audience.

4.1 Digital Communication / Web 2.0

Major influence for crowdfunding growth lies in increasing number of global internet users (**Figure 4** Annex I). Modern crowdfunding has the highest user volumes in online crowdfunding platforms. Entrepreneurs are seeking for new funding channels in order to turn their ideas into a success stories, combining potential ideas with increasing amount of internet users who in this case can be presented as potential investors are a perfect combination for reaching mutual goals.

Building a crowdfunding campaign requires enormous online efforts in order to attract backers and investors for projects and products. Crowdfunding platforms offer necessary tools for conducting marketing and campaign development. Interactive discussion boards, videos, product and project team descriptions. Crowdfunding requires certain

type of online infrastructure around the business. Real time interactive boards and platforms with large amount of users are one of the "products" of our current internet and online technology ecosystem. This ecosystem is called "Web 2.0". Internet users are much more involved with online content, simultaneously the approach of content providers have changed towards the users. According to Marqui Whitepaper The Web used to be flat and one-dimensional. Content was static and did not adapt to the user (*Invisible Marketing* report, 6). In Web 2.0 "users participate and connect to each other using service opposed to sites" (Whitepaper). Experience is much more interactive and they can do *something* with the content, immediately. Listening to crowdfunding platform users plays crucial part in crowdfunded projects and goods, especially in development phase as it affects the overall campaign outcome and the number of backers. It can be thought that the user actually modifies fundraised projects through online participation, commenting and support. In other words user edits the online content which is physical at the developers' location but online for everybody else at that point. This is the power of crowd which exists in crowdfunding.

Another major aspect of connectivity among people and service providers is new subscription model. Internet users are able to log in or subscribe with their Facebook, Twitter, Google + etc. social network accounts basically to any online content which requires registration. This has revolutionized the registration process comparing to the old model in which users had to type their real or fake personal information in order to fully access the webpages. More effects of the social networks are discussed in the 6.3 PESTL -Analyses – Social section.

Digitalization has brought people much closer to each other. High speed internet communication enables external participation on projects which may be physically in totally different location, practically deleting distances between people and communities. Crowdfunding exclude the absolute geographical obligation to participate in something which is not in your region.

5 Finland

This chapter starts the second main part of the thesis project, the country research part. Chapter will answer to two presented research questions presented in the Research Plan: *How crowdfunding operates in Finland. Which elements in Finland support or do not support crowdfunding industry?*

Applicability of crowdfunding in any industry is very good. Idea of a product or a project can be either from health or technology sector, it does not matter because that is not the point in crowdfunding. Point is to attract people and get investments. However utilizing certain industries or sectors within a region can be beneficial for the economy and people who invest in crowdfunding.

Finland has started to get recognition for highly increasing start-up company volumes and constant development in different industries. Lehmuskoski who is one of the most active investors on Finnish soil, claims that "Finnish Startups are particularly good at building things" (Geektime 2015). He explains his arguments by excellent education Finnish students are able to receive during their studies. Another point worth mentioning is that studying facilities in Finnish schools are top class. Globally if somebody speaks of Finland, most likely they will mention Nokia, Angry Birds or the new flagship technology gaming company from Finland, Supercell. All of the previously mentioned companies, games or products are all technology sector inventions. Finnish ICT- sector also seems to be doing well. In the *Digital Finland Report: p.52*, Hernesniemi included a chart **Figure 9** (Annex I) in which ICT – sectors per country have calculated the productivity of a singular employee. Finland's position is 4th (1st Luxemburg, 2nd Ireland and 3rd USA), productivity per employee being around €90 000/year. Highlighting successful companies and statistics proves potential Finnish enterprises have especially in technology sector, however the bigger picture is actually on negative side at the moment. Technology sector will be used to prove the argument. In 2013 technology companies' net income after the taxes were on average 0.9 % in relation to the turnover. Between years 2000 and 2005 share was 7.3 % on average and between 2006 and 2007 it was 12 % on average. Information was referenced from Jukka Palokangas analyses (2015 : 7) about large structural problems of Finnish economy. **Figure 10** (Annex I) defines the profitability of all Finnish companies (blue line) and technological companies (brown line). When Finnish companies should be doing the initial or im-

portant investments, they do not possess the capital to do it. More arguments about Finnish economy will be provided in the PESTL – Analyses 6.2 section.

Private sector needs to rise up and public sector needs to make cuts. Finnish companies are not exporting enough their products to global and foreign markets. The example given by the party is that 10 of the biggest exporting companies in Finland have a market share of 30 %, in Germany market share of the 10 biggest companies is 20% (Kokoomus 2015). Please in this example consider that transaction volumes in goods and money are much higher in Germany so the difference provided by the example between Germany and Finland is even bigger and more concerning. High market share for biggest companies speaks of lower competition within the internal market.

Previous section gave general information about recent findings, analyses and problems in Finland. Now we will go deeper into the system in which crowdfunding could either fix a certain issue or assist it.

Figure 10 Profitability of all Finnish companies



5.1 Finnish Crowdfunding market

According to a crowdfunding report conducted in 2014 by Finnish National Treasury authority Aki Kallio and his associate in cause Valteri Vento specialist from "Ministry of Employment and The Economy", Finnish crowdfunding markets value in 2013 was €2 million. This was the only official figure presented online from waterproof source (Report on Crowdfunding Survey 2013). Current year is 2015 and a rough estimation of Finnish crowdfunding market is around €5 million. This is due to new and successful project conducted last year, for example Jolla-tablet (€1,2 million in 2014-2015). From the early days of crowdfunding and until this point, Finland has not shown substantial growth in the crowdfunding market. Even if the markets value has doubled in couple of years. It is important to mention that in 2013 new form of a Securities Market Act was

taken into use which was a law relief for crowdfunding industry. Crowdfunding campaigns raising less than €1.5 million do not have to conduct a “*publication of a prospectus*” (Financial Supervisory Authority 2014). Law exemption goes as following:

5.2.4 Exemptions from the prospectus obligation when offering securities to the public

(19) *In accordance with chapter 4, section 3, subsection of the SMA, a prospectus need not be published if the securities are offered:*
 4) *for a total consideration of less than EUR 1.5 million within EEA over a period of 12 months; or (6/2013 Securities of offerings and listings, 5.2.3, 4 §)*

Before the law relief Equity-based crowdfunding was even harder as it required even more legal preparation like the publication of prospectus. Finland did not experience similar popularity which was around easing the legislative burden of Equity-based crowdfunding in United States of America, JOBS Act 2012)

Main players of Finnish crowdfunding industry are currently operating Finnish crowdfunding platforms, successful crowdfunding campaigns and national legislation. Two of the first mentioned can with their example promote and provide information about crowdfunding. Third, the legislation is currently hindering full potential of crowdfunding by opposing very strict rules around the industry. Finnish crowdfunding platforms are listed in the **Figure 12** (Annex I). Invesdor.com (Finnish) is the biggest Scandinavian online crowdfunding platform. Most of the large and successful crowdfunding campaigns have been conducted through Invesdor in Finland. In 2015 *Kansalaisrahoitus Ltd.* Company might become another major player in Finnish crowdfunding industry. According to Kauppalehti (2015) *Kansalaisrahoitus Ltd.* has gathered over €23 million for growth companies. Two main services company offers are:

1. Channel for investing in startups
2. Funding solutions for startups

Kauppalehti (15.4.2015) announced an article about possible changes which might affect crowdfunding industry in the future. Kauppalehti states that still 80 % of current corporate financing happens through traditional bank financing. The tightening of bank regulation and increased cost of corporate loans forces companies to seek alternative ways of financing their businesses. In addition Kauppalehti mentions that the current market situation is actually very favourable for new crowdfunding campaign implementers. Earlier mentioned large and increasing amount of start-ups together with

high risk taking investors create unbearably interesting combination in the domestic investment market. *Kansalaisrahoitus Ltd.* mentioned in the article that their communication department has been increasingly busy since the last summer with new start up companies. Companies such as *Kansalaisrahoitus Ltd.* seeking solutions for both side of the financing and investing business, might be in a position in which their advisory services will be very popular and used.

Crowdfunding possesses certain potential in "efficient utilization of capital compared to other forms of funding." (Kallio and Vento 2014 :10). How and why crowdfunding has this possible feature can be explained in the following. Crowdfunding possess big social aspect behind the system which encourages people to participate and engage. In Finland according to Kallio and Vento people would be willing to invest and support in projects which are important to them and therefore help young Finnish companies to get their initial steps to enter the business world. More importantly crowdfunding campaigns as explained in the 4th Digitalization chapter possess valuable market research aspects. By establishing a fan or consumer base, campaign implementer is able to calculate and estimate production quantities based on campaign backers or just individuals who expressed interest in the campaign. Crowdfunding campaign usually being one of the first steps to engage with customers plays a role in how the business will elaborate after the campaign. Accurately calculating supply and demand usually turns out in profit. In Finland due to lower population than in USA (around 318.9 million 2014)¹⁶ , means that the consumer volumes are also lower so finding the target consumer groups has even more value.

Finnish National Treasury conducted a nationwide survey in 2013 about the current status of crowdfunding in Finland. First question was appointed to selected answerers who were public authorities, companies, fundraisers or entities/individuals that have a stake in the crowdfunding. *Question:* "Which form of crowdfunding has been central from the viewpoint of your organization?"

¹⁶ Population of USA https://www.google.fi/search?q=usa+population&ie=utf-8&oe=utf-8&gws_rd=cr&ei=ozkyVbGDO6bkyAPRr4D4Dg

FIGURE 1. Which form of crowdfunding has been central from the viewpoint of your organization (you may choose more than one option)?



Figure 13 – 1st questions from the national crowdfunding survey (Annex I)

Majority of the votes were appointed for Equity-based crowdfunding which in Finland and globally has gained more attention due to complexity of the funding form. Kallio and Vento (2104 : 9) state that equity crowdfunding is currently the least developed form of crowdfunding, but it possesses the highest long term potential. Respondents and the crowd see central opportunity of crowdfunding in investing and lending procedures for a larger group of individuals or communities. Before, it was possible only to a few numbers of people says Kallio and Vento.

5.1.1 Invesdor

Invesdor is an Equity-based crowdfunding platform formed in 2011. Platform is a good example for receiving various types of equity-based crowdfunding campaigns. For instance HIFK football club was recently promoted from 1st National Division (Ykkönen) to the National League (Veikkausliiga), by winning the 1st division. Due to small size of the club they needed to raise capital resources for the upcoming season expenses, which are much more than in the 1st division. Executives of the club in liaison with fans decided to conduct a fundraiser in a form of equity based crowdfunding. Club would sell 10, 10 – 15, 24 % of the club ownership to the crowd. Eventually they raised 344 495 € from 786 backers and now they are on their way for the upcoming football season (Invesdor.com 2014).

Invesdor being the biggest crowdfunding player on Finnish soil seeks for constant expansion of their operations. In the article released by Kauppalehti (2015) Innovestor and Invesdor crowdfunding companies alongside with *Kansalaisrahoitus Ltd.* have applied from Financial Supervisory Authority for permission to continue business operations. I believe this speaks of expanding current operations and preparation for future campaigns which are foreseen to be bigger and larger.

"...Invesdor in cooperation with Privanet, a specialist in the trading of unlisted shares, developed the first secondary market for equity crowdfunding in the world" (Invesdor 2014). It is a big improvement for investors in crowdfunding as it enables exchange of securities for crowdfunded companies, simultaneously prolonging business operations and providing new potential source of income. Other activities and achievements of Invesdor will be presented further in the text.

5.1.2 The Nordic Crowdfunding Alliance

Relatively positive aspect about future development of Nordic crowdfunding market can be noticed from "*Nordic Crowdfunding Alliance*" which is a partnership of key players in the Nordic crowdfunding scene. Recently established in March 2014, university-industry partnership became possible through the support of the Nordic Innovation High Growth Entrepreneurship Program. Goals of the alliance stated in Dr. Rotem's report are to: (1) *develop an ever more crowdfunding-friendly Nordic region*, while (2) *empowering and facilitating entrepreneurial growth* in the region. Finnish involvement in the alliance is rather major with the biggest regional crowdfunding platform alongside with a smaller platform. Below in the **Figure 14** is information about operational volumes of alliance members.

Members of the alliance are:

1. Invesdor.com (Finland)
2. Mesmenaatti.me (Finland)
3. bidra.no (Norway)
4. Karolina fund (Iceland)
5. Boomerang crowdfunding (Denmark)
6. University of Agder (Norway)

Figure 14 - Facts and Figures (Annex I)



Nordic
Crowdfunding
Alliance

Nordic Crowdfunding Alliance - Facts and Figures

	Boomerang (Denmark)	Bidra.no (Norway)	Invesdor (Finland)	Karolina (Iceland)	Mesenaatti (Finland)
Type	Reward	Reward	Equity	Reward	Reward
# Successful campaigns	303	36	26	95	72
Success rate	34%	45%	33%	78%	67%
Best Campaign (so far)	Copenhagen Boulders EUR 42,430 (DKK 314,000)	Car for sick child EUR 15,245 (NOK 134,153)	Invesdor EUR 290,871	Stundin EUR 45,520	Nappi Naapuri EUR 29,465

(* for period mid-2012 to end 2014)

One of the most interesting assets the alliance is creating and developing are institutional researches and reports which are conducted by a professional research team(s)¹⁷. If regulations restricting crowdfunding will be lowered, these reports and analyses can be used in new market entry and development strategies for both crowdfunding platforms and crowdfunding campaigns. We can describe this as a preparation for the future. Institutional research behind any industry can provide with in-depth information about how certain parts of the industry should be developed in order to reach higher efficiency and revenues.

6 PESTL – Analyses

PESTL – Analyses¹⁸ will be used to track and analyse environment in which crowdfunding operates. P – Political, E – Economic, S – Social, T – Technological and L – legal. In April 2015 Finland will choose new deputies to represent the country for another 4 years, starting the analyses with political subject is more than relevant at this moment.

6.1 Political

Kallio's and Vento's crowdfunding report is one of the examples how Finland is trying to catch up with rest of the world in crowdfunding, in United States these particular discussions and problems have already been solved for years. National Treasury has recognized the potential crowdfunding industry has in Finland due to high start-up activity. Success stories alongside promote public authorities to speak about this new phenomenon and express their opinions and knowledge about it.

In 2014 Donation-based crowdfunding received supporters, Deputy Mikael Junger (sdp)¹⁹, Oras Tynkkynen (green)²⁰ and Harri Jaskari (ncp)²¹ started collecting signatures (an address) for renewing Money Collection law²² (Tekniikka & Talous 2014). Three deputies of different parties aligning together for changing operating law is a good sign of cooperation between political parties. In 2015 Finland will have a new Parliament elections and speaking of crowdfunding in media has clearly served as a positive factor for getting attention. In politics there is always somebody who does not

¹⁷ Current activities of the alliance <http://www.nordic-crowdfunding.com/about.php>

¹⁸ PESTL – Analyses <http://pestleanalysis.com/what-is-pestle-analysis/>

¹⁹ Social Democratic Party

²⁰ Green Party

²¹ National Coalition Party

²² Money Collection Law regulates money collection rights for companies, public institutions, individuals or other groups.

agree with possible changes into the system and this case is no exception. Governing police department turned the idea for renewal of Money Collection law down and stated that it would be better to conduct an open register for people who want to raise capital funds. Police authorities back their arguments by saying that the open register could be overseen by police afterwards. Governing council reminds that such register would never be functional as in case of fraud, capital would have been already collected and getting it back to original owner would be extremely complex and time consuming. In January 2015 Helsingin Sanomat²³ announced that Social Democratic Party's governing party has decided to not side with renewing law draft of Money Collection law. This means that the law proposition will move on to next reign and it will be up to them to decide if it will come to action. Mikael Junger (sdp) in disappointment gives an interview to Helsingin Sanomat (2015) "Turning down the Money Collection law was the stupidest thing Social Democrats did during this term" (Helsingin Sanomat 2015). In article released by Kauppalehti (2015) Tony Lahti CEO of *Kansalaisrahoitus Ltd.* reminds that regulations and national directives are required in investment business. He says that it is about people's personal money, which means that rules around this particular form of business are obligated. Politics are complex and law changes especially to such sensitive topic as crowdfunding requires strong consideration among parties and decision makers. Still taking down the renewal of a law draft seems to be a publicity move which will not serve for Social Democratic Party during the next elections.

6.2 Economic

Currently Finnish economy is full of great business ideas and firms which are not able receive funding via traditional ways (Kallio and Vento 2014 : 10). This is why crowdfunding could serve as an alternative source of funding for private sector, especially for entry level businesses in Finland. **Figure 15** (Annex I) Palokangas expresses his concern in national debt of Finland which has been increasing extensively in the past years. Finland is putting lot of attention into analysing various possibilities to make substantial cuts in public spending, according to Palokangas Finland should be planning to do 10 to 15 billion euros of cuts in order to reach the debt level of 2008.

Figure 7 (Annex 1) provides us with information on the quantity of alternative finance platforms in Europe (by country). Research which includes lot more data about Euro-

²³ Helsingin Sanomat is the biggest national newspaper distributed in Finland

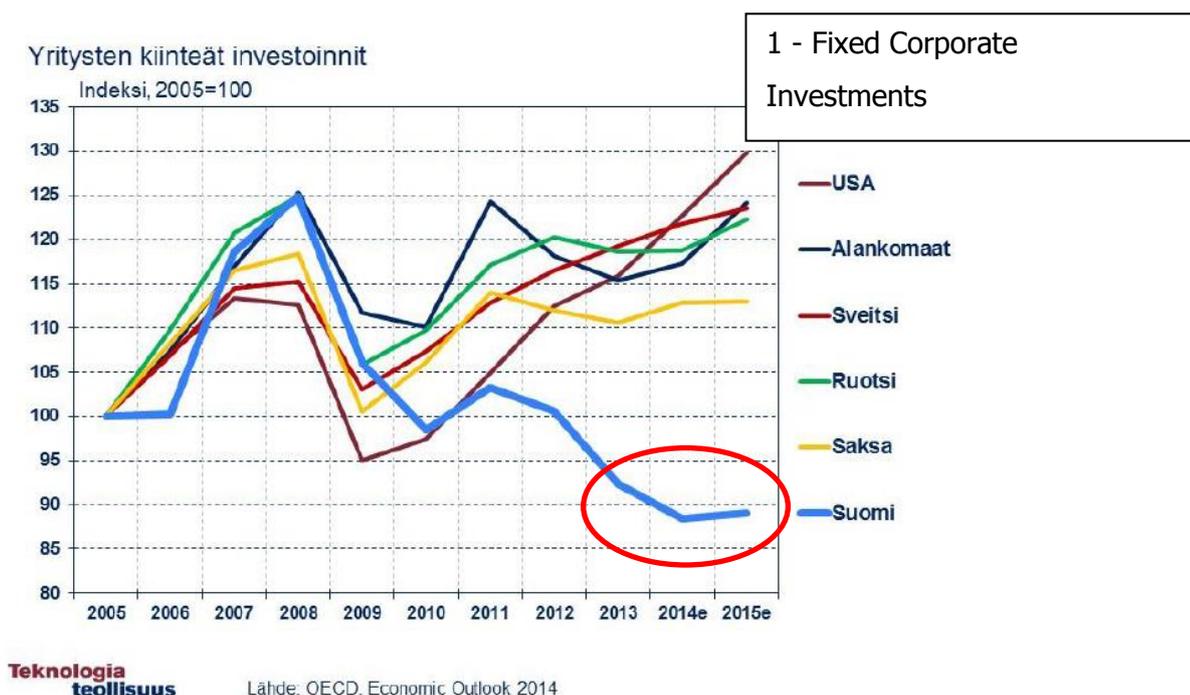
pean alternative funding was conducted by the *Centre for Alternative Finance of Cambridge*. World Economic Forum ranked Finland as the most competitive economy of Europe in 2014 **Figure 8** (Annex 1). In the **Figure 7** Finland have only 4 alternative finance platforms when Netherlands which has the same population has 31. There is no arguing that in the competitiveness report many other factors affect the ranking points but considering alternative funding as a new tool for funding entry level business, internationalization or just diversifying economic sector of a particular country it makes me wonder how the competitiveness was actually calculated. I recommend considering the competitiveness report again after reading through this economic country analyses of Finland. Many aspects define Finnish economy being in a deep trouble with debt and profitability related issues.

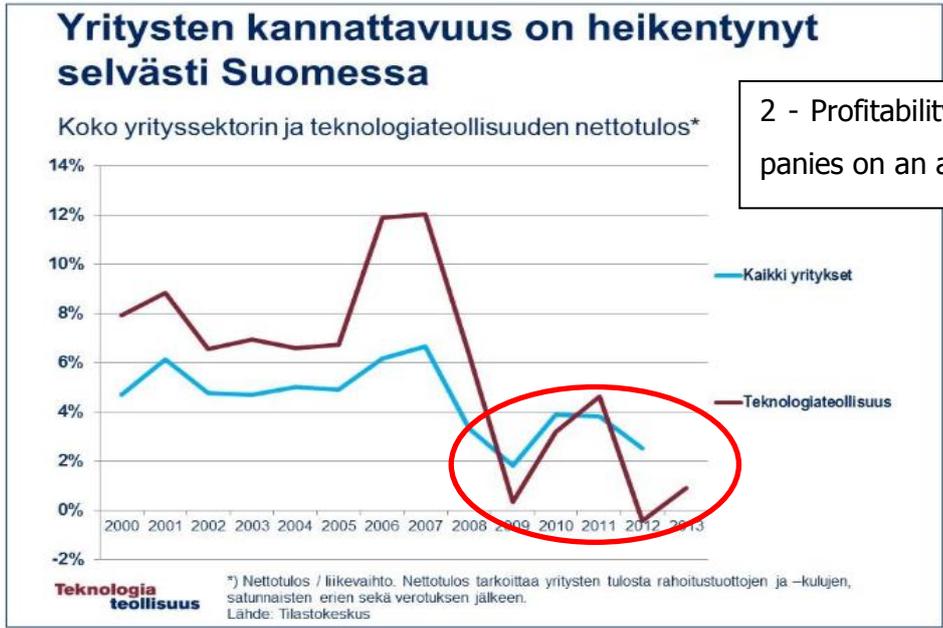
6.2.1 Three chart analyses

Next I will present my personal analyses using three different charts (**Figure 11** Annex I) representing:

- 1 – Accumulated amount of corporate investments in Finland
- 2 – Profitability percentage of Finnish companies
- 3 – Position of crowdfunding industry with in the funding cycle

Figure 11 – Chart Combination



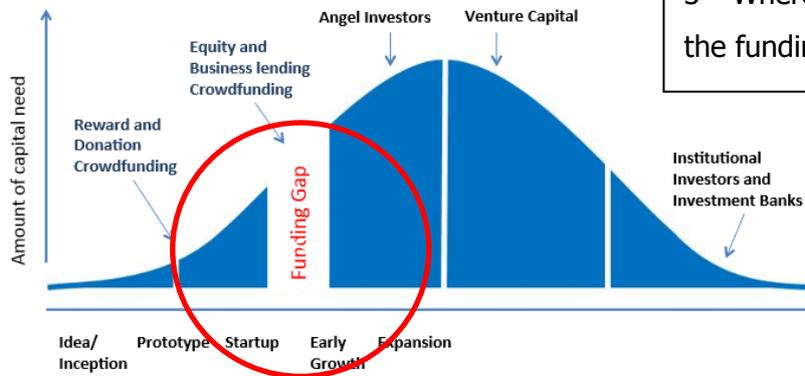


2 - Profitability of Finnish companies on an average



Nordic Crowdfunding Alliance

Where Crowdfunding Fits on the Funding Lifecycle ?



3 - Where crowdfunding fits on the funding cycle?

(based on: World Bank (2013) "Crowdfunding Potential for the Developing World")

We have discussed that in Finland 80 % of the current corporate funding comes through traditional bank financing. Current situation has also evolved so that companies and especially entry-level businesses are not able to get the traditional funding as easily as it used to be. Situation is so called "death valley" in which company requires to get initial cash inflows in order to sustain or save the business from bankruptcy.

1 – Chart. If companies are not able to make internal investments in order to fuel or expand their business, most likely it means that they will not make much improvement

in future periods. This obviously leads to 2 – Chart which indicates that companies are not able to make their business profitable. Without investments it is usually very hard to grow businesses. In addition if banks are closing their doors from entrepreneurs who probably possess higher risk of failing their business than making large profits, nationally SME sector starts to decrease in number of entities and potential superior performance companies, such as Supercell. In the 5th chapter we used an example provided by National Coalition party in which Finnish companies are struggling to expand and make it to the foreign market.

3 – Chart. Crowdfunding has such qualities that within short time (Indiegogo 45 day's optimal length of campaign) it is possible to raise required amount of capital to continue or expand your business. Another great aspect of crowdfunding is that it can be used for marketing purposes. New and awesome crowdfunding campaign attracts more people to look into the business and possibly invest in it. It also provides great market research information which can help businesses to calculate production amounts and therefore increase profitability of the company. These are tools for getting out of the "*death valley*". Kallio and Vento (2014 : 3) also sees this as a good and new way to develop and grow operations of companies. "*Momentum*" word is much used in crowdfunding. In crowdfunding momentum can be gathered by informing your existing or expecting potential consumers about the campaign early enough so that they are already waiting for it. My reference to *momentum* arguments come from Ambrionite's²⁴ presentation which was held at Aalto University's StartUp Sauna during a crowdfunding event. Crowdfunding can be used for internationalization, it merely depends on how the crowdfunding campaign has been established, on which online platform and who are the target consumers.

6.3 Social

"The role of social networks in funding new ventures has long been noted as important" (Mollick 2013 : 5). Social networks are inevitably the greatest source of distributing information about crowdfunding and crowdfunding campaigns. Every crowdsourcing or crowdfunding idea starts with distributing information to your closest networks. Success of a crowdfunding project appears to be connected with project quality which signals a higher project quality level. Such project are more likely promoted and recognized by large number of friends on online social networks which are

²⁴ Ambrionite - Finnish crowdfunded Drinkable meal company

associated with the success of overall crowdfunding campaign result (Mollick 2013 :6). "The quality signals of high-potential ventures are further magnified through a Matthew Effect²⁵, multiplying the impact of project quality and increasing the draw" Micic (2015 : 22). During crowdfunding event organized by Aalto University the CEO of Invesdor²⁶ Lasse Mäkelä explained that failure percentage of crowdfunding campaign highly increases if your personal network is not involved in the crowdfunding. Additionally he said that before launching the campaign to the public, Invesdor presents the idea to their internal investors (business angels and venture capitalists) who can decide if they want to participate in the early process of crowdfunding campaign. Success rate of the campaign increases if the campaign has already received early investments.

I believe Finland is in very controversial position regarding the social aspect of crowdfunding. Finns are not risk takers and we cherish our personal funds even if the individual is rich or not. Article in the *Keskisuomalainen*²⁷ states that "In the investing world Finns are not risk takers and they value secure investing options as the most important ones". Crowdfunding involves rather great risk factor. In simple terms you give out money for a project in which you have very little information about the future of the project, only assumptions. Yes the decision is totally up to the potential investor and crowdfunding campaigns give out as informative information about their project as possible in order to attract the investor. Finnish legislation is a burden which hinders the attractiveness of crowdfunding in Finland. In social interactions and conversations high regulation can be seen as a negative aspect for spontaneous actions.

Kallio and Vento (2014 : 10) mentions that lending-based crowdfunding noticed to answer a specific social need. "It was considered to increase opportunities for assistance between people taking place on social grounds, both in Finland and abroad" (Kallio and Vento 2014 : 10). Some of the results presented by Kallio and Vento in the report declare that crowdfunding was seen to be a way of starting a project for a company or an individual that are not able to receive traditional funding but further it would increase "the vitality of cultural and social life and to strengthen independent activities" conducted by citizens" (Kallio and Vento 2014 : 10).

²⁵ Matthew Effects origins can be tracked down to New Testament – Gospel of Matthew, it can be referred to this topic as a positive feedback loop which generates around successfully performing crowdfunding campaign.

²⁶ Invesdor is the biggest Scandinavian online crowdfunding platform , found in Finland. Specializing in equity-based crowdfunding

²⁷ "Keskisuomalainen" is an online newspaper.

SLUSH is a non-profit start-up and tech company event organized in Helsinki and Tokyo. Event attracts international investors, executives and media to experience the most modern and latest technology start-ups in one venue. Only 4 years ago SLUSH was organized at Aalto University Startup Sauna with less than 300 participants. Now they had over 14.000 attendees. Reasons behind rapid growth and popularity were social acceptance, mutual interest and willingness to develop startup sector, especially in technological start-ups. In Finland it is very often that people and communities get very excited about certain topic and then they start to exploit idea in every possible way. CRWDPUISTO which organizes annually an informative crowdfunding event is a great example how people who understand the industry are willing to spend their time promoting and sharing the good aspects of the emerging industry. One day CRWDPUISTO might end up being as huge as SLUSH, this however requires cooperation from all of the main players of Finnish crowdfunding.

6.4 Technological

Crowdfunding has revolutionized the active participation of crowd/future/potential consumers. With interactive discussion board (which is in most cases provided by an online platform) and ability to give direct feedback about current state of the product, consumers are able to receive almost exactly what they are expecting from crowd-funded projects.

Jolla-tablet is a great example of Finnish crowdfunded technology project which has been taken from initial idea stage to development stage with the help of crowdsourcing and crowdfunding. According to Tekniikkatalous (2014) Jolla-tablet has broken the \$1,5 million milestone. Crowd has been able to comment and give their ideas for the upcoming Jolla-tablet. Test users and consumers are pleased with the results so far. Now Jolla-tablet is experiencing other business related difficulties such as reaching the estimated sales which would then cover the initial production costs. Another problem is that Jolla-tablet is geared with totally new operating system (Sailfish) which is neither Android nor IOS. Will they attract enough attention and consumers? Answering to that will be possible in the near future, but this merely shows that projects may face other problems when operations expand rapidly. Other successfully crowdfunded technology project in Finland are listed below:

1. Merplast²⁸ – First aid technology device, raised €130,769 in 62 days

²⁸ Merplast <https://www.invesdor.com/finland/fi/success-cases#Merplast>

2. Neonto Studio²⁹ – visual mobile application development tool, raised €59,755 in 26 days
3. Reset game³⁰ - First person puzzle game, raised €71,398 in 30 days

SLUSH event (November 2014) mentioned in last Subsection [6.3](#) is perfect example for measuring technological interest in Finland. Miki Kuusi the founder of SLUSH event held a presentation at an annual corporate meeting of “*Taaleritehdas*” Investment Company and said that they have tracked over €50 million investments since their last event. Finnish technology start-up sector possesses huge potential and with events like SLUSH Finland is able to get recognition in the eyes of the foreign investors. However investors also seek companies with good profitability rates and high potential in their forecasts. Looking again at **Figure 10** (Annex I) foreign investors will most likely be afraid of Finnish companies and choose other investment candidates. According to (Palokangas 2015: 9) Finnish tax environment does not possess real tax benefits for companies and owners which would attract foreign investments in Finland for a longer term. In addition he adds that this problem concerns global consortium organizations whose willingness to invest in a country such as Finland hinders with higher taxation policy.

Technology companies and technology sector in general consumes a lot of capital reserves for R&D, prototypes, experiments and initial launch of the actual product. If the product is successful, usually the returns are exponential. Previous arguments about Finnish technology companies and high capital requirements for catalyst operations are a complicated combination. We can also describe this situation as the *death valley* for technology companies. Many times in this paper we have defined crowdfunding to be good funding channel for projects which require investments for even considering launching a development or production stage. Crowdfunding provides the entire necessary tool for the beginning a business.

²⁹ Neonto Studio <https://www.invesdor.com/finland/en/pitches/387>

³⁰ Reset Game <https://www.indiegogo.com/projects/reset--4>

6.5 Legal

Crowdfunding is an umbrella term for several forms of funding that vary from one another in operational and financial characteristic terms. **Table 2** illustrates all of the main aspects which affect a crowdfunding process and crowdfunding in general in Finland. Forms of crowdfunding were already explained in the “[2.1 Main forms of crowdfunding](#)” section.

Table 2: Report on Crowdfunding in Finland (2014: 6)

	Form of funding	Form of refund	Motivation for funding	Examples of service providers	Domestic legislation
Donation-based crowdfunding	Donation	No refund	Social	-	Money Collection Act
Reward-based crowdfunding	Donation, pre-purchase	Reward, product	Social, but also reward-based	Mesenaatti.me (FI) Kickstarter (US) Indiegogo (US)	Money Collection Act; Consumer Protection Act; Sale of Goods Act (incl. supplementary decrees)
Peer-to-peer lending	Loan	Loan with interest, but social lending generally without interest	Economical, social	Lainaaja.fi (FI) Fixura (FI) Kiva (US)	Legislation on financial markets (e.g. AIFML, AML, LLL, SIPAL, MLL) ¹
Equity-based crowdfunding	Investment (often in shares)	Appreciation of the investment if the company is successful and/or dividend	Economic, social	Invesdor Oy (FI) Venture Bonsai (FI) Kansalaisrahoitus Oy (FI) FundedByMe (SE)	Legislation on financial markets (e.g. AIFML, AML, LLL, SIPAL, MLL)

¹ Significance of the abbreviations: **AIFML**: Act on Alternative Investment Fund Managers (162/2014), **AML**: Securities Markets Act (746/2012), **LLL**: Act on Credit Institutions (121/2007, thorough reform under preparation), **SIPAL**: Act on Investment Services (747/2012) and **MLL**: Payment Institutions Act (297/2010)

6.5.1 Money Collection Act

Donation-based crowdfunding is currently under strict regulations in Finnish jurisdiction. Finnish Money Collection Act “Section 1 – *Objectives*” directly states that:

“The objectives of this Act are to make it possible to organize money collections in order to fund non-profit activities and to prevent dishonest activity in connection with money collection” (Money Collection Act 255/2006, 1§)

In addition Section 5 – *Permit*:

"Money collection may not be arranged without a permit granted by the authorities (money collection permit)" (Money Collection Act 255/2006, 5 (1)§)

Money collection regulations do not apply to some forms of money collection which are: helping neighbours, collecting goods, charity auctions, and so forth. But it is strictly prohibited to collect funds for profit purposes. This is why in Finland Donation-based crowdfunding is not able to make any performances via any crowdfunding platforms and campaigns. Kickstarter.com online crowdfunding platform in majority uses Donations and Rewards-based crowdfunding. If Finnish entrepreneur want to use Kickstarter and Donation-based crowdfunding it would mean that they would operate their business elsewhere than Finland, not physically but any financial relations are prohibited in Finland if using such way of crowdfunding.

In article published by Finnish National Treasury (Kallio and Uotinen) states that the Treasury will continue assessing applicability of national and EU-regulations and various forms of crowdfunding in Finnish crowdfunding industry. In the process they will investigate development and new regulation needs for crowdfunding. National Treasury is actively trying to influence Commission for clarifying the overall juridical assessment on EU-level. Money Collection law will be under changes in the near future.

6.5.2 Consumer Protection Act

Reward-based Crowdfunding is merely regulated by *Consumer Protection law and by Sales of Goods law*. First chapter of Consumer Protection Act states following:

"This Act applies to the offering, selling and other marketing of consumer goods and services by business to consumer. ..." (Consumer Protection Act 38/1978, 1 (1) §)

As explained in the [2.4](#) Main forms of Crowdfunding, Reward-based crowdfunding in juridical perspectives is pre-selling of goods and services. For any form of crowdfunding giving out information is essential in order to receive any kind of recognition and popularity for the campaign. Sometimes the campaigns give more general information about the possibilities, aesthetics, functionalities of the product. They might be estimations about the future but many times crowdfunding possess certain level of uncertainty. Jolla-tablet is very fascinating project which in different research would be interest to investigate from legal and development views, there are some controversial aspects regarding the development of the tablet and below defined consumer protection law section. Consumer Protection law has very clear sections 6 § and 7 § which states reg-

ulation regarding the giving out valid and real product information for consumers, unfortunately law has not been published in English so following quotation will be a direct translation from the original text:

"Marketing or customer relations must not be given false or misleading information, if the information is likely to lead to the fact that the associated with the decision, which he did without the information given would done." (Consumer protection law (561/2008, 6§)

In addition:

"Marketing or customer relations must not be left without giving any context, taking into account relevant information that the consumer needs for decision to conduct purchase of consumables or any other related decision, and the lack of which is likely to lead to the fact that the consumer makes a decision that he would not have made with sufficient information". (Consumer protection law 561/2008, 7§)

Reward-based crowdfunding is arguing with Finnish consumer protection law. This means your potential idea must be bulletproof and doable or otherwise the legislation is violated. Effects are on all potential entrepreneurs, individuals and communities. Decreased risk for starting a crowdfunding campaign will reduce the risk for finding and exploiting possible market gaps to reach high market share in particular industry or business sector. For instance Pebble Watch which used Donation- and Reward-based crowdfunding raised in the first round over \$10 million and on the second round over \$20 million. Now Pebble watch has a high market share and is extremely hot in the wrist- watch/band products. Beauty of the crowdfunding industry is that anyone from anywhere basically can launch a "mega" hit. You just need your crowd and momentum.

6.5.3 Sales of Goods Act

Finnish Sales of Goods law obligates crowdfunding companies to promise certain products while still applying for the funding.

"The goods must confirm with the contract in regard to description, quantity, quality and other properties and be contained or packaged in the manner required by the contract. (Sales of Goods Act 355/1987, 17 §)

Law is breached when normal crowdfunding feedback procedure is conducted. Often crowdfunding campaigns learn from the feedback and implement modification to their product. Yes the law applies to the one who asked the correction to be made into the

product but it has not been accepted by all of those who have already invested. This is when Consumer Protection law and Sales of Goods law might be breached.

6.5.4 Securities Markets Act

Lending and investment-based crowdfunding is regulated by Financial Market legislation (National Treasury). Securities Markets law obligates crowdfunding companies to truthfully inform their potential investors and shareholders about aspects and things affecting value of company securities. It is almost the same obligation imposed as by Consumer Protection law in reward-based crowdfunding that the goods must be exactly as promised at the moment of investment.

"It is prohibited to provide false or misleading information in the marketing and exchange of securities or other financial instruments in business as well as upon fulfilling the disclosure obligation in accordance with this Act. Information the untruthful or misleading nature of which is revealed following the provision of the information and which may be of material significance to the investor, shall, without delay, be corrected or supplemented in an adequate manner."(Securities Markets Act 746/2012, §3)

7 Crowdfunding for internationalization

In the Abstract section of this paper I mentioned CRWDPUISTO crowdfunding event, the theme of this year will be internationalization through crowdfunding. Many companies like Ambronite, Yoogaia and Jolla who started their business or at least stretched operational activity after a crowdfunding campaign are now successfully exporting their products, skills and knowledge to foreign markets which is exactly what Finnish companies should be doing. In Finland there are organizations like TEKES which supports internationalization of Finnish companies. They support businesses with their possible country knowledge, connections and partial funding of the internationalization process. Figures below illustrate few possibilities companies could use for internationalization. In Figure X1 company first conducts a successful crowdfunding campaign. Applying for support from TEKES requires internationalization plan which TEKES evaluates. From there with the support of TEKES internationalization can be started. In Figure X2 founders of the crowdfunding campaign went straight to their international consumers and started a crowdfunding campaign on a global crowdfunding platform. Sometimes companies find their consumers right away and no support is required from domestic authorities or organizations.

Linda Liukas took her idea abroad via Kickstarter online platform. She created and wrote "Hello Ruby"³¹ a programming fundamentals book for children. I was listening to her presentation at the shareholders meeting of "Taaleritehdas" Investment Company. She said that she offered this idea to Finnish investment companies and book publishers, but all of them turned the idea down. Linda received 9,258 backers who pledged \$380,747 and found a foreign publishing company which is now working with her on the idea.

Figure 16 – Internationalization possibilities

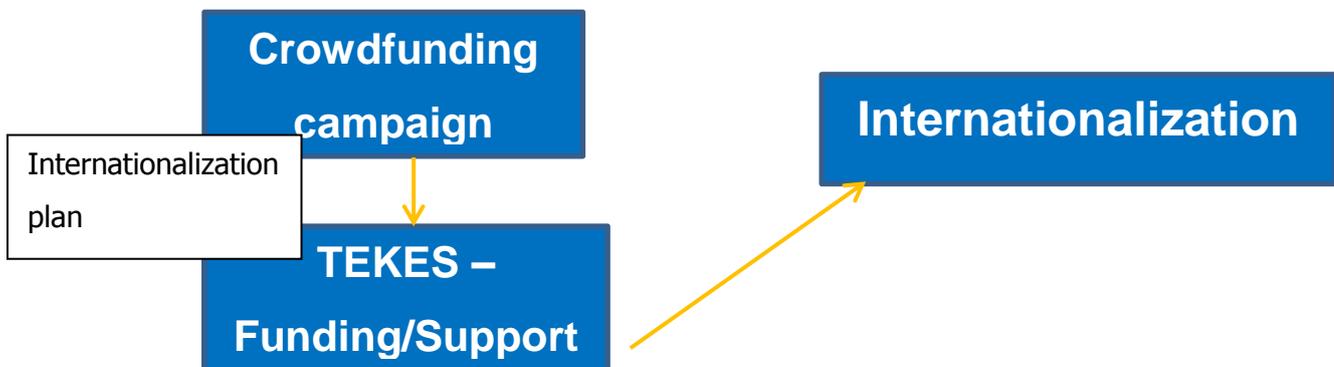
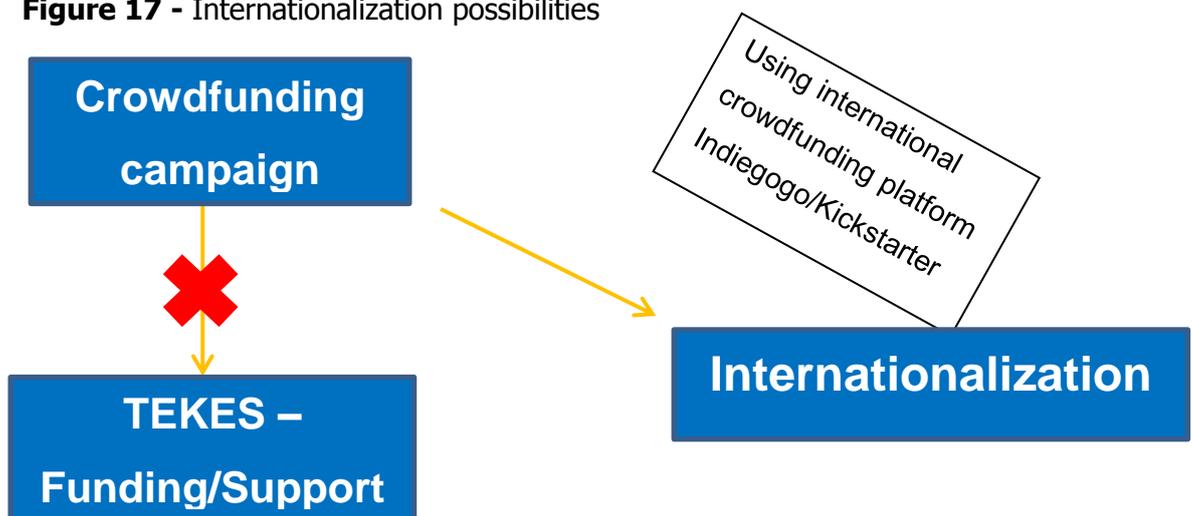


Figure 17 - Internationalization possibilities



³¹ Hello Ruby crowdfunding campaign <https://www.kickstarter.com/projects/lindaliukas/hello-ruby>

Figures are conducted by the author

8 Conclusion

Currently Finnish economy is not dependent or even considering crowdfunding as a major growth issue now or in the future. Finland is suffering numerous losses with trading sanctions imposed on Russia. According to Ziabari and Urpilainen³² (2014) Russia is one of the biggest trading partners of Finland and finding new partner with similar purchasing volumes is just not possible due to geographical location. Urpilainen speaks of much bigger and fundamental problems Finnish economy is facing. Ageing population and decreasing employment in wood-processing, paper, heavy and banking industries. Mentioned industries are getting more and more automated which means that employees would not be needed anymore in certain positions; this is simply an action of efficiency. Yes population is ageing and the same exact people were working in these heavy industries but we cannot live decade after decade thinking about how traditional industries could prolong their traditional way of reproducing because they won't do it the same way anymore.

No company in Finland has filled the gap Nokia left behind it, but companies such as Supercell and Rovio and trying to push the Finnish 'know-how' to foreign markets and new consumers. Crowdfunding is very powerful tool for all of the industries which are somehow related to product development, service distribution or raising company awareness. Concentration should be on the new things which are happening now and not on the ever-growing trees which are not going to leave us for many centuries.

Strict regulation in Finland increases the overall burden which companies have to remember and follow. **Figure 19** (Annex I) gives a final representation on which level Finnish regulations strictness is compared to European neighbours. Especially in the Donation-based crowdfunding, before new law draft will not be accepted, this form will not operate on Finnish soil. This is an automatic loss from potential income which could have been received for private and public sectors. Finnish mentality involves careful analysing of variables and alternatives which leads to long decision periods.

Answering third and the last original research question. *What is the future potential for the industry in Finland?*

³² Former Prime Minister of Finland

Technology sector despite low profitability rates possesses only realistic chances to grow and exploit itself via crowdfunding in Finland. **Figure 18** (Annex I) presents turnover figures in the gaming industry. From 2013 to 2014 the turnover has doubled. Crowdfunding is very popular for funding games and gaming related projects. Some of current flagship companies of Finland are gaming companies Rovio and Supercell. Crowdfunding should be introduced to the technology industry as a wonderful possibility to raise capital reserves for developing a prototype which crowd is requesting. This would require sort of combination of crowdsourcing and crowdfunding. In addition "Health technology is the largest high-tech export segment in Finnish Industry, representing 47 % of Finland's total high-tech product exports (3.8 billion, 2014)" (Finnish health technology export report 2015 :2). One solution could be that crowdfunding would be integrated in one of the most functional business sectors of Finland, health technology sector.

Finland should react faster to national problems and emerging industries such as crowdfunding. Crowdfunding is changing the investment sector in United States so that ordinary citizens are more easily able to participate in amazing projects. As analysed in the research crowdfunding fits in the starting or developing phases of a company or a project implementation. In Finland this gap is the one which needs to be filled, (*death valley*) companies are seeking for alternative financing. If 4 alternative finance platforms were registered in Finland according to Cambridge report for *Alternative finance in Europe in (2014)* then Finland is having a serious problem about not answering to the demand of such a huge service requestors as the whole SMEs sector in Finland.

Investor the Finnish online crowdfunding platform possesses also potential regarding growth and increasing market share in future times. Globally launched first secondary market for shareholders of crowdfunded companies is a big thing and the concept might be already patented and therefore it will serve as a superior asset against competitors. Investors involvement in institutional and regional research benefits them as it benefits Finland for future times to come. Private sector is currently under big stagnation and Finnish economy and politicians have been analysing, how Finland could be brought back to those revenue and public spending levels which were during years 2007 and 2008. Crowdfunding is not answer to all of the questions but it might be an answer for small and medium sized enterprises on Finnish soil.

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10 Tables and Statistics – Annex I

Figure 1 - Creative Change

Trajectories of Industry Change

When determining which type of change your industry is going through—and, no doubt, it is going through some type of transformation—you need to consider whether there are threats to your industry’s **core activities** (the recurring actions your company performs that attract and retain suppliers and buyers) and to your industry’s **core assets** (the durable resources, including intangibles, that make your company more efficient at performing core activities).

		Core activities	
		Threatened	Not Threatened
Core assets	Threatened	<p>Radical Change <i>Everything is up in the air.</i> Examples: makers of landline telephone handsets, overnight letter-delivery carriers, and travel agencies</p>	<p>Creative Change <i>The industry is constantly redeveloping assets and resources.</i> Examples: the motion picture industry, sports team ownership, and investment banking</p>
	Not Threatened	<p>Intermediating Change <i>Relationships are fragile.</i> Examples: automobile dealerships, investment brokerages, and auction houses</p>	<p>Progressive Change <i>Companies implement incremental testing and adapt to feedback.</i> Examples: online auctions, commercial airlines, and long-haul trucking</p>

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Figure 2 - Global Volumes

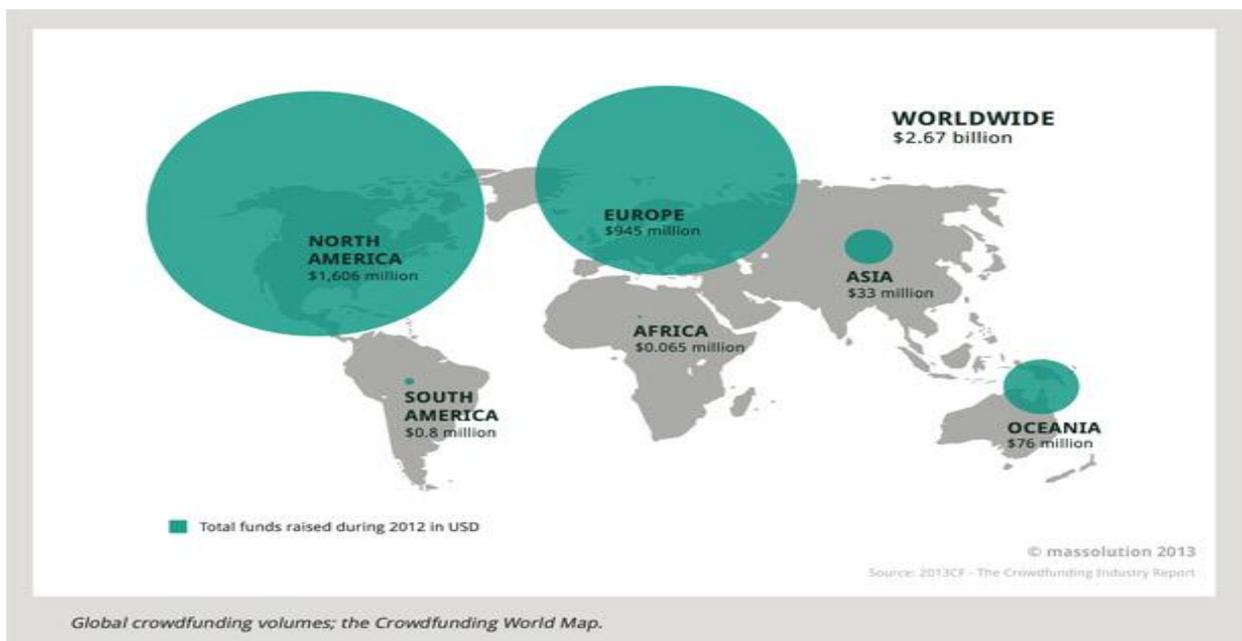
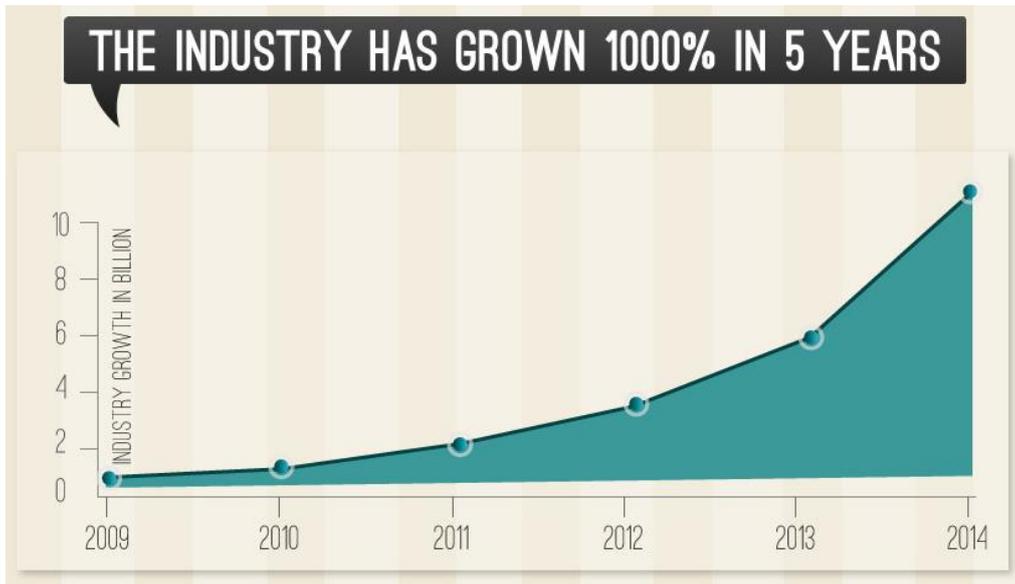
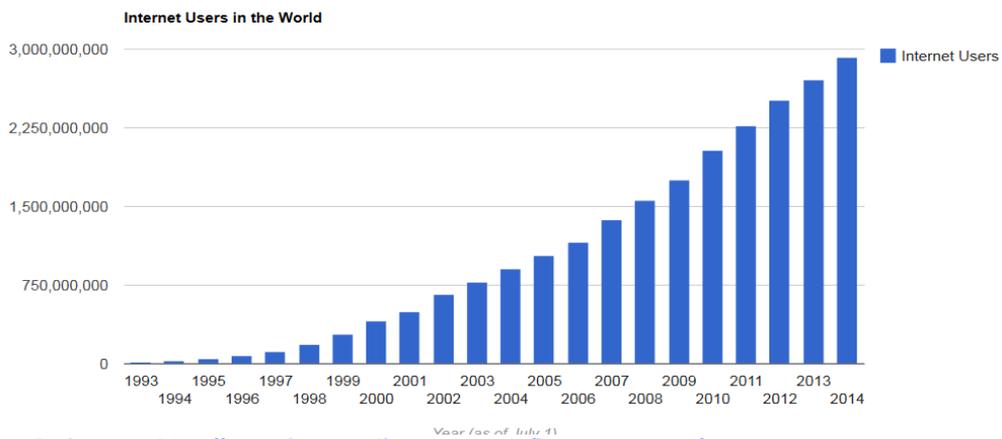


Figure 3 - Crowdfunding Industry Growth



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Figure 4 - Internet Users



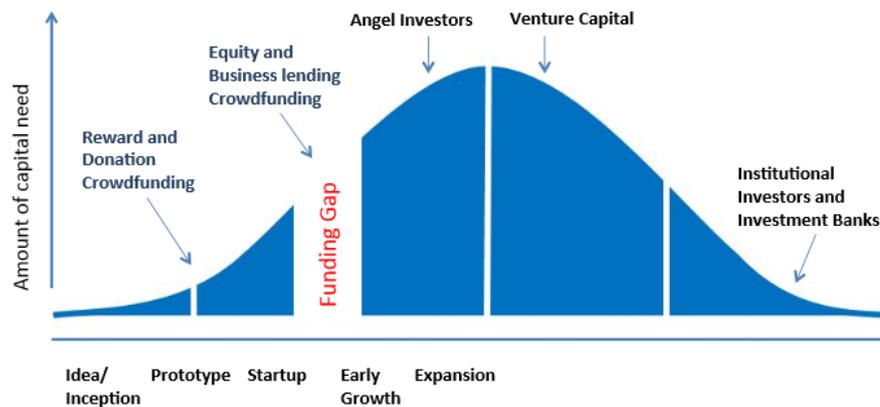
Reference <http://www.internetlivestats.com/internet-users/#tren>

Figure 5 - Funding Lifecycle



Nordic
Crowdfunding
Alliance

Where Crowdfunding Fits on the Funding Lifecycle ?



(based on: World Bank (2013) "Crowdfunding Potential for the Developing World")

Reference for the crowdfunding position in the funding lifecycle

http://www.digin.no/media/1370/3_crowdfunding_in_the_nordics_rottem_shneor.pdf

Figure 6 - Kickstarter Vs Indiegogo

Comparing the Major Platforms

While comparing, keep in mind that Kickstarter is more restrictive than Indiegogo about the campaigns it will host.

	KICKSTARTER	INDIEGOGO
💰 PLEDGED	\$1.2B	\$378M
🕒 PLEDGES	15.8M	4.9M
👤 TRAFFIC VISITS / MONTH	23M	13.4M
📅 CAMPAIGNS COMPLETED	154k	246k
👤 SUCCESS RATE	43.4%	9.8%*

*17.1% at fixed funding, 9.5% at flex funding (95.6% of Indiegogo campaigns are flex funding)

Note that Kickstarter is more restrictive than Indiegogo about the campaigns it will host. Success is more ambiguous on Indiegogo – founders who choose flexible funding may not meet their goal, but still raise enough to get going.

Figure 7 - Distribution of alternative finance platforms in Europe

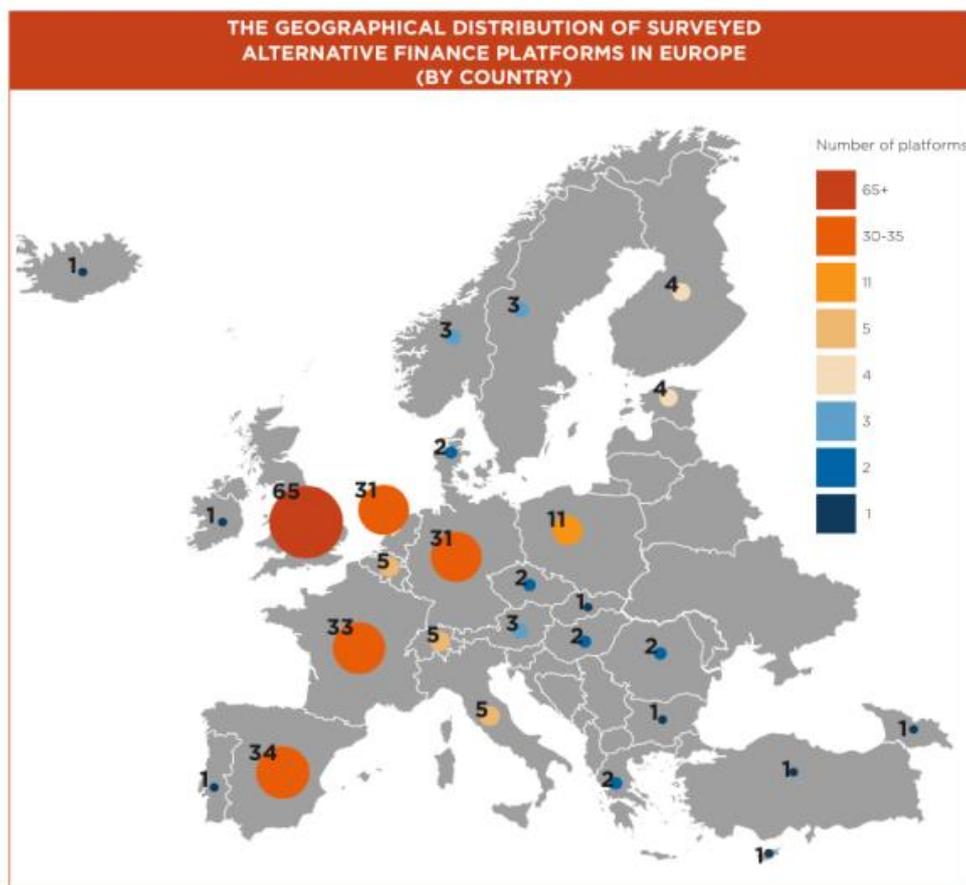


Figure 8 - Country Competitiveness reports 2020

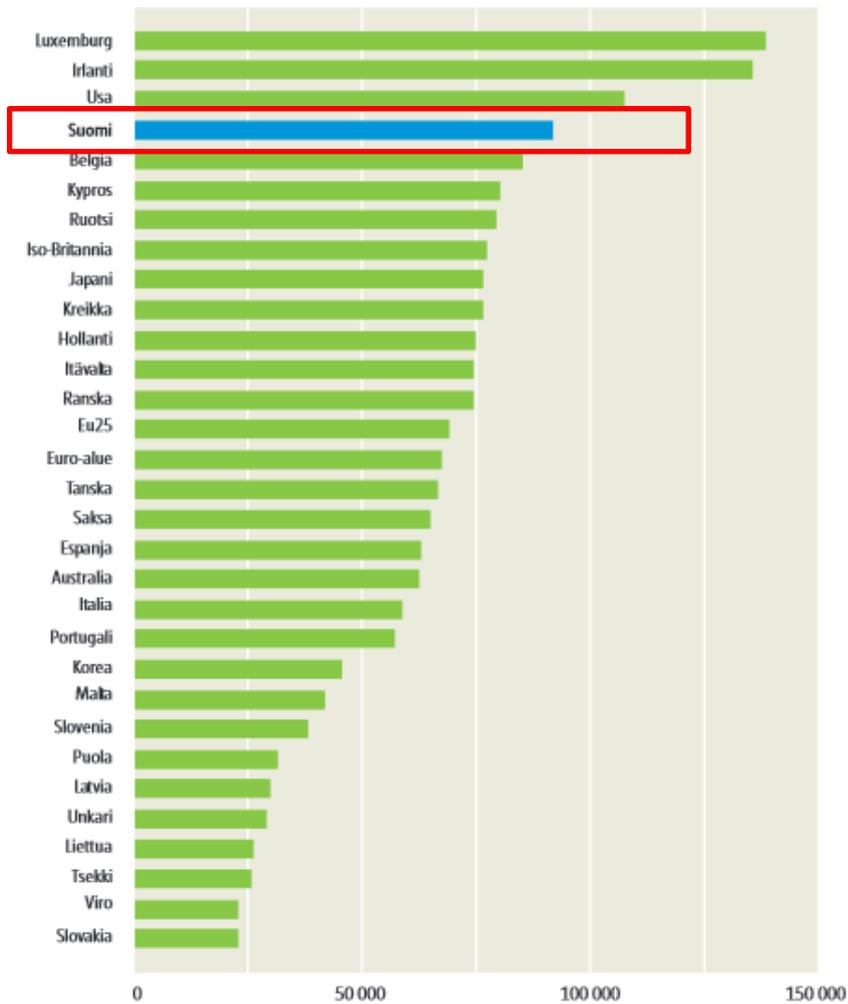
Findings from *The Europe 2020 Competitiveness Report 2014 Edition*

Table 2: Rankings and Scores of the EU Member States in 2012 and 2014

Europe 2020 Index 2014 Edition

Country	Rank (out of 22)	Score (1 - 7)	Rank using 2012 complete* (out of 22)	Europe 2020 Index 2012 edition (out of 22)	Change 2012-2014 (constant)
Finland	1	5.70	1	2	1
Sweden	2	5.55	2	1	-1
Netherlands	3	5.41	3	4	1
Denmark	4	5.32	4	3	-1
Germany	5	5.28	5	6	1
Austria	6	5.16	6	5	-1
United Kingdom	7	5.13	7	7	0
Luxembourg	8	5.07	8	8	0
Belgium	9	4.93	9	9	0
France	10	4.81	10	10	0
Ireland	11	4.75	11	12	1
Estonia	12	4.74	12	11	-1
Spain	13	4.47	13	15	2
Malta	14	4.44	14	18	4
Portugal	15	4.44	15	14	-1
Slovenia	16	4.43	16	13	-3
Lithuania	17	4.38	17	20	3
Czech Republic	18	4.33	18	16	-2
Latvia	19	4.32	19	19	0
Cyprus	20	4.22	20	17	-3
Italy	21	4.05	21	21	0
Poland	22	3.97	22	23	1
Slovak Republic	22	3.91	22	22	-1

Figure 9 - ICT productiveness per employee chart



Kuvio 3.5
ICT-alan tuottavuus per työntekijä, tuhatta euroa

Information Reference https://teknologiainfo.net/files/documents/pdf/digitaalinen_suomi-ekirja.pdf

Figure 10 Profitability of Finnish Companies chart



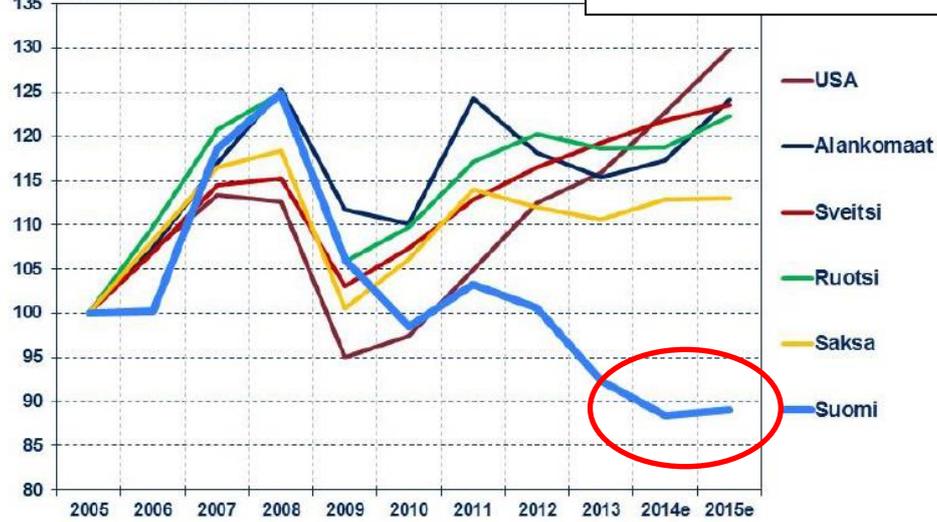
Kuva 1

http://teknologiateollisuus.fi/sites/default/files/file_attachments/analyysi_suomesta_maaliskuu_2015.pdf

Figure 11 – Chart combination

Yritysten kiinteät investoinnit

Indeksi, 2005=100



1 - Fixed Corporate Investments

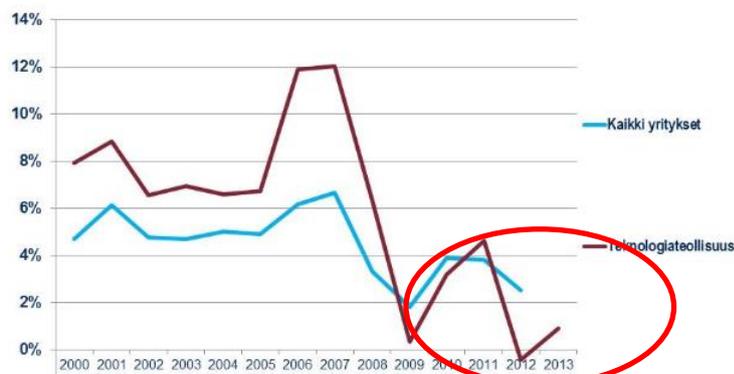
Teknologia teollisuus

Lähde: OECD, Economic Outlook 2014

2 - Profitability of Finnish companies on an average

Yritysten kannattavuus on heikentynyt selvästi Suomessa

Koko yrityssektorin ja teknologiateollisuuden nettotulos*



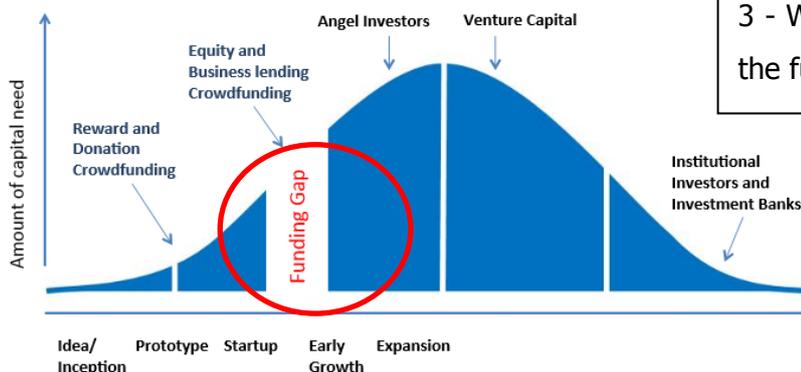
Teknologia teollisuus

* Nettotulos / liikevaihto. Nettotulos tarkoittaa yritysten tulosta rahoitustuottojen ja -kulojen, satunnaisten erien sekä verotuksen jälkeen.
Lähde: Tilastokeskus



Crowdfunding Alliance

Where Crowdfunding Fits on the Funding Lifecycle ?



3 - Where crowdfunding fits on the funding cycle?

Figure 12 - Nordic Crowdfunding Platforms

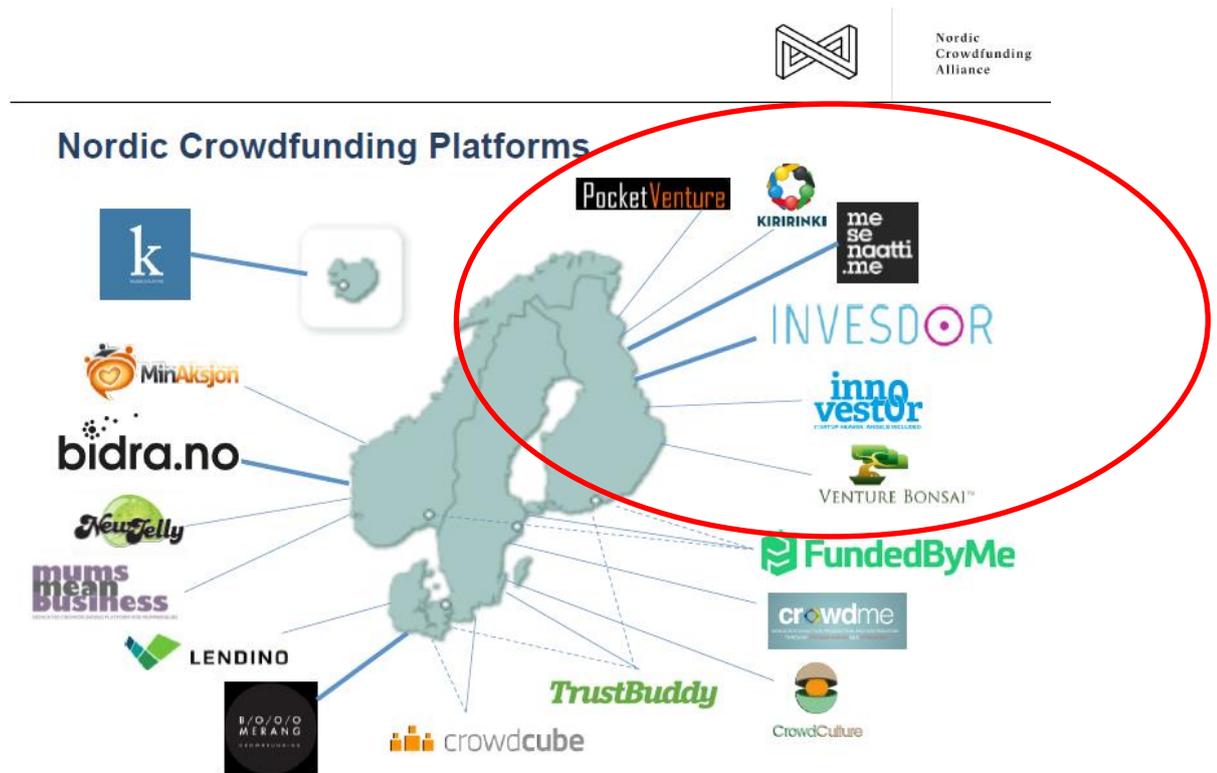


Figure 13 – 1st question from the national crowdfunding survey

FIGURE 1. Which form of crowdfunding has been central from the viewpoint of your organization (you may choose more than one option)?



Figure 14 – Nordic Alliance Member operation volumes



Nordic
Crowdfunding
Alliance

Nordic Crowdfunding Alliance - Facts and Figures

	Boomerang (Denmark)	Bidra.no (Norway)	Invesdor (Finland)	Karolina (Iceland)	Mesenaatti (Finland)
Type	Reward	Reward	Equity	Reward	Reward
# Successful campaigns	303	36	26	95	72
Success rate	34%	45%	33%	78%	67%
Best Campaign (so far)	Copenhagen Boulders	Car for sick child	Invesdor	Stundin	Nappi Naapuri
	EUR 42.430 (DKK 314,000)	EUR 15,245 (NOK 134,153)	EUR 290,871	EUR 45,520	EUR 29,465

(* for period mid-2012 to end 2014)

Figure 15 – National Debt of Finland



Figure 16 - Internationalization possibilities

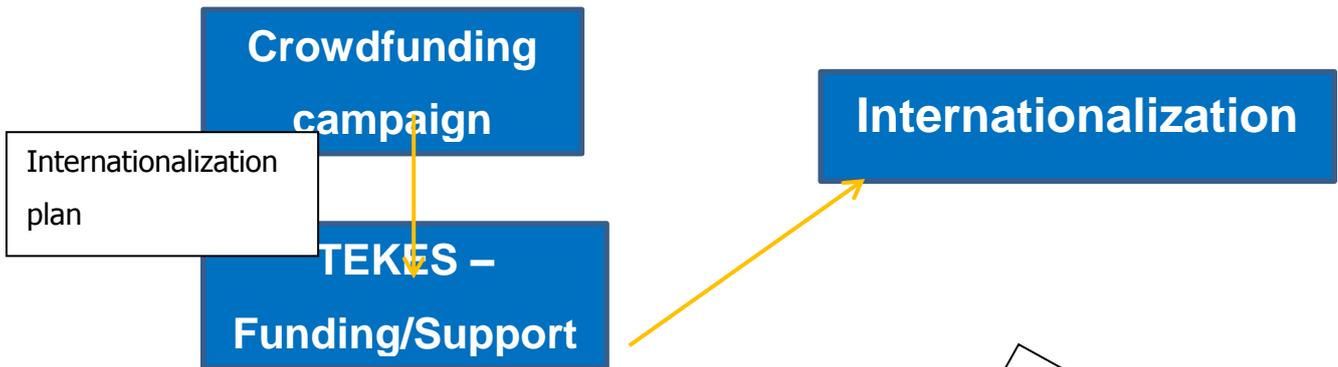


Figure 17 - Internationalization possibilities

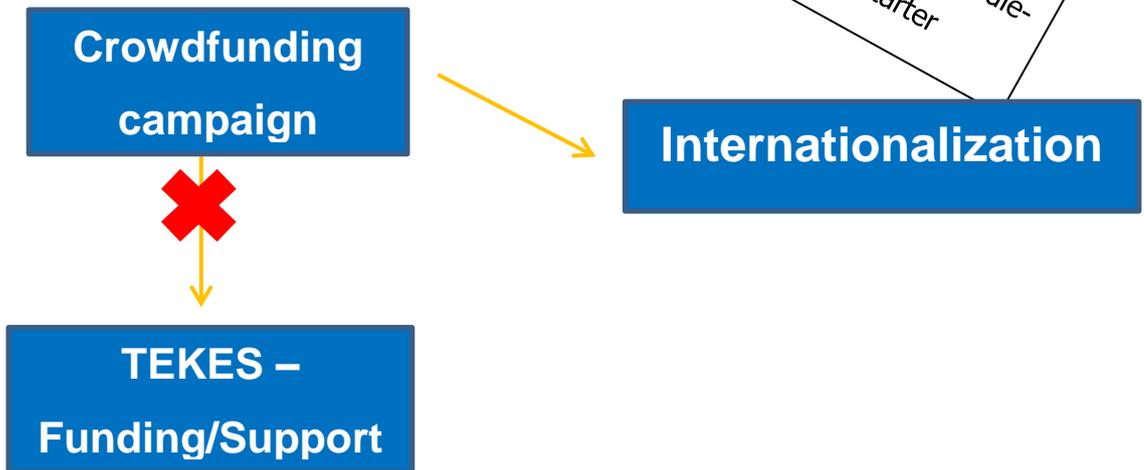
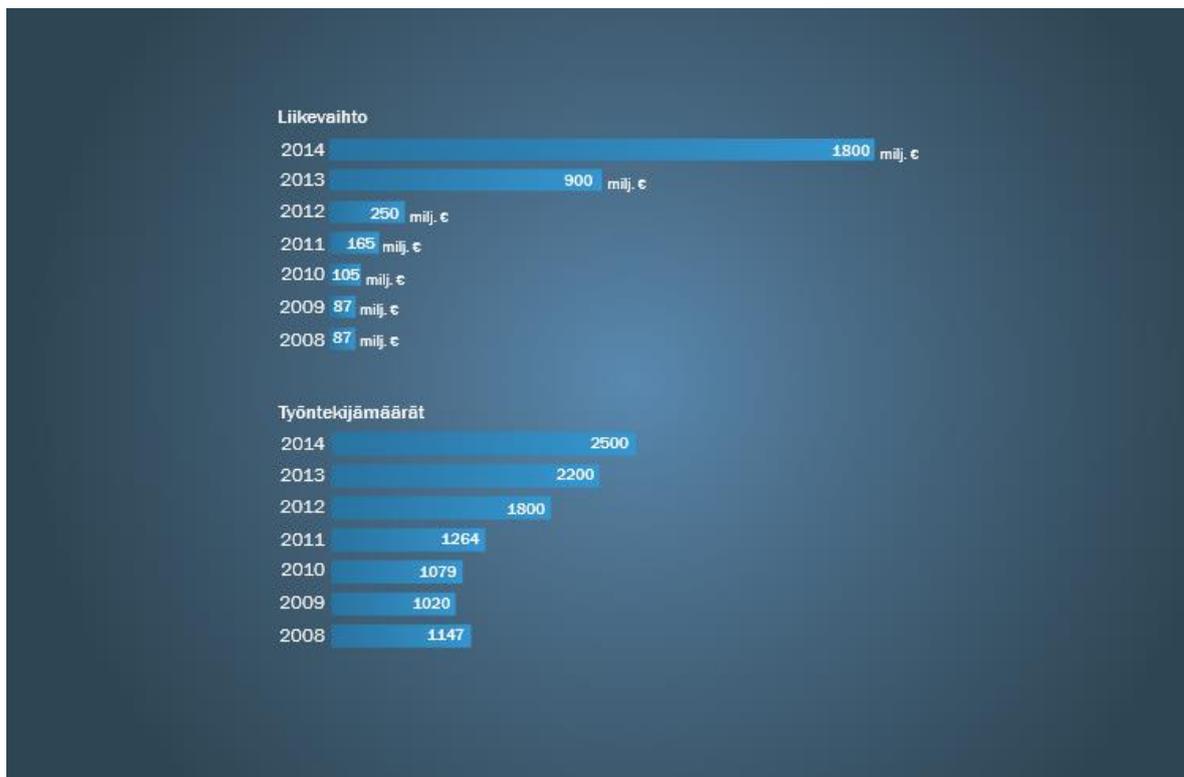


Figure source: author

Figure 18 – Turnovers of Finnish gaming industry

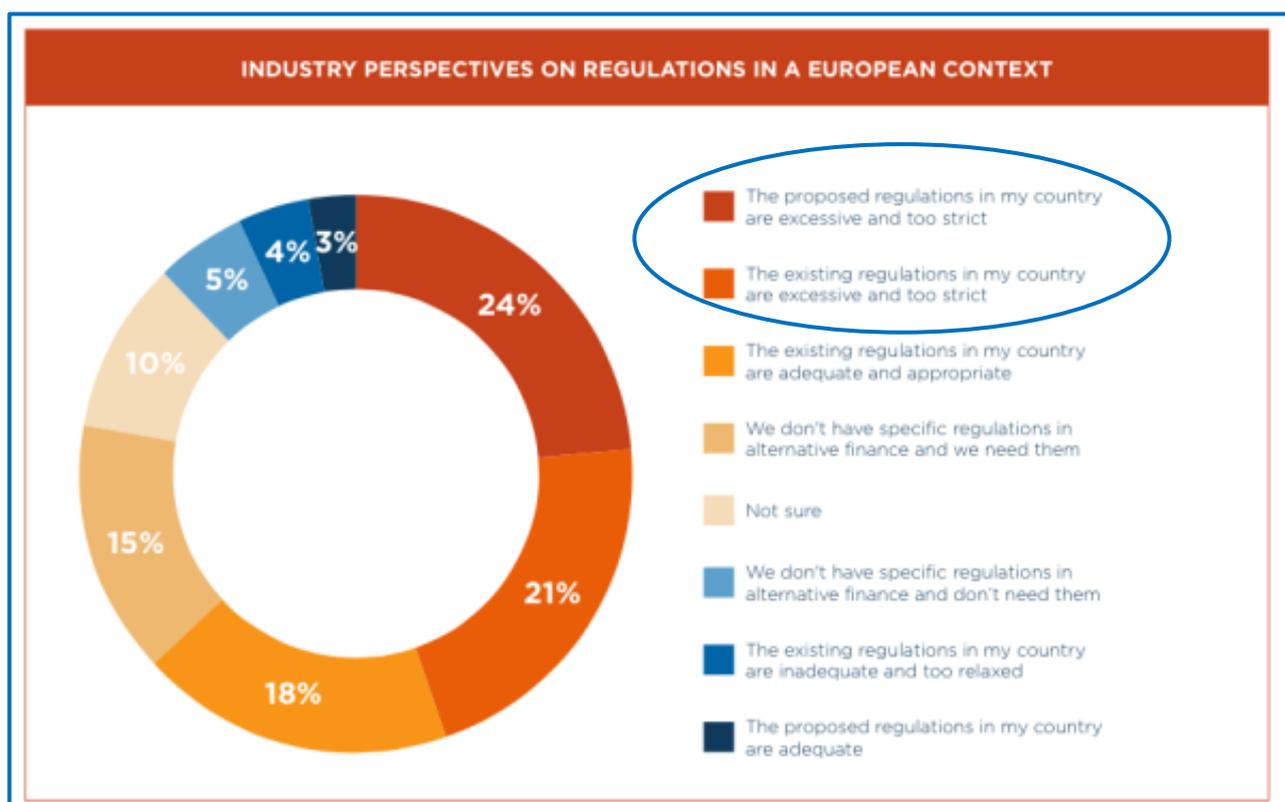


Liikevaihto=turnover

Työntekijämäärä = Amount of labor

<http://www.neogames.fi/wp-content/uploads/2014/12/Suomen-pelialan-tavoitteet-small.pdf>

Figure 19 – Industry perspectives on regulations in a European context



11 Screenshots – Annex II

Screenshot 1 – How to give and receive rewards

