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**HARRI KOSTILAINEN**

**FINDING A NICHE. SOCIAL ENTERPRISES AND  
THE PUBLIC SERVICE REFORM IN FINLAND**



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SOCIAL ENTERPRISES AND THE PUBLIC  
SERVICE REFORM IN FINLAND



*Harri Kostilainen*

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## **ABSTRACT**

The aim of this study is to determine in what way social enterprises are included in the European policy agendas and how they emerged in Finland. This PhD study discusses the extent to which social enterprises in Finland could find their niche in welfare state reform and provides an overview of the Finnish social enterprise development by identifying the roots, characteristics and the enabling and hindering factors to social enterprise with reference to the EU operational definition on social enterprise. The study brings structured information regarding the size, dynamic and profile of social enterprises active in Finland, and discusses the specific challenges they face and their development perspectives.

Data are collected from reviews of various policy and European Social Fund (ESF) programmes, previous research and interviews with staff of social enterprises. This study uses qualitative research methods including inductive thematic analysis, a theory driven content analysis and a case study approach to obtain rich empirical data.

The Finnish social enterprise landscape is still emerging. However, the reform of the Finnish welfare state employment and social welfare services has provided some opportunities for social enterprise growth. The study presents two scenarios for social enterprise development in Finland.

***Keywords:** Social enterprise, Social economy, Public service reform, Niche*

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## TIIVISTELMÄ

Tutkimuksessa tarkastellaan miten yhteiskunnalliset yritykset liittyvät eurooppalaiseen hyvinvointipolitiikkaan ja mikä voisi olla yhteiskunnallisten yritysten paikka suomalaisessa hyvinvointipolitiikan muutoksessa.

Tutkimuksessa kuvataan yhteiskunnallisten yritysten kehittymistä Suomessa, yhteiskunnallisiin yrityksiin liittyviä erityispiirteitä sekä toimintaympäristöön liittyviä mahdollisuuksia ja haasteita yhteiskunnallisten yritysten elinvoimaiselle kehittymiselle.

Tämän laadullisen tutkimuksen aineistoina ovat olleet erilaiset yhteiskunnallisia yrityksiä koskevat politiika-asiakirjat, Euroopan Sosiaalirahastojen ohjelma-asiakirjat ja projektidokumentaatiot, aiempi tutkimus yhteiskunnallisista yrityksistä sekä yhteiskunnallisten yritysten johto-asemassa olevien henkilöiden haastattelut.

Suomessa ymmärrys erialaisista yhteiskunnallisista yrityksistä on osin vielä kehittyvää. Erityisesti yhteiskunnallisten yritysten asema osana hyvinvointi- ja työllisyyspolitiikka on hapuilevaa. Tutkimus päättyy esittämään kaksi vaihtoehtoista skenaariota yhteiskunnallisten yritysten tulevaisuudesta Suomessa.

*Avainsanat: yhteiskunnalliset yritykset, yhteisötalous, julkisen sektorin reformi, julkisen sektorin reformi*



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Helsinki, 9 April 2019  
Harri Kostilainen

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## ABBREVIATIONS

ARVO	Finnish Social Enterprise Coalition
CNS	Co-op Network Studies
EC	European Commission
EMES	EMES International Research Network
EIF	European Investment Fund
EaSI	European Union Programme for Employment and Social Innovation
ESF	European Social Fund
FinSERN	Finnish Social Enterprise Research Network
GECES	Expert Group on Social Economy and Social Enterprises
SBI	Social Business Initiative
SDG	Sustainable Development Goals
SIB	Social Impact Bond
SITRA	Finnish Innovation Fund Sitra
STEA	Funding Centre for Social Welfare and Health Organisations
SOSTE	Finnish Federation for Social Affairs and Health
WISE	Work Integration Social Enterprise

# INTRODUCTION

Similar to other countries during the last century, Finland has developed a rather large public sector providing, among other things, social welfare and employment services to its citizens. Private for-profit and non-profit organizations were providing these services only to a small extent, thus offering a specific complementary role to the public sector services. However, during the last decade, we have seen some-what rapid shift towards an increasing number of welfare and employment services being provided by private for-profit and non-profit actors. These services are largely financed by public means and distributed by public procurements and/or through vouchers for customers. This shift means that different service provider roles are being reconsidered, renegotiated and reconstructed (Gawell, 2016, 41–57).

In policy discourses across Europe, social enterprise is seen as an instrument of economic renewal providing the means of addressing issues of unemployment and social inclusion, and offering a way to re-establish the legitimacy of the welfare state by participating in the co-production and co-governance of welfare services (Enjolras & Strømsnes, 2018 ).

Social enterprise may be seen not only as a “remedy” to address some of the shortcomings and failures of both the market and the welfare state (Baglioni, 2017), but also as a different social economy organisations that can, through its entrepreneurial and social dimensions, innovate and develop solutions to generate incomes from different sources that mitigate these failures (Göler von & Enjolras, 2019). Alternatively, social enterprise can be viewed as a symptom of the development of a “neo-liberal welfare state” (Garrow & Hasenfeld, 2014), promoting market-based solutions to social issues and reversing the de-commodification of labour operated by social rights by making the safety net contingent on production and earnings. By emphasising the virtues of entrepreneurship, competition, individual responsibility and work ethics, social enterprises reflect the moral underpinning of the neo-liberal conception of the welfare state (Enjolras & Loga, 2019).

The role and impact on welfare systems of social enterprise varies according to the existing institutions constituting the welfare system and the ideological and organisational orientations that are constitutive of different social enterprise models (Defourny et al., 2019; Göler von & Enjolras, 2019). Social enterprises are embedded in their socio-political and economic context as historically constructed institutions placed under a specific welfare regime (Kerlin, 2017).

To better understand the inception and evolution of social enterprises in Finland, it is important to understand the evolution and specificity of the welfare state. This study thus focuses on institutions delivering a range of welfare and employment services in the field of social policy.

In the past few decades, the landscape of the Welfare State has witnessed dramatic changes worldwide, marked by governments’ increasing incapacity to cope with multiple social pressures in a difficult socioeconomic context. Within socio-economic and political contexts dominated by not only the economic crisis but also the pressure to find ways to reform and upgrade general interest services and develop sustainable work integration solutions for disadvantaged groups, decision makers in Finland have shown some interest towards the social economy and social enterprise solutions.

Nordic economy, society and politics are often understood as constituting a separate societal model. This model – which is characterised by a large public sector, a universal, all-embracing welfare-state, and a high degree of economic and social equality – has shown itself to be surprisingly successful and robust. These features have resulted in each country becoming a social-democratic welfare state with a large public sector that emphasises equal distribution of income and gender equality. In terms of democratic governance, the Nordic model is characterised by compromise politics, local government autonomy and cooperation between state and civil society organisations. The policy debates are often tied to questions about economic issues on future sustainability; democratic aspects concerning diversity, enhancing user involvement and individual adaptations; and about involving stakeholders from different sectors in a cooperative approach to welfare production. Three intertwined themes that have a bearing on the “opportunity structure” for the development of social enterprise and relate to the “reform” of public welfare service provision and the role of “private” actors (non-profit and business sector) are objects of debate and potential policy changes (Enjolras & Strømsnes, 2018).

The aim of this study is to determine in what way social enterprises are included in the European policy agendas and how they emerged in Finland. This research study thus analyses how the Finnish social enterprises find a niche in the Finnish welfare state reform by answering the following research questions:

- i. What are the development phases of social enterprises in Finland? (article 1)
- ii. How do social enterprises balance their dual mission? (article 2)
- iii. To what extent do Finnish social enterprises represent reactions to the changes in the institutional environment and new types of socio-ecological challenges? (article 3)

Despite the wide use of the social enterprise term and gradual convergence of meanings under way at the European Union (EU) level, social enterprises are still conceptualised in different manners by EU national legislatures, policy strategies, academics and social entrepreneurs (European Commission 2016). This PhD study discusses the extent to which social enterprises in Finland could find their niche in welfare state reform and provides an overview of the Finnish social enterprise development by identifying the roots, characteristics and the enabling and hindering factors to social enterprise with reference to the EU operational definition on social enterprise. The study brings structured information regarding the size, dynamic and profile of social enterprises active in Finland, and discusses the specific challenges they face and their development perspectives.

Data are collected from reviews of various policy and European Social Fund (ESF) programmes, previous research and interviews with staff of social enterprises. This study uses qualitative research methods including inductive thematic analysis, a theory driven content analysis and a case study approach to obtain rich empirical data.

The Finnish social enterprise landscape is still emerging. However, the reform of the Finnish welfare state employment and social welfare services has provided some opportunities for social enterprise growth. Government support has been limited mainly to ESFs and recognition by launching laws for work integration social enterprises (WISEs) and the Social Enterprise Mark. One of the main issues has been that decision makers lack information about social enterprises and therefore do not understand how the business model works. The misconceptions have limited the

development of social enterprises in Finland and led to a situation where, as this study argues, the concept is in danger of dilution.

Owing to the needs of the Finnish society and the priorities of the available funding, the focus of social enterprise development has been on work-integration and welfare services provision. Simultaneously, social entrepreneurial activities are diversifying and finding new grounds. This study identifies four main models of social enterprises: (a) social enterprises providing public welfare services, (b) emerging alternative economic initiatives as a part of growing initiatives in the sharing economy labels, (c) impact businesses and smart-ups and (d) social impact redistributors that create measurable social and environmental impacts and financial returns.

The research presented herein is only a view of the current status, rather than a static model of Finnish social enterprises. Developing a better understanding of the barriers and enablers will help to further advance the development of social enterprise in Finland.

Existing research on social enterprises in Finland is limited because social enterprise is a relatively new concept in Finland; therefore, awareness and understanding of the concept(s) is lacking among the general public (and policymakers, and only 32 % of municipal decision makers are aware of the Finnish Social Enterprise Mark (Suomalaisen Työn Liitto, 2018).

The core idea of combining business with societal value needs to be widely acknowledged and the impact actors fully supported. The traditional social economy organisation actors should recognise the potential of the social business model and thus invest in the development of social enterprises.

There is a need to develop fragmented networks of different social enterprises and the eco-system. A sound public procurement process for buying social value and impact is also needed.

There are two main scenarios for social enterprise development in Finland:

- (1) The Flourishing: Social enterprises are able to communicate better with their significance and proven impact while they are developing their business. The content of the social enterprise business model becomes clearer and there is a clear understanding why other businesses are social while others not. Simultaneously, social enterprises are capturing new business opportunities and trends. Social enterprises become attractive work organisations and highly skilled people want to join their workforces.
- (2) Regressive: Failing to manage the scenario in (1) will result in social enterprises remaining in the margin and boiling away.

# 1 PERSPECTIVES OF SOCIAL ENTERPRISES

*“Social enterprise is a rapidly growing field of research, which has been attracting an increasing number of scholars over the past decades. This is confirmed by the dramatic increase in number of journal articles, conferences and seminars focused on social enterprise. However, only in a few EU countries research has allowed to properly assess the size of the sector and its impact on socio-economic development”. European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2016)*

## 1.1 DEFINITIONS OF SOCIAL ENTERPRISE

The field of social enterprise is manifold and the social enterprise business model concept is contested based on the findings of this study. As observed in a number of studies (e.g. Nyssens & Defourny, 2008), the emergence of social enterprises is linked to the changing perceptions about the role and function of (welfare) markets.

As a sub-category of social enterprises (WISE Project Report, 2009), WISE has three defining characteristics: (1) it is a private and independent market-oriented business, (2) its employees who in a weak labour market position enjoy all employee rights guaranteed under national employment legislation and (3) its core mission is to empower persons with impaired functional capacity and other disadvantaged persons to enter the labour market and thereby enable their social participation. Therefore, for WISEs, social value creation involves employing the most vulnerable people and promoting their social inclusion and equal opportunities in the labour market and in society (Kostilainen & Tykkyläinen, 2015, 34).

Social enterprise research is often introduced by referring to different schools of thought (Defourny & Nyssens, 2010; Defourny & Nyssens, 2017; Hoogendoorn, Pennings, & Thurik, 2010; Kerlin, 2006), which enables comparisons between regions and discussions about developments in the social enterprise field. However, a sweeping representation of social enterprise models might miss regional and local diversity.

Social entrepreneurship is also seen as a means to enhance sustainability in deprived urban and rural areas which may suffer from depopulation and diminishing employment possibilities. The local activities aiming to fight these trends thus mobilise the local people and empower them to contribute to their community (Pearce, 2003).

According to Gordon (2015), social enterprises are organisations which aim to reinvest their profits back into the system and improve the lives of the communities they serve. Thus, social enterprises evaluate their performance not only in the acquired profits but also in the social welfare of the people living in their communities. They do this through creating a social value for the goods or services they provide (Dees 1998), such as customer satisfaction, ethical advertisements and continued innovation of products.

Social enterprises act as unique organisations that provide a framework with a full capability and capacity to implement solutions most of the complex social problems (Nyssens & Defourny 2017) and introduce long-term solutions to area-based deprivation. Kerlin (2017) claims that social enterprises provide a perfect and alternative economic structure because they eliminate a capitalism structure where there is only one winner. Alegre (2015) views social enterprise organisations as having



a mission to improve the social welfare (economically, socially and politically) of a particular community.

The growth of social enterprises is attributed to the recent rise of social, economic and political inequality. According to Hoogendoorn et al. (2010), the rising awareness of the ever-growing inequality in resource and wealth distribution has created a market niche, which has contributed to the sprawl of these enterprises. The government has also reduced its funding as the neo-liberal market ideology has taken its course, which means, e.g., that fewer resources reach the rural areas where some of the most disadvantaged people live. Policy changes provides a niche for social enterprises to enter the market and attempt to fill that gap. In 1980, Edward Skloot, discovered new business opportunities for non-profit organisations. This topic created awareness and interest that was relevant and vital for the social enterprises (Hoogendoorn et al., 2010).

In many European counties the governments has contributed to the growth and development of social enterprises because they consider it an opportunity to serve the people. According to Calò et al. (2017), social enterprises are strategically viable and have solid mechanisms to deliver the co-produced goods to rural or other communities, and the government might offer its support through finances, subsidiaries or policies that favour these social enterprises (Young et al., 2016).

The definition of social economy in reference to social enterprises was first made in Finland by Immonen (2006) in her thesis on the Finnish social economy. In the Finnish context, social economy can be briefly defined as follows: "Social economy is economic activity carried on by co-operatives, mutual societies, associations or foundations in an effort to enhance socially and financially sustainable welfare among their members and the surrounding society through democratic co-operation" (Immonen, 2006).

## **1.2 CHARACTERISTICS AND DILEMMAS OF SOCIAL ENTERPRISES**

Social enterprises are highly characterised by their social aims and objectives. The social aims may include job creation for the most vulnerable people and the provision of desirable goods and services to the targeted community. Through participation and transparent engagements, social enterprises are able to create new job opportunities for their customers. A characteristic of the social objective is to enhance the ethical values that constantly guard the operations. Social enterprises are also accountable for the social, economic and environmental impacts of their actions on production (Young, Searing & Brewer, 2016; Calò et al., 2018).

Risk taking is another characteristic of social enterprises. According to Young (2016), a social enterprise has the courage to venture into areas that the private sector might not enter due to a poor return on investment. These enterprises are able to operate within the low-profit areas, providing they are maximising the social benefits for the citizens (Young 2016). For areas that are considered unviable for the conventional business, social enterprises might be able to point out a good opportunity to satisfy the community's social needs (Cieslik, 2018; Adger, 2000; Hansmann, 1987).

The essence of social enterprises is to create social value (Dees, 18, 1998). Social enterprises therefore attempt to attain a particular social objective or a set of objectives through the sale of products or services, aiming to achieve financial sustainability independently of the government and other donors (Domenico et al., 2010, 682). This dual objective of social enterprises leads to tensions and challenges related to the

balancing of social and economic objectives (Teasdale, 2010). Earlier research has listed challenges and dilemmas in the management of social enterprises (e.g. Hudson, 1995, 18-20; Paton, 2003, 33; Doherty et al., 2009, 47–48) and tensions in their missions and goals (e.g. Nicholls, 2009; Alegre, 2015; Gonin et al., 2013). The social enterprises are constantly in a double logic dilemma.

According to Salamon (2016), the term social enterprise holds different meanings for different people in different social settings and at different geographical locations. Therefore, policies that work for particular communities at a certain time might not work for another community with the same challenge. Social enterprises therefore face constant struggles involving policymaking and development.

The social enterprises also face difficulty maintaining social purpose, while ensuring that they acquire sufficient funds to run their daily operations. The enterprises enter a certain market to improve the livelihoods of people in the community through their social, economic and environmental status. However, according to Hillman, Axon and Morrissey (2018), the management faces challenges regarding how to balance the amount of income directed to beneficiaries, and how much income to take back to the corporation.

Social enterprises also face a dilemma relating to regulatory or policy uncertainty. The enterprises work differently in different situations and with different people, and as the field of social enterprises is in its early stages of development, no clearly written policies exist on how to best govern and administer social enterprises. The management thus often implements ad hoc policies that tend to have less than favourable outcomes. As Hillman et al. (2018) state, this situation also denies the social enterprises competent and experienced personnel to run their operations.

### **1.3 SCHOOLS OF THOUGHT IN SOCIAL ENTERPRISE RESEARCH**

As there are national, regional and local understandings of the concept of social enterprises, no universal definition exists (Nicholls, 2010). Typically, research on social enterprises is multidisciplinary and international; however, the majority of the research is conducted in the fields of the social and management sciences (Short, Moss & Lumpkin, 2009), and the studies on social enterprises can be divided into different schools of thought: (1) social innovations (Dees & Anderson, 2006), (2) income generation or social enterprise and (3) interpretation of EMES International research network (Defourny & Nyssens, 2010).

In the social innovation school of thought, social entrepreneurs aim to tackle the social problems in an innovative manner by first seeking to establish a non-profit enterprise. They then evaluate the social challenges for that particular community and aim to tackle them through creativity, innovation and the best application of technology. According to Hoogendoorn, Pennings and Thurik (2010), approaching challenges through technology enables practitioners to solve persistent and complex social needs left out by the government and the private sector. Hoogendoorn et al. (2010) also note that although the private sector has constant innovations to maintain their presence in the market, their goods are only economically satisfying. The commercial enterprises discover and exploit available opportunities in the market for profit. On the contrary, the innovative entrepreneur offers their ingenuity to the upcoming and persistent needs (Teasdale et al., 2013; Teasdale, 2012; Teasdale, 2012b).

In their contribution, Young and Lecy (2014) suggest that many organisations would use the available resources as long as they are working according their values, which maintains respect for the practitioners. However, the social innovators not only work constantly on new ideas but they also introduce disruptive innovations as a way to technologically solve the social needs (Searing & Searing, 2013).

Unlike the social innovation school of thought, the social enterprise school of thought is embedded in the commercial entrepreneurship tradition and thus understands entrepreneurship as the process of creating and managing new organisations. This school of thought points out that a non-profit venture is initiated with a core objective to generate income, which is conducted while serving a social purpose or a mission. This school of thought explains that a social enterprise earns an independent income rather than relying constantly on donations, grants and government subsidies. According to Hoogendoorn et al. (2010), a social enterprise also adopts an effective model such as that used by a commercial enterprise to ensure continuity in the provision of goods and services, which explains the importance of an economic knowledgebase for this sector.

The EMES approach to social enterprises has been well articulated in the EU. The definition of the 'ideal type' used by the EMES Network defines the characteristics of the social enterprise within this approach. As in the social enterprise school of thought, the unit of observation is the enterprise. The social enterprise has an explicit aim to benefit the community, is launched by a group of citizens, enjoys a high degree of autonomy, is participatory in nature and does not base its decision-making power on capital ownership. In general, the organisations within this approach consist of the social economy organisations. In contrast to the social enterprise school of thought, which applies a non-distribution constraint to profits, the EMES approach allows for some profit distribution due to the inclusion of co-operatives (Defourny & Nyssens, 2012). In the European context, there is often a strong linkage between the social economy and social enterprises (European Commission, 2011; Hulgård, 2010; Borzaga & Tortia, 2007). This linkage is reflected in the EMES criteria for social enterprise, within which democratic governance is seen as one of their key features.

## **1.4 FAILURE THEORIES**

The market failure theory aims to explain why a market fails to deliver, supply or produce adequate public goods to a community, regardless of the payments every person can afford. According to Gordon (2015), this theory explains how even the labour market reserves offer few or no opportunities to the disadvantaged people. Social enterprises see this as an opportunity to enter the market and provide the required social needs (Vickers & Lyon, 2014).

Policy issues and support from the state results in a high impact on the growth and development of social enterprises. As Gordon (2015) notes, failure of most social enterprises is caused by the government undermining their importance. The public sector failure theory also argues that governments with the higher public sector and big economies tend to produce larger and more stable non-profit sectors (Hillman et al., 2018).

Voluntary sectors also fail to deliver their objectives to communities. Gordon (2015) articulates that the voluntary sector often fails to provide sufficient goods and services to the vulnerable people they serve. In terms of philanthropic particularism,

Gordon (2015) claims that the voluntary sector focuses more on some groups than others. However, in relation to philanthropic paternalism, Gordon (2015) states that the voluntary sector fails to understand the exact needs of the people they serve, and it therefore provides insufficient necessary goods and fails to achieve its mission. Last, Gordon (2015) addresses the topic in relation to philanthropic amateurism, which explains that the organisation sometimes lacks the professional skills needed to respond to various social demands. As asserted by Young et al. (2016) and Anheier (2014), these cases cause voluntary sector failure.

While social enterprises may be seen as a "remedy" to some of the shortcomings and failures of the market and the welfare state (Baglioni, 2017), through its entrepreneurial and social dimensions, the voluntary sector is also able to innovate and develop solutions that generate incomes from different sources to mitigate these failures.

## 2 SOCIAL ENTERPRISE ROOTS AND DRIVERS

Finland has a rich and established sector of social economy organisations (cooperatives, mutuals, associations and foundations<sup>1</sup>). Although many of these social economy organisations fit in the social enterprise concept, they have not been called social enterprises because the concept has not been used in the past. These organisations have had an important role in the service delivery to special needs and areas (Kostilainen & Pättiniemi, 2016, 60). The traditional forms of social economy organisations have counteracted inequality and fostered social and economic development in Finland. During the shift from an agricultural to an industrial society, from the 1880s to the late 1950s, traditional forms of social economy organisations represented self-help and self-defence (Laurinkari, 2007). These organisations emerged where a lack of basic services and resources existed. Social policy measures, aims and practices were central innovations and drivers for the diffusion of consumer cooperatives around the country (Inkinen, 2001). Volunteer associations played a key role in furthering the interests of the most vulnerable groups and in developing and organising the provision of services for them. Foundations are an important funder and maintainer of many welfare services that require specialised expertise. Sectors where foundations play a major role include work integration and social housing. Mutual societies still make a significant impact in the field of non-life insurance.

The role of social economy organisations changed with the consolidation of welfare state institutions. Some social innovations triggered by traditional social economy organisations were transferred to the handling of the public sector when the welfare state was developed and matured from the 1940s to the 1980s. Municipalities took over the responsibility of organising and financing universal welfare service functions, doing so via fairly high taxation. In addition to social and healthcare, widespread welfare policies were extended to cover education, employment, housing and leisure (e.g. Niiranen et al., 2009). Traditional social economy organisations, especially the diverse social and welfare associations and foundations, acquired a new role in the delivery of services addressed to specific vulnerable groups, e.g. those with hearing and speaking impairments, the visually impaired, disabled war veterans and people with respiratory problems.

An additional significant change in the provision of welfare and employment services has been taking place in the Finnish welfare state since the early 1990s, which results from a number of simultaneous changes in the needs and demands for services. Such changes have been brought about by, for example, an ageing population, legislation, funding, education and public commitment to different social policy measures and programmes. Simultaneously, Finland has moved to a more flexible and insecure labour market, and changes have occurred in the values and motivations driving Finnish citizens.

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<sup>1</sup> The Co-operative law (Co-operatives Act 22/1901), Law on Association (Associations Act 1/1919), Foundation law (Foundations Act 109/1930). Mutual (insurance and financial) companies apply both co-operative legislation and insurance company legislation (Insurance Companies Act 174/1933).

The growing rise in the society for diversified needs, and the demand for individualised welfare services against the difficulties faced by public providers to finance new services have posed new challenges. These new challenges relate mainly to the difficulty in recruiting new staff and motivating existing staff. Sparsely populated areas of Finland are facing particularly extreme challenges and yet, at the same time, investments from municipalities and the public sector are becoming scarce (Pihlaja, 2010). The consequence is increased competition and (quasi)markets for financing and delivering public services. The predominant trend over the past two decades has been a progressive shift in social service provision from public to private service provision, including different types of social economy organisations and social enterprises.

New types of enterprises, activities and tasks have been emerging since the beginning of the 1990s. The growth of large private companies in the social service sector can be partially explained by the fact that social enterprises are not competitive enough to grow. In general, most of them are vulnerable as economic units due to their size, limited resources and insufficient business and managerial skills among their staff. However, only a few major Finnish cities have been able to develop market-driven welfare services, thus raising the potential of social enterprises to fill key gaps in social service delivery, especially in smaller cities, towns and remote territories (Pihlaja, 2010).

While being rooted in the strong Finnish traditions of the social economy, recent social enterprise developments have been influenced by international examples especially from Italy, the United Kingdom and Spain. Significant inputs and influence on the development of the Finnish social enterprises have come from the Italian A- and B-type social cooperatives<sup>2</sup> and the United Kingdom public sector service reform.

Encouraged by the impressive results of certain experimental projects funded through the ESF and after a short parliamentary debate, the Act on Social Enterprises (Act 1351/2003 revised 924/2012) entered into force in 2004. The Act restricts the engagement of "social enterprises" to the field of work integration.

The implementation of the Act was supported by the European Structural Fund programmes (2000–2006), which were also used for developing new operational models for social enterprises in Finland.

The types of social enterprises, as well as their activities and tasks, have been evolving in Finland since the recession that took place at the beginning of the 1990s. The recent evolution of social enterprises in Finland comprises four main phases (Kostilainen & Pättiniemi, 2016, 93–103): (1) social enterprise as a social movement, (2) social enterprise as a labour market measure, (3) social enterprise as a vehicle for renewing welfare state services and (4) the institutionalisation of social enterprise concepts. The institutionalisation was achieved through the Act on WISEs and the implementation of the Social Enterprise Mark.

The development and conditions for social enterprises follow similar paths in the Nordic countries and links with challenges to maintain and develop social welfare (Nordic Council of Ministers, 2015). The Finnish welfare model is contested by the

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<sup>2</sup> A-type social cooperatives bring together providers and beneficiaries of a social service as members. They provide health, social or educational services. B-type social cooperatives bring together permanent workers and previously unemployed people who wish to integrate into the labour market. They integrate disadvantaged people into the labour market. Categories of the disadvantaged targeted by B-type social cooperatives may include physical and mental disability, drug and alcohol addiction, developmental disorders and problems with the law.



changing operational environment, which includes making changes in the labour markets and cuts in spending; addressing the increasing demand for a variety of services, citizen-driven services, and cross-sectoral collaboration; and changing the political ideologies fostering the marketisation of public services.

In many countries, social enterprises have been introduced into a competitive market-oriented environment as a substitute for publicly owned services, particularly in welfare and employment services. In the recent Finnish debate, new types of social enterprises are expected to combine the business skills of the private enterprises with a strong social mission. Public administration expects social innovations from the private sector that might have an important role in delivering (welfare) services and employment services, especially labour market integration. In Finland, as elsewhere, social enterprises are expected to improve the quality of public services, generate innovations, improve productivity and have a preventive effect on harmful social, environmental and health problems among the population. WISEs have taken an innovative approach to enhance the employment opportunities for the disabled and long-term unemployed; however, so far, the effects have been minimal. Social enterprises in the field of welfare service provision may be seen at least partly as a counterforce for the increasing international commercial competition in the opening welfare markets.

## **2.1 THE EU OPERATIONAL DEFINITION OF SOCIAL ENTERPRISE**

According to the European Economic and Social Committee (2017), the challenges to which social enterprises can provide input for Europe include “social cohesion enhancement, social innovation, local and regional development and environmental protection, the achievement of smart, sustainable and inclusive growth”. Social enterprises are seen as a vehicles for supplying general-interest services and goods that public agencies and conventional enterprises fail to deliver because of, for example, budget constraints, and the incapacity to identify new needs arising in society and market failures. The European Commission considers that social enterprises can contribute to a more balanced use and allocation of resources at the local level to benefit the community, generate new employment and play a role in enhancing the social capital that is accumulated at the local level. In 2011, the Social Business Initiative (SBI), recognised social enterprises and boosted their development by implementing policy measures and actions including dedicated financial tools. Later, in 2014, the European Programme for Employment and Social Innovation (EaSI) was launched in recognition of the role social enterprises play, especially in promoting quality employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty, and improving working conditions. Figure 1 highlights five societal challenges that social enterprises contribute and areas of the core of policy actions, measures and initiatives promoted by EU institutions (apadted from European Economic and Social Committee, 2017).

Table 1. Contribution of social enterprises to key policy objectives of the EU

SOCIAL COHESION ENHANCEMENT	EMPLOYMENT CREATION	MIGRATION INTEGRATION	ENERGY TRANSITION PARTICIPATION
Equal opportunities (vulnerable groups)	Number and quality of jobs	Innovative social and work integration	Access to renewable & transparent energy
Access to social and health protection	Skills development	Repopulation of sparsely populated areas	Ownership of the energy transition
Improvement of general interest services supply	Untapped population groups	Cultural diversity	Local economic and social development

EUROPE 2020 - HORIZON 2020 - INVESTMENT PLAN FOR EUROPE - SOCIAL INVESTMENT PACKAGE - SOCIAL BUSINESS INITIATIVE - EUROPEAN PILLAR OF SOCIAL RIGHTS

GREEN ECONOMY - SOCIAL & SOLIDARITY ECONOMY - CIRCULAR ECONOMY - SOCIAL INNOVATION

EU INTEGRATION - CITIZEN PARTICIPATION & EMPOWERMENT

This study draws on the organisational definition included in the EU's SBI of 2011. According to the SBI, a social enterprise is an undertaking (1) whose primary objective is to achieve social impact rather than generate profit for owners and shareholders; (2) which uses its surpluses mainly to achieve these social goals; (3) which is managed in an accountable, transparent and innovative way by involving workers, customers and stakeholders affected by its business activities.

This definition arranges the key features of social enterprises along three dimensions: (1) an entrepreneurial dimension, (2) a social dimension and (3) a dimension relative to the governance structure.

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

Building upon this definition, the European Commission identified a set of operational criteria during the Mapping Study (European Commission, 2014, 2016) which were refined for the current phase of the new Mapping Study to which this research also contributes.



## 2.2. APPLICATION OF THE EU OPERATIONAL DEFINITION IN FINLAND

In Finland, the two most common definitions of social enterprise correspond with the two institutionalised forms of social enterprise. The first definition refers to the WISEs (sosiaalinen yritys), which offer employment to the disabled and the long-term unemployed and are regulated by law (Act 1351/2003 revised 924/2012). The second definition refers to the enterprises holding the Finnish Social Enterprise Mark (yhteiskunnallinen yritys). The Social Enterprise Mark is awarded to businesses which aim to address social or ecological problems and which invest the majority of their profits in promoting their social or environmental aims. The business model features openness and transparency.

All types of enterprises, even different types of social economy organisations with business activities, are eligible to register as a WISE or to be awarded the Social Enterprise Mark if they meet the criteria of the WISE Act (1351/2003 revised 924/2012) or those of the Social Enterprise Mark. Simultaneously, the organisations can be registered as WISEs and be awarded the Social Enterprise Mark.

Consequently, social enterprises adopt a variety of legal forms and ownership structures. While the majority of social enterprises are limited companies (osakeyhtiö), some are cooperatives, foundations and associations, and even a few sole proprietors are registered as WISEs and are awarded the Social Enterprise Mark. However, according to the EU operational definition on social enterprises, sole proprietors are not considered a social enterprise. Some social enterprises (limited companies) are fully owned subsidiaries of foundations and/or associations.

### **Non-profit welfare associations and foundations**

Traditional welfare associations (yhdistys) and foundations (säätiö) provide different kinds of voluntary and non-profit activities for citizens. The Finnish inclusive welfare system includes a number of special needs areas of social, welfare and work-integration services that are provided by specific associations and foundations. These organisations, which have been established to provide services to their members and/or target groups, have emerged in three waves: the first wave was during the early urbanisation and industrialisation stage, from 1860 to 1920 (Nygård, 2001); the second wave was after World War II, from 1945 to the 1960s (Nylund & Yeung, 2005); and the third wave was from the 1990s up to the present (Kostilainen & Pättiniemi, 2016). These periods correspond with times of change and fast-growing social needs. In recent years, some of these organisations have established enterprises to professionalise their activities to adapt to ongoing public sector reform and participate in the public procurements. In Finland, there are about 10,000 social and health associations, of which about 10 % provide various services to public sector and other users (Puhakka et al., 2018).

Associations may practise business activities which have been determined in their rules or which are otherwise immediately connected to the carrying out of their purpose or which must be considered economically insignificant (Act 503/1989). According to the renewed foundation law (487/2015), foundations can do only the business that relates immediately to their forms of activity and other business that has been determined in the rules allowing them to finance their forms of activity. The purpose of the foundation must not be the practising of the business but rather providing the finance for its actual 'public utility' operation or its subsidiary company.

With the reform of the welfare states services providing system, which started in the 1990s, there has also been a shift towards more entrepreneurial actions and some welfare services providing associations and foundations have altered their activities as businesses. These new and more entrepreneurial actors of associations and foundations can be considered a part of social enterprises. Some of these organisations have been awarded the Finnish Social Enterprise Mark.

When businesses increase to a significant position with respect to the actual operation of the foundation's or association's public utility, it is reasonable to move the business to a separate company by a business transfer.

While welfare associations and foundations are mainly organisations driven by citizens for social aims, most of them fail to fulfil the EU operational definition on the entrepreneurial dimension of social enterprise, and many of these organisations do not identify as a social enterprise. However, a growing number of the welfare associations and foundations have applied for and been awarded the Finnish Social Enterprise Mark and a few associations are registered as WISEs. These organisations fulfil the EU operational definition on the entrepreneurial and social dimension of social enterprises because they do business by selling services or goods and the social goal is the reason for doing business. The Finnish Social Enterprise Mark has a dimension on governance requiring limits on profit distribution and transparency. The dimension on governance or limits on profit distribution are not explicitly taken into account in the law on WISEs.

## **Cooperatives**

The purpose of a cooperative is to promote the economic and business interests of its members by pursuing economic activity where the members use of the services is provided or arranged by the cooperative. According to the renewed cooperative Act (421/2013), a cooperative is still an organisation whose membership and capital have not been defined in advance. The major change in the new act is that just one person could establish a cooperative. However, it is not known whether this possibility has been used yet. There is no requirement for minimum share capital in a cooperative. It may be regulated in the rules of the cooperative that its main purpose is the common achievement of a social goal. If the cooperative distributes surplus to its members, the distribution-principles have to be determined in the rules. The surplus generated is normally allocated to the members primarily as service-users not as investors in proportion to the members' transactions with the cooperative.

If the purpose is wholly or partly something other than business for the benefit of the members, there must be a determination concerning this in the rules. The cooperative may promote a public good as is required from a social enterprise, but in such cases, there also has to be a determination how to use the equity of the cooperative. Other criteria including the democracy in the decision-making and transparency in the operations can be stipulated in the rules. The rules of a cooperative can be set in a fairly flexible manner. In practice, Finland has a wide range of various cooperatives.

The new cooperatives played an important role in employing the unemployed during and after the economic recession especially in 1990s (Pättiniemi, 2006). The labour cooperative model is a Finnish social innovation that enabled a wage income to be combined with unemployment benefits, thus offering a flexible way for the individual to maintain his or her social security. However, these cooperatives were seen as a measure to produce welfare services, with the help of decentralised ownership, to integrate into the labour market the unemployed and those who found it difficult to

find work. The Ministry of Employment and the Economy decided that it was possible to combine unemployment benefits more flexibly with salary incomes in cases where there are at least seven members in an established worker cooperative. The aim was to lower the barrier between entrepreneurship and paid work.

Worker cooperatives based on self-help have reached a credible and established position in the business information and education system in Finland. For example, a number of Universities of Applied Sciences have established student cooperatives for "learning by doing" entrepreneurial education. New cooperatives are well-known, even though their relative share of the established enterprises is marginal. Approximately 200 new cooperatives are established annually (Pellervo, 2017).

Small and medium sized new cooperatives also have a role in organising services (e.g. for the elderly) in many sparsely populated areas and villages and in offering work opportunities to farmers in their spare time and to the unemployed. There are also local water and sewage cooperatives that provide fresh water, mainly to households and farms, and play an important ecological role in protecting the environment. Although new cooperatives are marginal in terms of number, their work seems to be meaningful in their local areas (Pihlaja, 2010).

The cooperatives are member-based organisations and some of them have an explicit social aim. As businesses, cooperatives fulfil the EU operational definition on the entrepreneurial dimension of social enterprise. However, most cooperatives identify themselves as a part of the cooperative movement instead of a social enterprise. Some cooperatives have applied for and been awarded the Finnish Social Enterprise Mark and a couple of cooperatives are registered as WISEs. These organisations, which fulfil the EU operational definition of entrepreneurial and social dimension of social enterprise, do business by selling services or goods; the social goal is their reason for doing business. The Finnish Social Enterprise Mark has a dimension on governance requiring limits on profit distribution and transparency, which are not explicitly taken into account in the law on WISEs.

### **Limited liability companies**

A limited liability company can be used for establishing social enterprises aiming to add social value or social impacts, especially under the Act on WISEs and the Social Enterprise Mark, in fields such as social and healthcare, work integration, rural areas and local communities, sustainable energy solutions, recycling, and art and culture, and among social impact oriented start-up companies promoting sustainable development goals (SDGs). In Finland, there is a growing body of small enterprises and individual entrepreneurs that see business opportunities in solving contemporary complex problems and consider a legal form of business organisation a means to achieve positive social or societal impacts (Houtbeckers, 2016).

While many of their values echo those of emerging alternative economic activities, these types entrepreneurs rely on models that enable the accumulation of wealth by a limited number of people; they have no asset locks and they do not comply with any constraints in the distribution of profits. However, they may determine in their bylaws the purpose of the company as a public utility or non-profit company.

Limited liability companies fulfil the EU operational definition on the entrepreneurial dimension of social enterprise. Some limited liability companies have applied for and been awarded the Finnish Social Enterprise Mark and are registered as a WISE. These organisations fulfil the EU operational definition on the entrepreneurial and social dimension of social enterprise and are doing business by selling services or goods; the

social goal is the reason for doing business. The Finnish Social Enterprise Mark has a dimension on governance requiring limits on profit distribution and transparency, which is not explicitly taken into account in the law on WISEs. (see also European Commission, 2019). Table 2. summaries different legal forms with the EU operational definition on social enterprises.

Table 2. Matching Legal Forms with the EU Operational Definition

Registered WISEs (1351/2003 revised 924/2012)			
	<b>Non-profit associations and foundations</b>	<b>Cooperatives</b>	<b>Limited liability companies</b>
Social dimension	Yes	Yes	Yes
Economic dimension	Yes	Yes	Yes
Participatory dimension	Normally yes	Normally yes	Normally no
Organisations awarded the Finnish Social Enterprise Mark			
	<b>Non-profit associations and foundations</b>	<b>Cooperatives</b>	<b>Limited liability companies</b>
Social dimension	Yes	Yes	Yes
Economic dimension	Yes	Yes	Yes
Participatory dimension	Yes	Yes	Yes
Other non-institutionalised forms of social enterprise activities			
	<b>Non-profit associations and foundations</b>	<b>Cooperatives</b>	<b>Limited liability companies</b>
Social dimension	Yes	May have	May be stated in the public benefit aim in the company's by-laws
Economic dimension	Having economic activity for generating income from the markets (e.g. via public contracts)	Yes	Yes
Participatory dimension	Normally, yes	Normally, yes	Normally, no

### 2.3 EVOLUTION OF THE SOCIAL ENTERPRISE CONCEPT

A working group established by the Ministry of Employment and the Economy in 2010 explored the need to develop a business model and legislation for social enterprises in Finland. The aim of the working group was to analyse the role social enterprises could play in renewing the social and health services and to give recommendations on how to develop the social enterprise model in Finland. The working group was asked to assess the "social enterprise business model" as a means to deliver general interest services, besides work integration. According to the working group, there was a need to further define the business model of the social enterprises to distinguish it from corporate social responsibility and charity. The working group considered that social enterprises can operate within existing legislation and corporate forms. It was also deemed important to launch a new social enterprise business mark for the development of social enterprises (Laiho et al., 2011).

The working group was operational from June 2010 to January 2011; the basis of its work was to develop a widespread understanding of a business model incorporating social aims and to understand the appropriateness of such a model for delivering statutory municipality care services, helping with work integration and organising the commercial services of traditional social economy organisations delivering social and welfare services (mainly associations and foundations) separately from their not-for-profit activities. The working group found that the social enterprise business model is an appropriate means to complement the existing forms of (public) service delivery and to diversify the means of providing these services. The working group noted that the social enterprises were already operating in the market on a level playing field with other enterprises and were not disadvantaged in relation to mainstream enterprises in any way. On that basis, the working group concluded the following:

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

However, the working group also noted that current public business service structures should be developed so that business services recognise the specific characteristics of social enterprises and can advise social enterprises accordingly.

The working group made other important recommendations to improve the functioning of the market by acknowledging the specific character of social enterprises and their potential role in the marketplace. However, these recommendations have not been implemented at a national level because of a lack of interest by the present government. The recommendations included the following:

- At a national level, when the development to public service delivery is considered, the development of social enterprises should also be considered alongside these developments;
- municipalities should develop their public procurement criteria and include "social impact criteria"; and
- when developing services to target unemployment, the character and operating environment of the social enterprises should be taken into account to allow them to participate in work integration and employment activation.

Among the recommendations of the working group that were accepted was the creation of a new Social Enterprise Mark, based on the definition of the SBI by the European Commission. The mark is meant for enterprises that aim to solve social and ecological problems and promote social efforts with the help of their business operations. These businesses use most of their profits to benefit society according to their goals and values, and their business models are characterised by openness and transparency. Following the working group's recommendations, the Social Enterprise

Mark was created in December 2011 to distinguish the social enterprise business model from other types of enterprises.

At the same time, the Ministry of Employment and the Economy steered a national development project (Pöyhönen et al., 2010) for the WISEs. The project produced policy recommendations to improve the operational preconditions of WISEs and to offer guidance and support for their establishment, development and growth (Grönberg & Kostilainen, 2012).

The main results of the activity of the two groups were minor revisions to the Act on Social Enterprise and the launch of the Social Enterprise Mark.

## **WISEs**

The Act on Social Enterprise (1351/2003 revised 924/2012) limits "social enterprises" to the field of work integration. Parliamentary discussion and the discussions of the two working groups resulted in a common conclusion that there was no need for specialised legislation on social enterprises. However, the discussion on the need for WISEs and their possible role raised interest, falling on the fertile ground of developing intermediate labour markets. The idea of WISEs as a means for employing people with disabilities and those inside the hard core of unemployment was further developed by various interest groups inspired by projects funded through the ESF.

The purpose of legislation on WISEs in Finland has been to facilitate the finding of employment by those in a weak labour market position and to improve the effectiveness of labour market policy measures aimed at this target group and the employment impact of the organisations from social economy sector and the sheltered workshops. WISEs were intended to be an alternative for occupational therapy for disabled persons; however, while the legislation was being prepared, it was noted that the purpose of a WISE was to be the last stage in subsidised employment before finding an ordinary job. Because of the recession in Finland, the target group of WISEs includes the long-term unemployed.

All types of enterprises, even different types of social economy organisations, are eligible to register as a WISE if they meet the criteria of the Act (1351/2003 revised 924/2012). In addition to profitable business operations, the purpose of a social enterprise is to provide work opportunities for disabled persons and the long-term unemployed and to support their future employment. The difference from other companies is that they have a social goal: at least 30 % of employees in a social enterprise are disabled or were previously unemployed long term. Otherwise, a social enterprise functions in the same way as any other enterprise. WISEs produce goods and services for the market and try to make a profit, the same as any other business. Thus, a social enterprise can operate in any sector or line of business.

To qualify for the status of a WISE and benefit from the support measures specifically addressed to this type of enterprise, a candidate has to be accepted for entry into the register of WISEs maintained by the Ministry of Employment and the Economy. To be recognised as a WISE, an enterprise must fulfil the following criteria: it is entered on the Trade Register, it is run as a business to produce commodities (services and goods), at least 30 % of its employees are disabled and/or long-term unemployed (required percentage of subsidised employment), and it pays all of its employees regardless of their productivity the wage or salary specified for employees with full work ability in the relevant collective agreement for the sector in question, or, if such a collective agreement does not exist, a normal and reasonable wage or salary. A WISE will be



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

Social enterprises are best suited to sectors where job duties and instruction can be cost-efficiently organised. It would be more challenging to apply the WISE operating model to, for instance, care work requiring the building of long-term relationships of trust through personal encounters or to other personal services. The challenge in such a case would be how to organise instruction and job coaching cost-effectively so that it would not become a significant competitive disadvantage. Physically demanding job duties are also not a good fit for WISEs. Duties requiring advanced occupational competence and special expertise are well suited to people with various disabilities if well organised and leveraging up-to-date technology (Grönberg & Kostilainen, 2012).

Incentives to register as a WISE have not been compelling enough for many organisations. Only a few labour cooperatives and other social economy organisations active in the field of work integration have registered as WISEs. Thus, the situation of registered WISEs (Act 1351/2003 revised 924/2012) is problematic. During the preparation and introduction of the new legislation, politicians and civil servants were highly aware of the possible problems relating to the freedom of competition and public procurement legislation. Because of these concerns, the Act does not genuinely provide any special support or incentives to establish WISEs. Registered WISEs have the right to use the "Butterfly Mark" dedicated to them. However, as the Butterfly Mark is not well known, its use is very rare (Kostilainen & Pättiniemi, 2016).

The Act fulfils the EU operational definition on entrepreneurial and social dimension of social enterprise: these organisations do business by selling services or goods and social goal is the reason for doing business. However, the dimension on governance or limits on profit distribution are not explicitly taken into account in the law on WISEs.

### **The Finnish Social Enterprise Mark**

Among the recommendations of the working group that were accepted and set up by the Ministry of Employment and the Economy in 2010 was the creation of a Social Enterprise Mark. The Finnish Social Enterprise Mark was launched in December 2011. The working group defined a social enterprise as follows: "The general goal of social enterprises is to create public benefit. Its founding principle is to solve social problems and to strive for social goals. In order to meet these goals, a social enterprise uses over a half of its profits to promote its aims and to develop its ways of action. In addition, the characteristics of a social enterprise include also openness, client centric approach, transparency of business and generating social impact" (Laiho et al., 2011).

One of the recommendations given in the working groups' final report (Laiho et al., 2011) was that a mark should be founded to differentiate social enterprises from traditional enterprises. During spring 2011, the Ministry of Employment and the Economy looked for organisations willing and able to build the mark. The Social Enterprise Mark is granted and administered by the Association for Finnish Work. Established 100 years ago, the association is a politically independent non-profit organisation, which raises most of its revenues from membership fees. The Association for Finnish Work has experience in building brands: in 1965, it set up the Finnish Mark of Origin, the Key Flag, nowadays known by 96 % of Finns (Eljala et al., 2013).

The aim of the Finnish Social Enterprise Mark was to give identity to social enterprises, to differentiate them from traditional enterprises and, in more general

terms, to raise awareness of the social enterprise business model. The Social Enterprise Mark is a stakeholder driven label without legal regulation. Based on the working group's definition and extensive consultations with the relevant stakeholders, the criteria for the Social Enterprise Mark were drawn and published at the end of 2011. To be eligible for the label, the organisation should meet the three primary criteria and at least one of the secondary criteria.

The following are the primary criteria with which every social enterprise has to comply:

- I The primary purpose and objective of the social enterprise is to contribute to social good. The social enterprise is engaged in responsible business activities.
- II Restricted distribution of profits. The social enterprise uses most of its profits to contribute to social good in accordance with its business idea, either by developing its own operations or donating the profits in accordance with its mission.
- III Openness and transparency of business activities.

In addition to the above-mentioned key characteristics, a social enterprise must meet one or more of the following features: Ensure participation and influence of employees in the enterprise's decision-making, including employee ownership; measure its social effectiveness and generated social impact; and employ persons with a weak position in the labour market.

The board of the Association for the Finnish Work nominated a committee of experts, which grants the Social Enterprise Mark based on applications from enterprises. The committee grants the Social Enterprise Mark for a three-year period, after which the enterprise must apply again. However, the committee can grant the mark for one year if an enterprise is in the middle of its first financial year, for instance.

Notably, though not explicitly written down in the criteria of the Social Enterprise Mark, in Finland social enterprises are understood as business actors, that is to say, as for profit organisations. A vast majority of service providing civil society organisations are not seen as social enterprises, but as a part of civil society, belonging amongst non-profit actors. However, almost half of the awarded Social Enterprise Mark organisations are non-profit associations or foundations which have commercial activities in the markets. When compared with the understanding of social enterprises drafted by the European Commission (2011) and the EMES International Research Network (Nyssens & Defourny, 2008), which state that social enterprises adopt a legal form of the social economy, the Finnish model is more business oriented and excludes all forms of organisations which do not trade on the markets or rely on voluntary work. This exclusion was made partly because of lobbying by entrepreneurs' organisations



and trade unions which expressed their concerns about distorting competition and weakening the terms of employment (Grönberg & Kostilainen, 2012).

However, the law on WISEs and the Finnish Social Enterprise Mark fulfil the EU operational definition of the entrepreneurial and social dimension of social enterprise that these organisations do business by selling services or goods and the social goal is the reason for doing business. The dimension on governance is not explicitly taken into account in the law on WISEs, while the Finnish Social Enterprise Mark has a dimension on governance requiring limits on profit distribution and transparency.

In Finland, it has been a deliberate policy decision to treat all types of social enterprises in the same way as any other enterprise or organisation for public support. Social enterprises are entitled to use the same instruments as all other businesses. There are no fiscal exemptions or advantages dedicated to any social enterprises in Finland. The abovementioned working groups recognised the social mission and the special characteristics of the social enterprises but stated that social enterprises should be equal to other enterprises in receiving support (Laiho et al., 2011).

WISEs (registered by the Act) are almost on par with any other business as far as obtaining private or public funding. However, they may be granted a public wage subsidy (Act 916/2012), and in some circumstances an additional wage subsidy in special conditions such as compensation for employing people with impaired work ability and for the resulting productivity shortfall. Registration brings with it the same eligibility for start-up support as for other enterprises.

## **2.4 SOCIAL ENTERPRISES IN FINLAND**

Reliable data are available regarding institutionalised forms of social enterprises (WISEs and Social Enterprise Mark), non-profit welfare organisations (associations and foundations) and cooperatives in Finland. The register of WISEs is updated frequently by the Ministry of Economy and Employment. The Association of Finnish Work has an updated list of Social Enterprise Mark organisations. SOSTE, the Finnish Federation for Social Affairs and Health, publishes annual information on the development of welfare organisations providing services, and Coop Center Pellervo follows the development of Finnish cooperatives. However, there is insufficient knowledge and data about the self-identified spectrum of social enterprises and their impact and thus invisibility, including their special features and needs. These self-identified social enterprises are only mentioned in this research, but are not included in the table 3 summarising the different forms of Finnish social enterprises that fit in the EU operational definition (see also European Commission, 2019). The Research Institute of the Finnish Economy conducted a comprehensive survey (Kotiranta & Widgrén, 2015) to analyse the state of the social enterprises in Finland. The study estimated that around 19,000 self-identified social enterprises in Finland employ around 125,000

persons. These self-identified social enterprises produce social value through their products or services and mostly in the field of social services and welfare.

Table 3. Finnish social enterprises that fit the EU operational definition

	WISEs <sup>3</sup>	SEM <sup>4</sup>	Non-profit welfare organisations <sup>5</sup>	New cooperatives <sup>6</sup>	Total
<b>Number</b>	<b>37</b>	<b>214</b>	<b>930</b>	<b>1 633</b>	<b>2 814</b>
<i>Limited companies</i>	27	100	-	-	127
<i>Cooperatives</i>	2	13	-	1 633	1648
<i>Foundations</i>	-	37	4	-	41
<i>Associations</i>	4	58	926	-	988
<i>Other</i>	4 <sup>7</sup>	6 <sup>8</sup>	-	-	10
<b>Turnover</b>	20 M € <sup>9</sup>	56 B €	1.8 B€	~ <sup>10</sup>	~ 58 B€ <sup>11</sup>
<b>No of employees</b>	272 <sup>12</sup>	18 750	33 500	7 000 <sup>13</sup>	~ 59 500 <sup>14</sup>

## WISEs

In all, 279 WISEs have been registered since the Act has been in force and 242 registration applications have been removed (Figure 1. see also European Commission, 2019). Reasons for removals from the register are that those registered WISEs no longer fulfil the employment criteria (at least 30 % of the employees should be from the target

<sup>3</sup> 10.7.2018 information from the Ministry of Employment and Economy/social enterprise register.

<sup>4</sup> Social Enterprise Mark 25.10.2018 information from the Association for Finnish Work.

<sup>5</sup> Puhakka, A., Peltosalmi, J. & Perälähti, A. (2018) Järjestöjen sosiaali- ja terveystyö 2017. SOSTE Suomen sosiaali- ja terveys ry. Note 1: These organization are mainly associations. In the Finnish Patent and Registration Offices Trade register (2.1.2018), 41 are foundations doing business activities. ([www.prh.fi/en/kaupparekisteri/tilastot/lkm.html](http://www.prh.fi/en/kaupparekisteri/tilastot/lkm.html)). Note 2: From these figures are reduced associations and foundations reported already as WISEs and Finnish Social Enterprise Mark organisations.

<sup>6</sup> Pellervo (2015) Osuustoiminnan vuosikirja 2015: 67. Note 1: New cooperatives refers to small and medium sized cooperatives established after the late 1980s. Note 2: From these figures are reduced cooperatives reported already as WISEs and Finnish Social Enterprise Mark organisations.

<sup>7</sup> Four of the companies were sole proprietors.

<sup>8</sup> One Social Enterprise Mark organisation is established by a joint municipal community, another is a public institution (University) and four of the companies are sole proprietors.

<sup>9</sup> Information collected from publicly available databases on economic information ([www.is.fi/yritykset](http://www.is.fi/yritykset)).

<sup>10</sup> Annual turnover of new cooperatives varies from 10 000 € to 11 M€. The largest new cooperatives (n = 11) had a turnover of around 34 M€ in 2016. No information is available on the total turnover of all new cooperatives. Pellervo (2017) Osuustoiminnan vuosikirja (2017, 69).

<sup>11</sup> Estimation by the researcher.

<sup>12</sup> Estimation by the researcher based on information gathered in 2009 on employment figures of 168 WISEs (In 2009, 168 WISEs employed 1,236 persons).

<sup>13</sup> Estimation by Coop Finland 2018.

<sup>14</sup> Estimation by the researcher.

groups), termination of the company's activities or voluntary exit from the register. Voluntary exits might be caused by increased bureaucracy, lack of incentives, uncertainty and late compensations on pay subsidies. The Finnish application of the WISE model has not fulfilled expectations. It partly overlaps with other effective measures targeted to disabled persons, persons with partial work ability and the long-term unemployed. Additionally, the pay subsidy can be used to employ these target groups in any other business.



Figure 1. WISEs registered, removed from the register and currently in the register, by year of registration<sup>15</sup>.

### Social Enterprise Mark organisations

In all, 214 Social Enterprise Mark organisations have been awarded so far (Table 4., see also European Commission, 2019). Explanations for enterprises growing interest to be awarded by the Social Enterprise Mark might be that socially and environmentally oriented organisations see the Mark as a competitive advantage when social and health markets are opening.

Table 4. Evolution of the number of Social Enterprise Mark organisations by Year

Year	2012	2013	2014	2015	2016	2017	10/2018
of organisations	31	47	62	88	114	175	214

According a study by Grönberg and Kostilainen (2012, 42), the most common sectors in which WISEs operate in Finland are recycling (27 %), services (39 %), manufacturing (26 %) and staffing services (8 %). Based on the register of WISEs, the sectors with the most potential are small industry, property maintenance, home care services, laundry services, retail trade, interim, job coaching, training, social welfare and healthcare

<sup>15</sup> Situation as of 10.7.2018 in the Ministry of Employment and the Economy.

services, tourism and restaurants, environmental management and materials recycling. This diverse range of sectors indicates that WISEs are not sector-dependent. There are some sports clubs but no cultural enterprises or non-profit associations in the register of WISEs.

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

Traditional social economy organisations have increased their service provision in the field of diverse social and health services for the public and private sectors. According to the Trade Register of the Finnish patent and registration office (2.7.2018), 460 associations and 42 foundations have business activities.

New cooperatives are established mainly with the following purposes: (1) employee-owned cooperatives characterised by a common business idea and stable work relations, (2) cooperatives of self-employed persons in which the cooperative is seen as a vehicle for administrative and marketing functions, (3) labour cooperatives with the aim of finding employment opportunities for their unemployed members, (4) incubators in the cooperative form, and (5) cooperatives which attract people who wish to gain extra income from their hobbies (Moilanen et al., 2014).

Some of the social impact-oriented self-identified social enterprises are active in the fields of social and healthcare, work integration, rural areas and local communities, and art and culture, and among start-up companies promoting SDGs<sup>16</sup> and doing business for social benefit.

Social enterprises awarded by the Finnish Social Enterprise Mark operate in the following sectors<sup>17</sup>: social work activities without accommodation (34 %), social and healthcare with residential care activities (14 %), human health activities (11 %),

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<sup>16</sup> <https://sustainabledevelopment.un.org>

<sup>17</sup> According to Standard Industrial Classification TOL 2008.

waste collection and recycling (8 %), management consultancy activities and other professional, scientific and technical activities (6 %), temporary employment agency activities (5 %), activities of membership organisations (5 %), real estate activities (3 %) and sector unknown/other activities (13 %).

Social enterprises (WISEs and Social Enterprise Mark organisations) are located in the following Finnish regions (19) (Table 5., see also European Commission, 2019)):

Table 5. Finnish social enterprises by region

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

According to their employability and turnover, WISEs are micro and small firms and Social Enterprises Mark holders tend to be larger companies. No information is available from the non-profit associations and foundations or co-operatives. Tables 6 and 7, (see also European Commission, 2019) summarise the Finnish social enterprises according to their size (employees) and turnover, respectively.

Table 6. Size (employees) of the Finnish social enterprises

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

Table 7. Turnover of the Finnish social enterprises

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

## 2.5 MEASURES FOR DEVELOPING SOCIAL ENTERPRISES

Strategic objectives of the Finnish government include promoting start-ups and developing the growth and sustainability of the enterprises, especially small and micro-sized companies. A number of public support systems (e.g. funding, training, guidance and counselling) for enterprise in Finland are open to mainstream and social enterprises. All these business support services are available at "My Enterprise Finland"<sup>19</sup>, which is owned and maintained by the Ministry of Economic Affairs and Employment. Other information on business operations and services, including all public funding and grants for companies, is available online<sup>20</sup>.

During the ESF period from 2007 to 2013, several projects and initiatives developed forms of assistance to encourage innovations and the development and growth of social enterprises. For example, commissioned and steered by the Ministry of Employment and the Economy, the Tampere Region Cooperative Centre carried out a project to advise and educate civil servants and enterprise advisors. At that time, research into social enterprise activities took organized forms, and international connections and interaction were brought about (Kostilainen & Pättiniemi, 2016).

Additionally, to make recommendations on different experiments, the National Equal Theme Network on social enterprises co-ordinated and integrated development projects relating to social enterprises. The networking groups collected and mainstreamed good practices that had been created throughout the country to improve the growth of social enterprises. This high-level forum for social enterprises gathered interest groups to discuss the Finnish model for social enterprises (Kostilainen & Pättiniemi, 2016).

Although the Structural Funds for 2014–2020 include no particular objective to support social enterprise, social enterprises are eligible to apply for funding to start or develop their business. Funding is available to develop social innovations, particularly for measures increasing the work ability and employment of disadvantaged groups, but also for improving the quality of working life, e.g. by establishing more flexible methods or organisation of work.

<sup>18</sup> 31.8.2018 information from the Association for Finnish Work (N = 202).

<sup>19</sup> <https://oma.yrityssuomi.fi/en>

<sup>20</sup> [www.suomi.fi/company](http://www.suomi.fi/company)

In Finland, there are no specific policy or support measures for social enterprises. However, wage subsidies, employment policy assistance and investment support may be granted to WISEs under exceptional terms and conditions.

There are also no allowances for special treatment in public procurements for any kinds of social enterprises. However, under the Act on Public Procurement (1397/2016), a contracting entity may reserve participation in competitive tendering in the context of work programmes or to restrict participation to sheltered workshops or similar suppliers whose main aim is the social and occupational integration of disadvantaged persons and persons with disabilities. To participate in competitive tendering, no less than 30 % of the employees of the sheltered workshop, supplier or work programme can be disadvantaged persons or persons with disabilities. The contract notice must state that the contract is reserved for implementation by the sheltered workshops or in the context of work programmes. A registered WISE may only take part in a call for tenders reserved for sheltered workshops if it meets the criteria set for a workshop. In practice, this opportunity has seldom been used.

There is a pilot experiment in major cities to develop public procurements where employment criteria will be set in different ways. The project aims to strengthen the knowledge and experiences in the participating municipalities to better take into account the employment criteria in their public procurements. The Finnish Innovation Fund Sitra<sup>21</sup> has promoted impact driven procurement and published a handbook on strategic procurement for the public sector. The public sector can use this tool to develop its procurement procedures, thus moving away from simply purchasing goods and services towards the acquisition of results and impact. Each year, central government and local authorities in Finland make procurements valued at approximately 35 billion euros; thus, achieving an impact also means the more profitable use of billions of euros of tax revenue (Sitra, 2018).

In autumn 2014, the Finnish Social Enterprise Coalition "Arvo-liitto ry" (ARVO)<sup>22</sup> was launched as one member of the Confederation of Finnish Industries (the employers' organisation in Finland). The 50 current members, all of whom are social enterprises and impact actors, are owned primarily by traditional welfare associations and foundations. Member organisations operate in the following branch of business: social and health, well-being and education, housing, work integration and consulting and funding. The aim of the coalition is to enhance the Finnish social enterprise business model and its viability. It can be estimated that ARVO has added the visibility and influence of the social enterprises and other social impact oriented organisations. In collaboration with other institutes, ARVO is developing measures on social impact to gain a comprehensive understanding of activities by different impact actors by measuring their performance and social impact.

The traditional social economy organisation co-operatives<sup>23</sup> and welfare associations<sup>24</sup> have well-established lobbying and other support structures. Their attitudes towards social enterprises are mixed. Social enterprises might be seen as rivals or as an important and vital business model for their member organisations.

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<sup>21</sup> [www.sitra.fi/en](http://www.sitra.fi/en)

<sup>22</sup> [www.arvoliitto.fi](http://www.arvoliitto.fi)

<sup>23</sup> [pellervo.fi/english](http://pellervo.fi/english)

<sup>24</sup> [www.soste.fi/soste/soste-in-english.html](http://www.soste.fi/soste/soste-in-english.html)



The research community FinSERN<sup>25</sup> established in 2010 brings together around 100 Finnish researchers and eight organisations that need to apply research knowledge and are interested in social enterprises. FinSERN organises conferences and annual thesis competitions and it publishes news on topics related to social enterprise research. Some of its members are active in international social enterprise research networks and research initiatives.

Co-op Network Studies (CNS) is a network established by a group of 10 universities. Teaching within the framework of the network is developed, produced and coordinated by the Ruralia Institute of the University of Helsinki with the other participating universities. The university network was established in 2005 and offers multidisciplinary, web-based minor subject courses and modules related to the co-operative sector, social economy and social enterprise. Moreover, the CNS coordination unit is actively involved in developing and investigating matters affecting the co-operative sector in cooperation with partners. The studies receive support and funding from Finnish co-operatives and mutual companies through the Finnish Co-operative Advisory Board, the Coop Center Pellervo and the University of Helsinki<sup>26</sup>.

There are no systematic studies examining the demand for finance of social enterprises in Finland. However, additional funding is a much needed in the sector that currently attracts most of its outside financing from the public sector and struggles to find financing that is critical for future growth<sup>27</sup>. WISEs are also reported to have difficulties with late payments of pay subsidies<sup>28</sup>.

The funding channels for social enterprises are, in principle, the same as those for mainstream enterprises. So far, no investment market as such exists and no specific public or private (specialist) fund has been set up to finance social enterprises alone. However, in November 2018, the European Investment Fund (EIF) and Finnish bank Oma Säästöpankki Oyj signed the first guarantee agreement for social entrepreneurship in Finland under the EU Programme for EaSI. Under the social entrepreneurship agreement, the bank will support approximately 100 social enterprises with 10 million euro loans, primarily cooperatives, contributing to increased social and economic inclusion. The social enterprises will be able to benefit from the loans at a reduced interest rate with lower collateral requirements under the EU supported programme<sup>29</sup>.

The emerging social and welfare market is relatively new and investors are just now learning how to evaluate investment opportunities. Most of the social enterprises have difficulty proving the value of their "impact". Data are scarce and in many cases difficult to translate into monetary terms. The buyer-side quite often prefers the established service providers to the new ones.

Social impact redistributors are generating incomes or funds for social impact-oriented social entrepreneurial activities, some of which belong to the institutionalised forms of social enterprises. They have solid businesses (e.g. a specialist fund manager)

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<sup>25</sup> [www.facebook.com/finsern](http://www.facebook.com/finsern)

<sup>26</sup> [www.helsinki.fi/en/ruralia-institute/education/co-op-network-studies](http://www.helsinki.fi/en/ruralia-institute/education/co-op-network-studies)

<sup>27</sup> Kotiranta, A. & Widgrén, J. (2015). *Esiselvitys yhteiskunnallisesta yrittämisestä – Katsaus yhteiskunnallisiin yrityksiin ja vaikuttavuusinvestoimiseen Suomessa*. ETLA Raportit No 46. Available from <http://pub.etla.fi/ETLA-Raportit-Reports-46.pdf>

<sup>28</sup> Grönberg, V. & Kostilainen, H. (2012). *Sosiaalisten yritysten tila ja tulevaisuus*. Työ- ja elinkeinoministeriön julkaisuja 12/2012. Helsinki: Edita Publishing Ltd.

<sup>29</sup> [http://www.eif.org/what\\_we\\_do/guarantees/news/2018/efsi-easi-finland.htm](http://www.eif.org/what_we_do/guarantees/news/2018/efsi-easi-finland.htm)



dedicated to impact investment generating funds which they re-invest into the (innovation-oriented) social goals of the owners or into other social objectives.

The Funding Centre for Social Welfare and Health Organisations (STEA)<sup>30</sup> is the funding state aid funding operator for within the social and health services in Finland. Non-profit associations who are registered with the Register of Associations, foundations and even non-profit limited companies or cooperatives can apply for STEA funding if the purpose of their operations is the promotion of health and social wellbeing. The funding is not intended for use in statutory public services or commercial business activities. STEA receives about 2,500 funding applications annually. As of 2019<sup>31</sup>, STEA funds 887 non-profit social and health organisations across in Finland, providing around 360 million euros ([www.stea.fi](http://www.stea.fi)).

Social enterprises may be caught between being “too commercial” for Funding Centre for Social Welfare and Health Organisations (STEA) grants and “too social” for actors providing business funding. Some attempts have been made to map and organise dedicated financial instruments for social enterprises. There are also various ethical and other crowdfunding initiatives (e.g. co-operative Ehtaraha<sup>32</sup>, [mesenaatti.me](http://mesenaatti.me)<sup>33</sup>).

For the moment, the Finnish Innovation Fund Sitra is initiating impact investment, and Social Impact Bonds are piloted<sup>34</sup> in Finland. These pilots are open to all impact oriented organisations and are not dedicated solely to social enterprises.

Social enterprises in Finland struggle with similar problems that all small and medium enterprises experience in financing growth and investment.

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<sup>30</sup> [www.stea.fi/web/en/frontpage](http://www.stea.fi/web/en/frontpage)

<sup>31</sup> [https://stm.fi/artikkeli/-/asset\\_publisher/sosiaali-ja-terveysalan-jarjestojen-toimintaan-lahes-362-miljoonaa-euroa-vuonna-2019](https://stm.fi/artikkeli/-/asset_publisher/sosiaali-ja-terveysalan-jarjestojen-toimintaan-lahes-362-miljoonaa-euroa-vuonna-2019)

<sup>32</sup> [www.ehtaraha.fi](http://www.ehtaraha.fi)

<sup>33</sup> [mesenaatti.me/en](http://mesenaatti.me/en)

<sup>34</sup> [www.sitra.fi/en/projects/sib-funds](http://www.sitra.fi/en/projects/sib-funds)

### 3 RESEARCH DESIGN

This chapter describes the overall research design of the study. It begins by defining the aim of the study and research questions and then introduces the research approach and the philosophical assumptions involved in the study. The chapter summarises the methodological choices and the data used and describes how the analysis was conducted. Finally, the chapter concludes with an analysis of the overall quality of the research.

This study analyses how the Finnish social enterprises find a niche in the Finnish welfare state reform by answering the following research questions:

- i. What are the development phases of social enterprises in Finland? (1)
- ii. How do social enterprises balance their dual mission? (2)
- iii. To what extent do Finnish social enterprises represent reactions to the changes in the institutional environment and new types of socio-ecological challenges? (3)

This study uses interpretivist and subjectivist research approaches, thus perceiving a socially constructed reality. These approaches are typically employed to examine how and why particular social constructions are created and given meaning, aiming to build and extend theories (Denzin & Lincoln, 2005, 10). The field of social enterprise is an emerging discipline in Finland with limited prior research. This study employs qualitative research to develop a theory on the Finnish social enterprises.

The main philosophical assumptions in qualitative research are beliefs about ontology, epistemology, axiology and methodology (Creswell, 2013, 20). In this study, reality is understood as a socially constructed perception of the world that is shared and created in interaction and is interpreted through the multiple perspectives of the individuals interviewed for the study. In line with this ontological perspective, the concepts of social enterprise are considered socially constructed as a product of individual cognition and interaction and further depend on the specific institutional and social context where it is developing and operating.

The epistemological position of this study is close to constructionism, thus rejecting the positivist argument of a universal truth accepting the possibility of specific local, personal and community forms of knowledge (Järvensivu & Törnroos, 2010, 101). Therefore, knowledge is assembled through people's subjective experiences and derived from empirical interviews in which it is jointly constructed by the interviewer and the informants and from other data, representing a constructed version of reality in a specific context with specific objectives.

Axiological assumptions relate the values and goals of the researcher (Creswell, 2013, 20) which are clarified by explaining (1) how and why the research methods were chosen, (2) how the empirical data were collected, (3) how the findings were interpreted and (4) the potential limits of the findings.

Methodological assumptions explain how the researcher connects assumptions about the nature of reality, knowledge and values to the empirical world by explicating the purpose of the study, researchers questions and "what information most appropriately will answer specific research questions, and which strategies are most effective for obtaining it" (Denzin & Lincoln, 2005, 25).

Empirically, this qualitative study is based primarily on three sets of data. In article 1, the research process was an inductive content analysis of relevant policy and programme documents from the ESF programmes from the Structural Fund periods of 1995–1999, 2000–2006, 2007–2013 and 2014–2020. Other relevant literature, official reports, field notes and data on social enterprises were also used.

The research approach used in article 2 was a theory driven content analysis and comparative case study performed by triangulating different sources of research data: thematic interviews of 22 managers of Finnish WISEs, relevant registers and documents. The financial information of these companies was collected through the VOITTO+ database from a credit rating and from a financial information company called Suomen Asiakastieto Ltd.

The research approach used in article 3 was an inductive content analysis and case study. The study was based on the framework of the International Comparative Social Enterprise Models (ICSEM) Project. The ICSEM questionnaire was utilised in this study for conducting thematic interviews with 19 Finnish social enterprises and the interview data were matched with publicly available data. Five interviewers conducted the interviews between 2016 and 2018. For article 3, four organisations were chosen (presented with pseudonyms) that represent one category of the new typology of social enterprises. These organisations were selected because their activities reflect the spirit of the category. Moreover, at the time of the writing, they had been granted the Social Enterprise Mark. Thus, they were fairly stable and represent the institutionalised social enterprises in Finland.

Lincoln and Guba (1985) addressed the quality of qualitative research based on the “trustworthiness” of the research, which included criteria for credibility, transferability, dependability and confirmability. Applicability is the essence of qualitative research and refers to whether the findings of the research are useful in practice (Corbin & Strauss, 2009). Credibility refers to the extent to which the interpretations of the findings from the empirical data make sense and are understandable, relevant and useful to the real-life settings (Glaser & Strauss, 1967, 237). Transferability or generalisability is almost impossible (Lincoln & Guba, 1985, 316) in qualitative research and therefore the findings should be relevant and useful for potential users in other contexts (Glaser & Strauss, 1967). Dependability is also a challenge in qualitative research; it refers to the extent to which the study and its findings can be replicated (Yin, 2009). Confirmability refers to the extent to which the interpretations stem from empirical observations and the data, and can be confirmed by others (Eriksson & Kovalainen, 2008). Table 8. presents an overview of the research aim, research questions, empirical data and methodologies in the individual publications. In Table 9. lists the criteria employed to assess the trustworthiness of the research (adapted from Storbacka, 2011).

Table 8. Aim of the Research, Research Questions, Research Data and Methods

Aim of the research	Do the social enterprises find a niche in the Finnish welfare state reform?		
Research questions	i. What are the development phases of social enterprises in Finland? (1) ii. How social enterprises are balancing their dual mission (2) iii. To what extent do Finnish social enterprises represent reactions to the changes in the institutional environment and new types of socio-ecological challenges? (3)		
	Article 1	Article 2	Article 3
Research questions in the articles	Q1: How has changing the welfare state in Finland shaped possibilities for social enterprises?  Q2: What are the development phases of social enterprises in Finland?	Q1: What are the management orientations of Finnish social enterprises?  Q2: How do the different management orientations affect the companies' ability to keep to their dual mission?	Q1: To what extent do contemporary Finnish social enterprises follow the traditions of social enterprises identified in previous research?  Q2: To what extent do Finnish social enterprises represent reactions to the changes in the institutional environment and new types of socio-ecological challenges?
Research data	Programming documents from the Finnish European Structural Fund periods 1995–1999, 2000–2006, 2007–2013 and 2014–2020	22 thematic interviews with different social enterprise managers. Financial information	19 thematic interviews with different social enterprises. Publicly available information and data on these enterprises.
Methods	Inductive thematic analysis	Theory driven content analysis and case study	Inductive thematic analysis and case study

Table 9. Trustworthiness of the Research Process

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**Credibility:** The extent to which the interpretations of empirical data reflect the reality as perceived by the informants.

*Prolonged engagement:* The researcher was engaged in the field of social enterprises and has over 20 years' experience on social innovations and social enterprises in the context of the renewal of welfare services. During the study, the researcher was engaged in several national and international development and research projects in the studied field.

*Persistent observation:* During the research process, 41 thematic interviews were conducted with 41 social enterprise managers over seven years– the duration of this study. Observations included exploring relevant policy documents and analysing rich data concerning the studied field and enterprises.

*Peer briefing:* Joint analyses with co-authors and research groups at several national and international conferences and workshops, with presentations on emergent findings and feedback from other researchers. Three articles were conducted using a double-blind review process for academic publications and feedback and comments were received from reviewers and editors during the review process.

*Triangulation:* The study employs rich interview data from different social enterprise managers presenting different types of social enterprises. Multiple forms of secondary data were obtained such as financial information, annual reports, project diaries, statistic, social enterprise literature reviews, policy and legislation documentation.

**Result:** Emerging findings were constantly revised based on empirical observations and comments obtained from the different stakeholders of the study.

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**Transferability:** The extent to which the findings can be applied to other contexts.

Forty-one social enterprises from different context and business participated in the research process.

**Result:** The results of this study are applicable in developing policy frames and legislation for enabling better operational environment for social enterprises in local, national and European contexts.

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**Dependability:** The extent to which the study and its findings can be replicated.

Research design and implementation process is defined, and the data collection and methods are explained and applied.

**Result:** The research process is explicated and described from the data collection to the interpretations.

**Confirmability:** The extent to which interpretations stem from empirical observations and the data can be confirmed by others.

Applied relevant qualitative methods and case studies to demonstrate diverse interpretation.

**Result:** During the research process, the interpretations were altered, expanded and refined.

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**Applicability:** The extent to which the findings are relevant for and can be employed to benefit the participants.

During the research process, the researcher was an expert member of group appointed by the Nordic Council of Ministers which included a working group to map initiatives to support social entrepreneurship and social innovation in the Nordic countries, a country expert in the European Commission DG Employment, Social Affairs & Inclusion Peer reviews on social entrepreneurship and social enterprises Croatia and Norway, a research partner from ICSEM, an MC member of COST Action CA16206, and a national researcher for the 'Update of the mapping of social enterprises and their eco-systems in Europe' DG Employment, Social Affairs and Inclusion (EC) funded consortium led by Euricse-EMES. The researcher has also participated in several national and international research conferences to present preliminary results of different phases of this study to other researchers, policymakers and practitioners.

**Result:** Relevant social enterprise policymakers, practitioners, academics and other stakeholders benefited from the findings and conclusions of the research in different phases of the research process.

## 4 OVERVIEW OF THE ORIGINAL ARTICLES

This section presents the key findings from the three independent studies that are part of this PhD study. These papers focus on the evolution and institutionalisation of social enterprises in Finland and on the conditions how these organisations fits in the Finnish welfare states employment and economic system.

### 4.1 ARTICLE 1: EVOLUTION OF SOCIAL ENTERPRISE CONCEPT IN FINLAND

Article 1 is co-authored with PhD Pekka Pättiniemi. The purpose of the first article is to introduce the institutional change that has taken place in delivering welfare services in Finland and how this change has shaped the possibilities for social enterprises. The Finnish experiences are positioned in relation to general trends in the Nordic countries.

The study contributes social enterprise research field by illustrating country specific perspectives on the context of social enterprise evolution.

The article was published in a book: *Routledge studies in Social Enterprise & Social Innovation: Social Entrepreneurship and Social Enterprises Nordic Perspectives*. Routledge New York, 2016.

#### 4.1.1 Research focus

The first article explains the evolution of social enterprise concept in Finland applying the theory of explanatory modes of institutional change (Mahoney & Thelen, 2009a). A further aim was to understand by using the concept of niche (Popielarz & Niel, 2007) how social enterprises interact in the competitive conditions induced by a finite environment. The research questions were:

Q1: How changing welfare state in Finland has shaped possibilities for social enterprises?

Q2: What are the development phases of social enterprises in Finland?

The article provides a view on the importance to elaborate national vision on the role of social enterprises in the welfare states public service provision.

Research process included qualitative content analysis of relevant policy and programme documents from the structural fund periods 1995–1999, 2000–2006, 2007–2013 and 2014–2020. Other relevant literature, official reports, field notes and data on social enterprises was also used.

### **4.1.2 Findings and conclusions**

Due to the needs of the Finnish society and the priorities of the funding available, the focus of social enterprise development has been on work-integration and welfare services provision. Simultaneously social entrepreneurial activities are diversifying and finding new grounds.

Four found development phases of the Finnish social enterprises were: 1) a new social movement, 2) a labour market measure, 3) a vehicle renewing welfare service provision and 4) the institutionalisation of the Finnish social enterprise concept.

Despite the development of certain institutional practices and experiments in social enterprises, Finland does not have any specific policy frameworks for the role of social enterprises in the welfare society; therefore, it is challenging to develop a viable social enterprise ecosystem.

## **4.2 ARTICLE 2: MANAGEMENT ORIENTATIONS AND MISSION DRIFTS: CASE STUDIES ON FINNISH WORK INTEGRATION SOCIAL ENTERPRISES**

Article 2 is co-authored with PhD Pekka Pättiniemi. The purpose of the second article is to illustrate different management orientations of Finnish work integration social enterprises first. Second, the aim of the article is to present how different management orientations might affect the mission and resilience of social enterprises.

The study contributes and fosters an understanding of the particularities of the various managerial aspects in work integration social enterprises.

The article was published in a book: MIC 2016: Managing Global Changes Proceedings of the Joint International Conference. University of Primorska Press. Koper, Slovenia, December 2016.

### **4.2.1 Research focus**

The second article focuses on dual mission and managerial aspects of work integration social enterprises which social value creation consists of the process of employing the most vulnerable people and thereby promoting their social inclusion and equal opportunities in labour markets and society. The research questions were:

Q1: What are the management orientations of Finnish work integration social enterprises?

Q2: How do the different management orientations affect the companies regarding their keeping to their dual mission?

The study applies systems theories approach on organisational resilience and drifts (Adger, 2000; Young and Kim, 2012) and earlier research findings on challenges, tensions and dilemmas in the management of social enterprises (Teasdale, 2010; Hudson, 1995; Paton, 2003; Doherty, 2009, Nicholls, 2009, Alegre, 2015 and Gonin, 2013).

The article highlights importance of different managerial orientations role on holding the dual objectives of work integration social enterprises.

The research was conducted as a qualitative comparative case study in two phases by triangulating different sources of research data: thematic interviews of 22 managers of Finnish work integration social enterprises, relevant registers and documents, financial information of these companies collected through VOITTO+ database from a credit rating and financial information company Suomen Asiakastieto Ltd.

#### **4.2.2 Findings and conclusions**

The four management orientations of work integration social enterprises was found: (1) social orientation, (2) balanced social-and-profit orientation, (3) balanced profit-and-social orientation and (4) profit orientation.

Most work integration social enterprises are embedded in local employment and business eco-systems. The study demonstrates that work integration social enterprises seem to have chance of success when they fit into and reinforce the local employment and business eco-system. The study suggests that a balance between social goals and economic performance is the essence of a successful social enterprise. Balanced management orientation ensures the maintaining of the double missions of these enterprises and their good relations to diverse stakeholders.

The orientation of the management of a work integration social enterprise indicates how that enterprise will manage through turbulent times. However, study does not imply that the background of the CEO would in any way affect the balance achieved in company management.

### **4.3 ARTICLE 3: THE NEW TYPOLOGY OF SOCIAL ENTERPRISES IN FINLAND: CAPTURING THE DIVERSITY**

Article 3 is co-authored with PhD Eeva Houtbeckers and PhD Pekka Pättiniemi. The purpose of the third article is review and conceptualize new approaches to Finnish social enterprises.

This article follows the framework and the proposed work plan of the International Comparative Social Enterprise Models (ICSEM) Project.

The article is accepted to be published in a book: Routledge studies in Social Enterprise & Social Innovation: Social Enterprise Models in Europe. Forthcoming 201X.

#### **4.3.1 Abstract**

This paper aims to capture the diversity of social enterprises in Finland by asking to what extent contemporary Finnish social enterprises follow the traditions of social enterprises identified in previous research and to what extent they represent reactions to the changes in the institutional environment and new types of socio-ecological challenges. We review the institutionalized and non-institutionalized forms of social enterprises met in Finland. They are influenced by social economy traditions, changes in legislation, and recent developments in the understanding of role of businesses



and economy in general. We present four illustrative cases, which represent a new typology of social enterprises in Finland: social enterprises providing public (welfare) services, emerging alternative economic initiatives, impact businesses and “smart-ups”, and social impact redistributors. We argue that the newly developed typology reflects the diversity among the contemporary field of Finnish social enterprises.

#### **4.3.2 Research focus**

This article reviews the ways and the notion of social enterprise and related concepts are understood in Finland as well as the influence of various schools of thought (Dees, 1998; Defourny & Nyssens, 2012; Kerlin, 2006). A new typology of social enterprises in Finland is proposed: a) social enterprises providing public welfare services, b) emerging alternative economic initiatives, c) impact businesses and smart-ups, and d) social impact redistributors.

Research question is what are social enterprises: 1) identity and social value creation, 2) mission and products/ services, 3) governance and ownership, 4) finances and economic performance in each typology?

ICSEM questionnaire was used to generate data among the typology. For data collection and analysis, emblematic cases were selected from each category of the typology (a, b, c and d) which were described in-depth. The article analyzes also the respective institutionalization processes of each social enterprise category as well as their eco-systems.

This research develops an empirically grounded typology of social enterprises which adds to the knowledge of the field in Finland. It paves the way to international comparative analyses. Study serves also Finnish practitioners to better understand the emerging eco-system and the diverse forms and needs of social enterprises.

#### **4.3.3 Findings and conclusions**

In order to answer the research questions, we review the institutionalized and non-institutionalized forms of social enterprises met in Finland. They are influenced by social economy traditions, changes in social enterprise related legislation, and recent developments in the understanding of role of businesses and economy in general. For concrete examples, we present four illustrative cases representing a new typology of social enterprises in Finland. The typology includes the categories of (1) social enterprises providing public (welfare) services, (2) emerging alternative economic initiatives, (3) impact businesses and “smart-ups”, and (4) social impact redistributors. We argue that the newly developed typology reflects the diversity among the contemporary field of Finnish social enterprises in more detail compared to earlier categorizations.

## 5 DISCUSSION AND CONCLUSION

The Finnish government are in the process of reforming how to organise health and social services. This reform increases welfare, health and employment services clients' freedom of choice, which means that clients have the right to choose where they wish to receive health and social services by using, for example, service vouchers and a personal budget. Publicly funded health and social services are provided by public, private and non-profit operators, such as associations and foundations.

Regarding the registered WISEs (Act 1351/2003 revised 924/2012), the situation is problematic. During the preparation and introduction of the new legislation, politicians and civil servants were highly aware of the possible problems relating to the freedom of competition and public procurement legislation. Because of these concerns, the Act does not genuinely provide any special support or incentives to establish WISEs. Incentives to register as a WISE have not been compelling enough for many organisations. Only a few labour cooperatives and other social economy organisations active in the field of work integration have registered themselves as WISEs, and the expected results have not been met (Kostilainen & Pättiniemi, 2016). As of 2018, only 37 WISEs employed 121 employees from the target groups (disabled and long-term unemployed).

Additionally, in the recent Finnish debate, new types of social enterprises are expected to combine the business skills of the private enterprises with a strong social mission. Public administration expects social innovations from the private sector that might have an important role in delivering (welfare) services and employment services, especially labour market integration. In Finland, as elsewhere, social enterprises are expected to improve the quality of public services, generate innovations, improve productivity and have a preventive effect on harmful social, environmental and health problems among the population. WISEs have been an innovative but, so far, only a marginal way to enhance the employment opportunities for the disabled and long-term unemployed. Social enterprises in the field of welfare service provision may be seen at least partly as a counterforce for the increasing international commercial competition in the opening welfare markets.

### **Constraining factors**

During the research process, I identified a low public awareness of the social enterprise business model in Finland. Considerable confusion remains in terms of the definitions of different social enterprise models. The main constraining factors for the growth of social enterprises identified were a lack of conducive policy framework for social enterprise, under-developed social investment markets and more generally, a lack of understanding of the specific characteristics of social enterprises and the impacts and social value they create.

Despite the development of certain institutional practices and experiments in social enterprises, Finland does not have any specific policy frameworks for the role of social enterprises in the welfare society. It is therefore challenging to develop a viable social enterprise ecosystem (Kostilainen & Pättiniemi, 2016).

The lack of dedicated financing and support structures for social enterprises may be because the phenomenon is still marginal, the concept of social enterprises is blurred and contested, the majority of social enterprises are fragile and the enterprises are not well organised. Social enterprises have difficulty finding finance, and most financial tools are designed either for conventional business or for not-for-profit associations.

The lack of a national vision or any strategic approach to social enterprises and their role in the Finnish society has led to an ineffective use of different social enterprise development measures and activities during the past decades. Furthermore, the programme approaches adopted by recent Finnish governments pose the potential risk that social enterprises with their own missions and goals will become subordinated to the tasks that the administration has thrown at them: to further employ those in weak labour market positions and to take care of the marginalised people through measures such as the provision of welfare services in remote areas. The development of social enterprises in Finland is also hindered by the currently nascent eco-system that does not support the special characteristics of the social enterprise business model. For example, business opportunities are prioritised instead of social needs, and user participation is seldom included (Kostilainen & Pättiniemi, 2016).

### **Opportunities**

There is a growing body of small enterprises and entrepreneurs that see business opportunities in solving contemporary complex socio-ecological problems and consider a legal business organisation form as a means to achieve positive social or societal impacts (Houtbeckers, 2016). For some, social entrepreneurship is a more meaningful career choice than the work in large, established organisations whose activities may be seen as unethical or where work contracts can be unstable (Demos Helsinki, 2010).

The marketisation of public social and healthcare services means opportunities for different types of enterprises to become service providers. The pending Finnish social and healthcare administration reform process will have a major impact and possible opportunities but also places risks on the social enterprises operating environment. The reform will pose a challenge to private and social economy actors and open opportunities for wholly different innovative options. The reform also concerns enterprise and employment services. There are ongoing experiments on applying Social Impact Bonds (SIB) and social clauses on public procurements. The reform opens employment service provisions for private for-profit and non-profit organisations, which were previously provided by mainly public organisations. Social enterprises are also trying to find their niche in this marketisation of welfare and employment services.

Improved capacities to take social impact into account in public procurement, by both sellers and buyers, might lead to new opportunities for social enterprises. There is an urgent need to develop public procurement schemes to find ways to buy social value instead of opting for the cheapest price.

Social enterprise is a relatively new concept in Finland, and as such, awareness and understanding of the concept(s) is lacking among the general public and policymakers; only 32 % of municipal decision makers are aware of the Finnish Social Enterprise Mark<sup>35</sup>.

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<sup>35</sup> Association for Finnish Work.

While the social enterprise business model in Finland has some promising elements, it might still be in danger of dilution because of (1) competition neutrality, a view raised mainly by certain interest groups and federations of employers and businesses and (2) the fear that there may be a qualitative deterioration in working conditions, a view raised by trade unions (e.g. Laiho et al., 2011). One of the main issues has been that decision makers do not have enough information on social enterprise and therefore do not understand how the business model works. The limited development of social enterprises in Finland might lead to a situation where the concept is in danger of dilution. There is also a danger of an ahistorical reading of social entrepreneurship, in which the rich tradition and already functioning social economy organisations and enterprises are ignored. Such an unfortunate situation would mean disregarding knowledge that has accumulated over the years (Kostilainen et al., forthcoming).

For growth of the social enterprises in Finland, it is crucial that self-identified social enterprises find interest in applying the Social Enterprise Mark or operating as a registered work-integration social enterprise. The core idea of combining business with societal value needs to be widely acknowledged and impact actors fully supported. The traditional social economy organisation actors need to recognise the potential of the social business model and thus invest in the development. The better visibility for social enterprises, clarity of different business models of social enterprises and implementation of public procurement processes might open opportunities for social enterprises in the future. There is a need to further develop fragmented networks of different social enterprises and actors in their ecosystem.

The social enterprises in Finland lean on the strong tradition of the social economy and it has been adapted again to accord with the logic of the marketisation of welfare service. The traditional third sector organisations, such as associations and foundations, have corporatised their operations in the field of welfare services and will further corporatise their operation value-based business when their services are connected to it through the quasi-markets. The challenge is to find business and civil-based voluntary activities for new combinations. Additionally, the co-operative companies are beginning to offer the welfare services in the structures of the consumer co-operatives. Sifting for new markets is supported by the strong local co-operative organisations with their different service areas serving of the clientele more widely before and with different services, utilising the advanced customer knowledge bases in the changing environment.

The path dependence affects the studied issues because, since 1990, a number of the reforms in the public sector which have begun and especially the privatisation of the arranging of welfare services and marketisation influence. It is difficult to return to the paradigm of welfare services that have been publicly produced from the begun path of the reforms; likewise, the role of organisations in the earlier paradigm was a near partnership model with the production of services of municipalities alone. However, from the viewpoint of competition neutrality and of other developments, there is no return even here.

The WISEs which integrate into the working life have been born from the need to reform and to intensify the operation of work centres and other integration activities. The municipalities move to be publicly owned limited companies is not unproblematic especially from the viewpoint of entrepreneur organisations and of competition neutrality. There is a big need to get disabled people into working life in Finland, but it has not been possible to find functional solutions.

The objectives of the SDGs create possibilities and interest, especially among self-identified social entrepreneurs and smart ups, but also among different civil society based forms of the social entrepreneurship of the alternative economy (especially a solidary economy).

The research process raised two main scenarios for social enterprise development in Finland:

- (1) The Flourishing: Social enterprises are able to communicate better with their significance and proven impact while they are developing their business. The content of social enterprise business model becomes clearer and there is clear understanding of what distinguishing features make a business social. At the same time, social enterprises are able to capture new business opportunities and trends. If social enterprises become attractive work organisations, highly skilled people want to join the workforces.
- (2) Regressive: Failing to manage the scenario in (1) will result in social enterprises remaining in the margin and boiling away.

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# ARTICLES

## ARTICLE 1

Kostilainen, H. & Pättiniemi, P. (2016). Evolution of Social Enterprise Concept in Finland. In Lundgaard A. L., Gawell M. & Spear, R. (eds.) *Social Entrepreneurship and Social Enterprises Nordic Perspectives*. Routledge studies in Social Enterprise & Social Innovation. Routledge New York. DOI: 10.4324/9781315621982. Copyright: New York and London: Routledge, 2016.

## ARTICLE 2

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## ARTICLE 3

Kostilainen, H., Houtbeckers, E. & Pättiniemi, P. (Forthcoming). The new typology of social enterprises in Finland: Capturing the diversity in Defourny, J. & Nyssens, M. (eds.) (Forthcoming) *Social Enterprise in Europe. Theory, Models and Practice*. Routledge studies in Social Enterprise & Social Innovation. Forthcoming. Copyright: New York and London: Routledge, forthcoming

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## HARRI KOSTILAINEN

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*This PhD study discusses the extent to which social enterprises in Finland could find their niche in welfare state reform and provides an overview of the Finnish social enterprise development by identifying the roots, characteristics and the enabling and hindering factors to social enterprise. The study brings structured information regarding the size, dynamic and profile of social enterprises active in Finland, and discusses the specific challenges they face and their development perspectives.*



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