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WORK INTEGRATION SOCIAL ENTERPRISES IN FINLAND

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Introduction

The main aim of this paper is to present a general overview of Finnish Work Integration Social Enterprises (WISEs) and to provide a description and analysis of their social and economical performance. We also present types of enterprises that are not concentrating their efforts on the employment of long-term unemployed people, and we analyse one major renewal influenced by the performance of Finnish WISEs, namely the adoption of the Finnish Law on Social Enterprises. But in order to describe and analyse their present phase of development, it is important to describe first some historical roots of the different types of social enterprises, and the context in which they have emerged.

1. The evolution of the labour market situation in Finland

In Finland, full employment has been the general feature from the 1950s until the early 1990s. It was helped by fast industrialisation but also by emigration to Sweden and other more industrialised countries from the 1950s to the 1970s.

The national regulation of the labour market and the well-designed social and health policy encouraged and made possible a steady growth of the national economy and a significant increase in the welfare level of the citizens. The labour market policy was seen as an integral part of the economic and education policy. The State has traditionally been responsible for employment policies, and the Ministry of Labour has its labour agencies in almost every municipality.

During the 1980s the deregulation of the national economic policy gradually changed the situation. The shift to more global markets and deregulation and the sudden collapse in trade with the Soviet Union in the early 1990s caused mass unemployment. The unemployment rate reached a peak in 1994, as it appears from table 1, which describes the evolution of the unemployment rate (ILO standards) from 1990 to 2003.

New policies affecting the labour market were introduced during the 1990s. The labour market partners (the government, employer organisations and trade unions) agreed on more flexible employing conditions and on widening the possibilities in locally applying the national collective labour agreements. In labour market policy, more active methods were implemented in the 1990s; the number of vocational training courses for the unemployed, for example, increased rapidly. Various alternatives to enterprises for employing the unemployed (and especially the long-term unemployed) were also developed. As a side effect, temporary and part-time work increased.
Table 1: Unemployment rate in Finland 1990-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment rate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Women</td>
<td>Men</td>
</tr>
<tr>
<td>1990</td>
<td>2.7</td>
<td>3.6</td>
</tr>
<tr>
<td>1991</td>
<td>5.1</td>
<td>8.0</td>
</tr>
<tr>
<td>1992</td>
<td>9.6</td>
<td>13.6</td>
</tr>
<tr>
<td>1993</td>
<td>14.4</td>
<td>18.1</td>
</tr>
<tr>
<td>1994</td>
<td>14.8</td>
<td>18.1</td>
</tr>
<tr>
<td>1995</td>
<td>15.1</td>
<td>15.7</td>
</tr>
<tr>
<td>1996</td>
<td>14.9</td>
<td>14.3</td>
</tr>
<tr>
<td>1997</td>
<td>13</td>
<td>12.3</td>
</tr>
<tr>
<td>1998</td>
<td>12</td>
<td>10.9</td>
</tr>
<tr>
<td>1999</td>
<td>10.7</td>
<td>9.8</td>
</tr>
<tr>
<td>2000</td>
<td>10.6</td>
<td>9.1</td>
</tr>
<tr>
<td>2001</td>
<td>9.7</td>
<td>8.6</td>
</tr>
<tr>
<td>2002</td>
<td>9.1</td>
<td>9.1</td>
</tr>
<tr>
<td>2003</td>
<td>8.9</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: www.stat.fi/tk/tasaarvo_tyo.html

At the end of December 2003, the number of people covered by training and subsidized measures arranged by the Labour administration amounted to 82,900. About 2,000 people were also employed through employment-promoting investments and in European Social Fund projects. In total, 3.3% of the labour force was covered by these measures. The number of people placed under wage-related employment measures arranged by the labour administration was 33,800 (it had decreased by 1,500 compared with the previous year). These workers were distributed as follows: 6% were in government jobs, 32% in local government jobs and 62% in the private sector. Between December 2002 and December 2003 the number of placements decreased by 8% in government jobs and by 13% in local government jobs, while it increased by 1% in the private sector. At the end of December 2003, labour market training was attended by 30,000 students, i.e. 1,400 less than the previous year. In the course of the month of December 2003, 3,400 new students started labour market training.

The European Social Fund (ESF) projects have contributed (since their introduction in 1995 in Finland) to the development of new types of social enterprises, by supporting the development of innovative initiatives; these initiatives might not have been able to emerge, had their only support been the traditional "project financing" tools.

The special employment arrangements made by social and health care services were studied in an overall survey of employment of people with disabilities. According to the survey there were about 11,000 disabled persons employed in work centres under the Care of the Invalids Act, in social firms, in work activity units, in supported employment units and project and in club houses for mental health. The total financing of these units amounted to 118 million euros, of which about 84 million euros were public funding.

Despite all the active measures which have been implemented, there is still today a hard core of structural unemployment consisting of 180,000 people. In addition to

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this, there are almost 90,000 disabled jobseekers. Bearing in mind that Finland is a nation of 5,000,000 people, these figures are relatively high.

2. New developments in work integration social enterprises

Before 1990, WISEs mainly targeted handicapped people; co-operative social firms for the disabled are established by people with disabilities or by people recovering from a mental illness as a self-help measure to find job or rather to ensure additional earnings in top of their pensions. These co-operatives are heavily supported by their member political organisations; AFFINITY (the Finnish Central Association for Mental Health) and the Finnish Association of the Deaf act as support organisations for these co-operatives.

But as a result of the mass unemployment of the early 1990s, a new type of social enterprise emerged in the mid-1990s: labour co-operatives. These will be studied in the first part of this second section. Simultaneously, the "work centres", which originally aimed at the employment of disabled persons, underwent an important evolution, which we will describe in the second part of this section.

2.1. Labour co-operatives

The first labour co-operatives emerged, as already mentioned, in the mid-1990s; by the end of this decade, there were almost 300 enterprises of this type, employing over 3,000 previously unemployed persons.

Labour co-operatives were established to complement the services provided by the State-owned labour offices, which could no longer fulfil their tasks when they were suddenly faced with mass unemployment. Labour co-operatives were also a reflection of the discussions on workplace democracy in the 1970s. Unemployed persons were in fact pursuing two goals simultaneously: to have steady earnings from a job and to influence their own work. While striving for full-time employment labour co-operative adopted a strategy of hiring workers (their members) to other enterprises and developing a service where the enterprise in need only paid a lump sum in one bill, covering all the costs of the hired worker (salary, taxes, insurance, office costs, etc). This strategy proved to be successful.

Some labour co-operatives also try to develop the professional skills of their members by organising vocational training (which they finance on their own budget or using financial aid from the labour offices). In quite many regions labour co-operatives are multi-stakeholder enterprises; they may have as members local trade union associations, village associations and sometimes even local banks or the municipality. Although labour co-operatives first emerged in major urban areas, today they cover the country fairly well, from the most southern point of Finland up to northern Lapland.

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4 See Pättiniemi & Immonen, 2002, pp. 11-14.
5 Pättiniemi (1999).
Labour co-operatives were typically established by persons who had been unemployed for one to two years; two thirds of them were between 36 and 45 years old. Also noteworthy is the fact that 43% of the founders were women. Immigrants (especially those from the former Soviet Union) have also been active in establishing labour co-operatives. At the end of the century, labour co-operatives of immigrants had about 300 members.

Temporary support structures for establishing new co-operatives rose rapidly in the mid 1990s; labour co-operatives could also make use of these. From 1994 to 1996 the Institute for Co-operative Studies of the University of Helsinki conducted a project called the "New Co-operative project"; it was financed in 1994 and 1995 by the Committee for Rural Policy and in 1996 by the Ministry of Labour. In 1995, Finland joined the EU; consequently, Finnish organisations could apply for and use European Social Fund (ESF) project funding. ESF funding allowed the opening of Regional Co-operative Support Centres. In 1997, 60 labour co-operatives established an association to unite their efforts to lobby in national policies. In the same year, co-operative advisers organised themselves in a professional association.

Because of the positive employment effects of labour co-operatives, public interest to promote this type of employment activity rose and led to a reinterpretation of the regulations regarding the definition of "entrepreneur" and the criteria for receiving unemployment benefits. According to the new definition, an entrepreneur is a person who owns more than 15% of the shares of the enterprise where he/she is working and is thus not allowed to receive unemployment benefits when he/she is without work. This definition made it possible for unemployed persons to establish co-operatives without fearing to lose or endanger their social security: they simply had to be seven members at least to make it possible to split the shares among the members in such a way that none of them held more than 15% of the shares.

By 1995 the State amended the legislation on grants to associations for the unemployed, allowing to use such grants to cover start-up costs of labour co-operatives. The grant is restricted to activities in the establishment period of the enterprise that cannot be considered to be commercial or to develop business. Although the grant cannot exceed 10,000€, it encouraged the establishment of labour co-operatives.\(^6\)

Soon after the amendment of grant policies, State-owned labour offices adopted the idea of labour co-operatives. Indeed, some unemployed could be employed more easily by hiring them as subcontracted State workers to enterprises in need for temporary work.\(^7\) But a number of labour offices then began to consider labour co-operatives as their competitors; this had a negative effect on their attitude towards labour co-operatives. However, in other regions, labour co-operatives evolved to become integral partners in local partnerships. Especially in rural areas, municipalities and labour offices are working together with labour co-operatives and other enterprises to find local solutions to persistently high unemployment rates. Labour co-operatives are seen as the last step for the socially disadvantaged long-term unemployed before entering the open labour market.

\(^6\) Ibid., p. 139.
\(^7\) Ibid., p. 137.
Since the year 2000, less new labour co-operatives have been created than in the late 1990s, due to a better labour market situation in the country. The support structures have also been diminishing during recent years. The National Association of Labour Co-operatives has gone through serious legal and financial crises since the year 2000 and it has not fully recovered.

Labour co-operatives can be regarded as transitional enterprises. Some of them have developed to ordinary employee-owned businesses; others ceased their activities after they had helped their members to find a job in other companies; and others still have evolved into organisations similar to ordinary labour agencies, hiring their members and others in need for temporary work to enterprises in sectors such as the construction, cleaning, and care sectors. It can be estimated that approximately 200 labour co-operatives still exist in the country; they employ about 2,500 persons yearly.8

2.2. Work centres owned by social associations

The first attempt to encourage and support an entrepreneurial activity for disabled persons took place in the 1890s, when some charitable associations for the blind agreed to assist blind craftsmen to purchase raw materials and to market their products.9 Further steps were taken in late 1930s, when the first industrial enterprises aiming to employ disabled persons were established by a number of associations for the disabled.10 A monthly support for visually impaired persons who were working was introduced by the State in 1935. This decision by the government formed a basis for the social policy concerning the work integration of physically impaired persons in general.11 Later on, in 1952, a similar law, concerning persons with mobility disabilities, was adopted in the Parliament.12

The most intense period in terms of creation of work centres and sheltered workshops was the late 1950s - early 1960s.

A change in social policies on work integration occurred in 1970 when the provisional law on work centres and on supporting associations and foundations establishing and running work centres was adopted. According to this law, the mentioned organisations could apply for low interest State loans to cover set-up costs of work centres. The loan could amount to up to two thirds of the investment needs. A low interest loan could also be granted to cover a maximum of 55% of the running costs of the work centre. In the year 1978, the law was made permanent.13

In the 1970s and 1980s, the economic conditions were viable for the work centres; workshops and machinery could be modernised and the competitiveness of the enterprises was improved. The number of employees and participants rose quickly.

9 Kuotola, 1988, p. 360.
Although the idea of work centres originated from the activities and concerns of associations for the disabled, by the 1970s most work centres were established, owned and run by municipalities or by organisations founded by public authorities. Only a minority of them was owned by private owners, mainly associations for the disabled.

Work centres were also affected by the recession in the early 1990s. Many of them had to adjust their activities to diminishing markets, and many employees and participants were made redundant. In a context of hard competition, work centres began to employ long-term unemployed workers, who were more qualified in the sense that they were not physically or mentally disabled and were thus more capable to subsequently be integrated into a mainstream enterprise. The proportion of long-term unemployed amongst the employees and participants of work centres rose considerably. Work centres also began to include socially disadvantaged groups of society in their target groups.

At the same time, changes in the legislation on rehabilitation also affected many work centres. Some of the disabled participants who had worked in the enterprise for years had to be dismissed because the new legislation did not allow to pay substitutes for the same person for years in a row.

The years 1992 – 1994 were especially hard for the work centres, but by the mid/1990s many of them had recovered from the recession.

The recession and the changes in the legislation on rehabilitation led to decisions to alter the goals and working methods. Two main directions were adopted. On the one hand, in many regions, work centres evolved in the direction of multi-service centres with rehabilitation, training and work experience activities. This was often accomplished by uniting many previously independent rehabilitation services under one roof. The services of these centres may include supported employment, training for work, employing persons with employment subsidies, vocational training, etc. On the other hand, other work centres became more entrepreneurial entities, evolving into "social enterprises". This decision was inspired by the necessity, in order for the organisation to survive, to make the production and management more efficient. This later development had two main consequences: the privatisation of the work centres and the will to increase the productivity of workers. The idea of calling the more entrepreneurial work centres "social enterprises" or "social firms" gained ground with the increase of international connections and due to the bad image of work centres amongst the general public and other enterprises.\footnote{Pättiniemi & Immonen, 2002, p. 6.}

In order to increase the efficiency of the work centres as enterprises, some work centres have been privatised directly to the management or to specialised municipality-owned foundations run by specialists. In some cases, this has meant more autonomy and direct decision-making possibilities for the managers.

As far as the productivity of the impaired workers was concerned, it appeared that "encouragement-money" was not enough for increasing the workers’ skills and their commitment to work. The legislation has changed recently: the impaired workers employed in work centres or in other supported work may now receive normal wages
without fearing to permanently lose their pensions. According to the new legislation, the rights of impaired persons to pensions and other social security benefits will be maintained after their working period if they prove not to be fit for regular work. Only few comments have been made on the opportunities and benefits that may be achieved by improving working conditions and by adding participatory elements to the management.\textsuperscript{15}

It is estimated that about 10 new social enterprises have developed out of traditional work centres.\textsuperscript{16} The VATES Foundation, established by 24 major national associations for the disabled, organises various kinds of support services for the work centres undergoing this kind of evolution.\textsuperscript{17} SOFI, a network for developing social enterprises (in this case work centres) was established in 1998. A conscious will to develop a more enterprise-like style of workshops and work centres emerged.

2.3. The specificities of WISEs with respect to the social enterprise definition criteria

We can identify two major types of Finnish WISEs: enterprises connected to the associations for the disabled and co-operative social enterprises. Enterprises connected to the associations for the disabled have, as already mentioned, a considerably longer history and may thus be considered as "traditional" work-integration organisations. Co-operative social enterprises are a more recent phenomenon, linked mainly to the recession and mass unemployment of the early 1990s. Both types of WISEs can be divided into two subgroups, as shown in table 2: work centres and other enterprises owned by associations for the disabled, on the one hand, and labour co-operatives and co-operatives for the disabled, on the other hand.

Using the EMES Network criteria of the social enterprise\textsuperscript{18} proved fairly difficult in the case of Finland, especially as regards work centres. To what extent can private Finnish work centres be considered as social enterprises? Answering this question is difficult. Do work centres enjoy a high degree of autonomy? Is there a significant level of economic risk for most centres? Are they really initiatives launched by the citizens? How do they really distribute their profits if there are any? What clearly appears is that there are no regular participation opportunities for the persons affected by the activity.

Regarding the "enterprises owned by associations for the disabled", problems arise concerning the participatory nature. As a matter of fact, these enterprises are owned by very powerful national or regional associations for the disabled. The management board often consists of representatives of the professional management team and of impaired board members of the association. Do these persons really represent the workers in the factories or workshops? The ultimate decision-making power is in the hands of the association that owns the shares of the enterprise – so it is very complicated for the workers to influence the decision-making process.

\textsuperscript{15} Loukola, 2002.
\textsuperscript{16} Harjunen, 2001.
\textsuperscript{17} The VATES Foundation's purpose is to promote the employment of the handicapped, in particular persons with disabilities who are not readily employable, taking their individual rehabilitation needs into account and in a manner appropriate to the individual and society.
\textsuperscript{18} For more details on the criteria see Borzaga and Defourny (2001).
The question of power – that is, who owns and governs the social enterprise - has not been raised in the Finnish discussion and literature, and it seems to be very delicate for most of the organisations in question. The only exceptions are AFFINITY (the Finnish Central Association for Mental Health) and the Finnish Association of the Deaf, which have openly argued for the benefits of participation in the rehabilitation process and for the enhanced possibilities for empowerment that taking part in the management of enterprises (including through the ownership of shares by the workers) represents.

**Table 2: Different types of Finnish work integration enterprises compared to the EMES Network’s definition of the social enterprise**

<table>
<thead>
<tr>
<th>Main types of WISEs</th>
<th>Enterprises connected to the associations for the disabled</th>
<th>Co-operatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subgroups</td>
<td>Work centres*</td>
<td>Other enterprises owned by associations for the disabled</td>
</tr>
<tr>
<td>Continuous production of goods and/or services</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>A high degree of autonomy</td>
<td>Mostly</td>
<td>Mostly</td>
</tr>
<tr>
<td>A significant level of economic risk</td>
<td>Often not</td>
<td>Yes</td>
</tr>
<tr>
<td>A minimum amount of paid work</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>A initiative launched by a group of citizens</td>
<td>Mostly</td>
<td>Yes</td>
</tr>
<tr>
<td>A decision-making power not based on capital ownership</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>A participatory nature, which involves the persons affected by the activity</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Limited distribution of profits</td>
<td>Mostly</td>
<td>Mostly</td>
</tr>
<tr>
<td>An explicit aim to benefit the community</td>
<td>Yes</td>
<td>In most cases</td>
</tr>
</tbody>
</table>

* Private work centres under The Invalid Care Act.

The co-operative types of Finnish WISEs (namely labour co-operative and social co-operatives for the disabled) fit well the social enterprise criteria as defined by the EMES Network. Both initiatives are new and represent a response to the ineffectiveness and patronising nature of the old Finnish employment models of work integration.

The economic risk is evident in three cases out of four, especially for labour co-operatives, that (unlike social enterprises owned by associations and social co-operatives for the disabled, in which most of the members receive pensions or similar benefits due to their disability) cannot rely on the members' social benefits.
3. Economic and social performance of Finnish WISEs

3.1. WISEs studied in the PERSE project

In the framework of the research project on the “Socio-economic Performance of Social Enterprises in the Field of Integration by Work” (PERSE), a sample of fifteen Finnish WISEs was selected and the social and economic performance of these enterprises was studied. The selection of enterprises was done with the help of experts both of the co-operative type of WISEs and of work centres. No "enterprise owned by an association for the disabled" was included in the sample.

The information was gathered during Spring 2003 through interviews of the managing directors of the WISEs. All participants were asked to deliver the balance sheet for the year 2001. Only a couple of enterprises did not provide all the necessary information (this concerns especially the subsidies received). In one case the information on the economic results concerns the year 2002, due to the fact that this enterprise was established in late 2000 and the balance sheet for 2002 better reflected its activities.

WISEs in the sample are situated in the southern and central parts of the country. It is the area were most of the population lives. They are situated mainly in regional centres, both in urban and rural areas. The limited travel budget did not allow visits outside these areas and made it necessary to select WISEs operating in regions with a concentration of WISEs.

There are considerable differences between the WISEs whose origins are to be found in work centre traditions and those that have adopted the co-operative form. All the co-operatives were established in the 1990s, whilst most work centres have been active for a longer period - some of them for about 40 years. Those that have adopted the co-operative form do not have any well-established organisations supporting them in their business activities or lobbying for them, whilst work centres originating from the associations or other organisations of disabled persons have well-established support structures.

The majority of the social enterprises surveyed worked in the service sector, providing services either to private household or to enterprises, with home services being particularly important. Only three WISEs in the sample were enterprises producing goods; their main products were metal and textile goods.

3.2. Staff and participants

In the present study, we understood the "core staff" as the salaried workers who were working in managerial jobs or who were employed as "normal" workers, mainly for specialised work. The "participants" were defined as those who had come to the enterprise as unemployed, those who received other benefits or those who had been officially identified as disabled persons or persons with other specific difficulties to find jobs.

The interviews of managing directors were done between January and June 2003.
The fifteen Finnish WISEs surveyed employed a total of 689 persons (in average 46 persons per enterprise), out of which 86 belonged to the core staff and 411 were participants. Most of the remaining 192 persons were disabled persons engaged in sheltered work or as trainees. In the WISEs surveyed, half of the staff and participants in regular work and employment schemes were women. Forty percent of the managing directors were also women. Considering each enterprise individually, it appeared that work centres generally employed more workers than co-operatives, most of which were small-scale employers (except for a few co-operatives which employed over 50 persons in full time equivalent). The largest enterprise, a work centre, employed a total of 180 persons, out of which 15 belonged to the core staff, 115 were participants and 50 were trainees or workers employed in sheltered work. The smallest WISE was a co-operative for the disabled in which core staff duties were performed by volunteers and which organised the work of two participants.

Participants to the work integration process of Finnish WISEs are selected mostly on the basis of criteria defined by the enterprise itself. The main criterion is the willingness to work, which is tested mainly through discussions with the participant candidates. These discussions are mostly conducted by the managing director, and in some cases by other managers. A secondary criterion is the professional skills of the applicant and a tertiary one is the evaluation of the way in which the applicant is “fitting into the team”. In the case of co-operatives for the disabled, a certain disability is naturally a criterion for selection. In cases where a work centre is conducting sheltered work activities or uses work trainees (rehabilitation activities), they have only restricted own choice to select the participants, due to the rules linked to the compensation they receive to cover their costs.

The workers come mainly either from the labour offices or from self-initiated application. Social assistance is the third most important source; other sources - like other third sector organisations - only play a minor role.

### 3.3. Integration services offered

The most important work integration services offered by Finnish WISEs were permanent jobs and time-limited jobs. Placement services and vocational training were the other two main services offered, but both were clearly secondary to the offer of jobs, whose importance was estimated to continue increasing by the time of the survey. It was also estimated that the importance of vocational training was rising.

The strategy of the social enterprise was the most important factor affecting the offer of permanent jobs; public support, networking and economic situation were also important in this regard. Concerning time-limited jobs, the most important factor influencing their development was public support, followed by own strategies, professional skills of the participants and economic situation.

### 3.4. Participation and ownership

Two thirds of the social enterprises had multiple owners; the others were owned by associations and third sector organisations. Only one was an independent company
owned by a group of municipalities. In a majority of enterprises, decision making was based on the "one member, one vote" principle.

Even though the "one member, one vote" principle was prevailing, the participants in the work integration process (if not members of the co-operatives) seldom had any actual influence on the decision making, except for being regularly heard in meetings and discussions. Even in co-operatives where members could not any more be regarded as persons in work integration process, the participants did not have any formal rights to affect the decision making.

3.5. Networking and collaboration

Locality is the trade mark of Finnish WISEs. Most of the enterprises were active only in local markets. Connection with local businesses, third sector organisations and public sector authorities were most important and beneficial for them. Networking was found to be vital to the WISEs. Various aspects of activities were developed through networking with other WISEs and locally with the political decision makers or public authorities. Two thirds of the enterprises surveyed regarded networking as important for their activities, and especially for the production of goods and services. Preliminary processes of more permanent networking (consortia building) could be found amongst the different groups.

3.6. Changing goals

The goals had primarily been defined by the original intentions of the founders and in response to community needs. The most influent group on the definition of the values and norms of the enterprises remained that of the founders. Discussion on values and norms was felt to be needed due to difficulties in combining economic and social goals in a changing environment. A gradual change of goals could be identified. There were cases in which an unconscious isomorphism development in the direction of being "just an enterprise amongst enterprises" could be seen.

In both types of WISEs, the production goals were regarded as the most important ones; they were placed in first rank by 53% of the social enterprises surveyed. One third of the enterprises in the sample placed goals related to employment in first rank. Social goals were secondary. Goals related to advocacy and political lobbying were of considerably less importance.

As far as the results were concerned, only one enterprise declared that they did not have any meaningful achievements concerning their goals of production or of employment of the target groups; others were satisfied or fairly satisfied of their achievement in these regards. In advocacy and political lobbying, those who had clear goals were satisfied with their achievements; especially positive were their relations with local authorities.

About two thirds of the enterprises had no problems in balancing the three traditional goals of social enterprises in their activities. The relative importance of these goals was changing over time. Some enterprises had problems balancing the gap between the abilities of the target group and the quality of products. All these declared that their activities were becoming ever more business oriented.
3.7. Does working in a WISE benefit the participants?

It appeared from the survey that working in a WISE had multiple positive effects that enhanced the situation of the disadvantaged workers: two thirds of those who entered a WISE of the sample found a long-term solution to their problems of employment (employment, pension, attendance to vocational training or education). The time spent working in the WISE also meant, for most of the disadvantaged workers, a clear increase in earnings. About half of those who were still working in the WISE by the time of the survey had increased their earnings. No clear information was available as to the current earnings of those who had left the WISE.

Working in a WISE also meant increasing capabilities linked to work: improvement in professional skills, in the capacity to fulfil engagements, in the capacity to work with autonomy, in the knowledge of different job tasks and in the collaboration with colleagues. The improvement in these capacities was higher amongst those who were still working in the WISE. Even though the improvement was less marked amongst those who had left the WISE, their actual employability had risen; about 40% of those who had left could find a job and were working in another organisation. Socio-cultural capabilities and the general situation of the workers in both groups (i.e. those still working in the WISE and those who had left it) also improved, even though this improvement was less marked than in the work-related skills.

There were clear differences between the two main groups of WISEs (work centres and labour co-operatives). Work centres offered more exhaustive services to their participants. Labour co-operatives were in general more interested to work with the long-term unemployed, whilst work centres had larger target groups, also including persons with mental or physical disabilities. There were also differences in performance. Almost half of those who had left the labour co-operative had found a job in another enterprise at the time of the research, whilst only 23% of those who left work centres had found a job. But those who left work centres had also other alternatives than work or unemployment, for example pensions, due the use of other integration measures than ordinary work. Co-operatives offered more stable jobs than work centres, but more often they were part-time or limited-time jobs.

3.8. Economic performance

The turnover varied considerably amongst the enterprises in the sample. The biggest turnover amounted to about 5,800,000 euros and the smallest, to about 8,000 euro. The average turnover was of about 880,000 euros. If we do not take into account the biggest turnover and the smallest one, the average turnover is about 500,000 euros; this figure gives a better idea of the reality. Total incomes (turnover plus subsidies, voluntary work, donations etc.) varied between 32,000 euros and 7.2 million euros. Non-monetary resources varied from nil to almost 1.5 million euros. When calculating the average without taking into account the biggest and the smallest amounts, we obtain a figure of about 28,000 euros.

The average turnover of work centres was higher than that of co-operative social enterprises. Work centres had on average a turnover of 2.2 million euros, with a turnover varying between 130,000 euros and 5.8 million euros. The average turnover
of labour co-ops was about 310,000 euros, with a turnover comprised between about 50,000 euros and 815,000 euros.

Eight enterprises had grown substantially during the three years preceding the survey. In six other enterprises, the growth had been weak or there had been no growth at all. Only one enterprise had decreased in turnover during the preceding years. The main reasons for growth were increased visibility in the market place and increased demand for the services produced. Growing experience and professionalism in running a social enterprise were also mentioned as one reason for growth. Those enterprises that produced services for the public sector had been able to strengthen their trust relationship with public sector authorities.

The main reason for those who had not experienced growth in the three years preceding the survey was that they were running in full capacity. Other reasons were mainly related to difficulties linked to the competencies of the employees. The only enterprise whose turnover had decreased explained its failure by their own incompetent work.

Eleven enterprises made profits and only four had losses. The biggest profit/surplus amounted to about 100,000 euros and the highest losses were about 40,000 euros. Surplus was used mostly to improve technical or other equipment or invested into own capital funds. In one co-operative, surpluses were divided amongst the employees in the form of dividends, and in another enterprise they were returned to all employees as production bonuses. Only in one case was the surplus used for the owners' general activities.

3.9. Other resources used

The resource mix varied considerably between the different groups of WISEs. Labour co-operatives got most of their incomes from the market, whilst subsidies and allowances only represented on average 3 to 4% of the incomes. The importance of subsidies varied from nil to 14%. Allowances were important in two enterprises, in which they constituted respectively 4 and 21% of the incomes. Donations amounted to 5% on average, whilst voluntary work represented 10% of the total monetary resources. The importance of voluntary work ranged from nil to 28%; in fact, for labour co-operatives, voluntary work was an important source of financing, especially in the start-up phase. Voluntary work was also considered important in raising the awareness of the social goals and aims of these WISEs.

Most work centres owned by associations were well-established enterprises with a long tradition in their industry. Subsidies were important in all work centres; they constituted on average about 19% of the incomes, ranging from 3 to 61%. Donations were another important resource, especially for newly established WISEs. In two cases, donations were equal to the incomes from the market. In general, public sector subsidies were vital and constituted an integral part of these traditional and well-established WISEs. The subsidies and other support measures were taken into account in planning and organising the entrepreneurial activities.

Co-operatives for the disabled constituted a special case in that they were heavily dependent on donations; these represented on average twice the worth of incomes
from the market. All donations came from private sources, mainly from supporting organisations. Without donations the activities of these enterprises would have been impossible.

Considering the whole sample, monetary resources represented on average 70%, and non-monetary resources, 30% of the total income of Finnish WISEs. Over 90% of the monetary resources came from sales, the most important buyers being private sector enterprises and private persons. Sales to the public sector constituted about one fourth of the sales and sales to the third sector, about one tenth of the sales.

4. Recent development in public policies

During the course of the PERSE research project, new public policies regarding WISEs were introduced in Finland; the performance and lobbying of WISEs may have had an impact on the development of these new policies. It is thus worthwhile to discuss the recent development of public policies regarding social enterprises.

4.1. General public support for enterprises

Social enterprises are entitled for all the public support measures offered by the public sector to all types of enterprises. When establishing a social enterprise, one may apply for investment and start-up support for small enterprises, and development support. Finnvera, a state-supported investment and development institution, offers to enterprises various types of supported loans. But in practice, state-supported investment loans do not reach the bulk of social enterprises since these loans are aimed at industrial enterprises and at supporting technical innovations and most new social enterprises are active in the service sector. Social enterprises can also apply for state support to enterprises in other stages of their development.

Enterprises employing disabled persons can benefit from various kinds of support measures, such as subsidies aiming to compensate for the specific costs linked to the employment of persons with restricted capability to work.

Enterprises hiring unemployed persons may be granted two types of support: enterprises hiring long-term unemployed and unemployed persons with disabilities can benefit from a "combined support" of a duration of 12 months, whilst the enterprise hiring a person who has been unemployed for less than one year can receive employment support of a maximum duration of 10 months. The abovementioned support may be extended to 24 months when hiring long-term unemployed or unemployed persons with disabilities. The number of supported workers is restricted so that an employer may not have any competition advantage because of these supports.

4.2 Discussion on the specific needs of WISEs regarding public support

The good experiences of work centres and labour co-operatives in the 1990s and the persistent high rate of long-term unemployment brought about a political discussion in the late 1990s on measures to promote social enterprises. In 1998 a parliamentary request entitled “How is the Government going to promote social enterprises?” was done. The request was signed by a multiparty group of MPs. In her answer, in February 1999, the Minister of Social and Health Care agreed on the necessity of developing a positive environment for this type of enterprises.

In 2001, 109 MPs out of the 200 MPs in the Finnish Parliament signed a proposal of Law on Social Enterprises. The proposal was based on the research carried out and definition of social enterprise put forward by the EMES Network. The proposal provides that the target groups of social enterprises can be physically or mentally impaired persons and long-term unemployed persons. Social enterprises would be exempted from VAT and from employers’ social security payments if at least 30% of their workers belonged to these target groups. This parliamentary proposal led to a Governmental decision to form a working group led by the Ministry of Trade and Industry and consisting of members from the Labour Ministry and the Ministry of Social Affairs and Health. The working group had to prepare, for late November 2001, proposals for actions to promote social enterprises. The proposals should concern:

1. support measures for establishing social enterprises;
2. support measures for the sustainable running of social enterprises;
3. the organisation of training and advising services for social enterprises;
4. specific projects on the use of technology to increase the competitiveness of social enterprises.

The working group agreed that a law on social enterprises might be needed to improve the employment of disabled persons; and if such a law was passed, social enterprises should also be taken into account in relevant sector legislation. But no further steps were taken then.

4.3 A new law on social enterprises

In June 2002 the minister of employment announced that, due to persistent unemployment, there was a need for legislation on social enterprises. In the summer of 2003 the new Government of Prime Minister Vanhanen included the matter into its programme and on the 22nd of October 2003 the Government adopted the bill. On the 24th of October the bill went to the Parliament, and by the end of December 2003 the Finnish Parliament adopted the Act for Social Enterprises (1351/2003) in a record speed procedure. The Act was finally signed by the President on the 30th of December 2003.

An immediate reason for the exceptionally rapid procedure was the persistent and relatively high unemployment resulting from the employment and economic crises of the early 1990s. Other reasons were to be found in the foreseeable significant changes

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21 LA 74/2001 vp - Pehr Löv/r ym. Laki sosiaalisista yrityksistä.
which were to occur in labour availability when the after-war baby-boom generations retired from work. These changes made it necessary to raise the employment rate in order to ensure the sustainability of the welfare state structures and the payment of the pensions and other social services guaranteed by law.

The aim of the Act is to intensify active labour market policies through the creation of an alternative measure for employing disabled and long-term unemployed persons and to create supply of services in sectors with already existing demand. The purpose is to encourage already existing enterprises to increase the number of disabled and/or long-term unemployed persons they hire through becoming social enterprises. The purpose is also to encourage NGOs that have enterprise-like units to develop these units into actual and legally independent enterprises.

The Finnish Act for Social Enterprises (1351/2003) also provides a definition of social enterprises: a social enterprise is an enterprise created for the employment of people with disabilities and of the long-term unemployed (1§). It is a market-oriented enterprise with its own products and/or services. Wages should be paid to every employee - disadvantaged or not - according to the general bargaining agreements of its branch of industry. In order to be entitled to the benefits granted to social enterprises, the enterprise should be registered in the Register of Social Enterprises kept by the Ministry of Labour (3§). Any enterprise – regardless of its legal form and ownership structure - may apply for registration as a social enterprise if it is already registered as an enterprise in the Trade Register of the Ministry of Trade and Commerce. Even associations may apply, provided they have steady business premises and at least one employee and they are registered in the abovementioned register. The enterprise whose registration as a social enterprise is accepted must explicitly mention in its bylaws the aim to employ disabled and long-term unemployed persons. According to § 3, at least 30% of employees must be disabled persons, or both disabled persons and long-term unemployed; in fact, every social enterprise in the register must employ at least one disabled person. It is forbidden for non-registered enterprises to use the words "social enterprise" in their marketing or in their name. Public Employment Services may grant support to the establishment of a social enterprise. Support may also be granted to associations and foundations aiming at the promotion of social enterprises such as defined in this Act, but the Government still has to adopt the Regulation establishing the detailed rules for the granting of this support. There are no restrictions on the use of the possible profits or surpluses created by social enterprises.

Employment subsidies for social enterprises are regulated by the Act on amendments to the Act on Public Employment Services (1352/3003), the Act on amendments to the Unemployment Security Act - Chapter 9, §7 (1353/2003), the Regulation on amendments to the Regulation on Public Employment Services (1354/2003), the Regulation on amendments to the Regulation of Certain Employment Funds (1355/2003) and the Regulation on amendment to 15th and 16th § of the Regulation on the Implementation of Public Employment Services (1356/2003). The subsidies granted to enterprises to cover their wage costs such as they result from these amendments are presented in table 3.

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23 To give an extreme example, in a social enterprise employing 1,000 employees, there could be 299 long-term unemployed and one disabled worker to fulfil the minimum requirements of the law.
Table 3: Subsidies to cover wage costs

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<th>Target group</th>
<th>Duration</th>
<th>Amount per month</th>
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<tr>
<td>Disabled</td>
<td>36 months</td>
<td>430-770 €/month</td>
</tr>
<tr>
<td>Long-term unemployed</td>
<td>24 months</td>
<td>430-770 €/month</td>
</tr>
<tr>
<td>Persons (disabled or not) who have been unemployed for more than 2 years</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; 12 months</td>
<td>930 €/month</td>
</tr>
<tr>
<td></td>
<td>Next 12 months</td>
<td>500 €/month</td>
</tr>
<tr>
<td>Disabled in some cases</td>
<td>Next 12 months</td>
<td>930 €/month</td>
</tr>
</tbody>
</table>


These subsidies are not available for social enterprises only; they may be granted to any enterprise employing a disadvantaged or long-term unemployed worker. However, enterprises registered as social enterprises can benefit from advantages compared to "normal" enterprises: first, they are offered the opportunity to obtain the subsidies submitting only one application instead having to submit yearly applications; and secondly, subsidies granted for the employment of a disabled worker can be extended for an additional 12 months to three year period, and this additional support period can be renewed as many times as necessary for the person in question to reach the level of skills necessary to be employed in the open labour market.

For the year 2004, special funds have also been granted to the VATES Foundation (which represents the work centres and the National association for the disabled) for supporting the establishment and development of social enterprises through associations and possible future consortia; these funds might be renewed for two additional years. Funding has also been reserved for research on and evaluation of social enterprises and social entrepreneurship.

The Ministry of Labour has also established a working group to ensure the monitoring and follow-up of the implementation of the new legislation. The working group is constituted by representatives of some Ministries, a representative of the VATES Foundation and a representative of the National Association for the Unemployed (Työttömien Valtakunnallinen Yhteistyöjärjestö, or TVY).

4.4. The law in force

By the end of July 2004 nine enterprises had been registered as social enterprises. According to a survey, other existing enterprises which might have applied for registration were waiting for the experience of the first registered social enterprises.

Although there are still no available data on the way the new legislation will be applied and will affect social enterprises or the situation of the disadvantaged and the long-term unemployed, some comments might already be made.

First, the Finnish Act for Social Enterprises provides only marginal benefits for the enterprises registered in the Register of Social Enterprises compared to any other enterprise. Consequently, enterprises already active in the employment of the long-term unemployed might find no particular interested in applying for registration.

Secondly, even though one of the aims of the legislation was to create supply in sectors where there is demand (i.e. services), the Act seems to be better adapted to
industrial enterprises than to service-providing enterprises. This is reinforced by the fact that all the development funds have been granted to an organisation (namely the VATES Foundation) which represents more industrial enterprises than service-oriented enterprises. This general orientation might also discourage some enterprises in the service sector to register as social enterprises.

And finally, it has to be underlined that the eagerness of various political actors to elaborate a specific legislation for social enterprises and the exceptional rapidity of the procedure which led to the adoption of the Act on Social Enterprises show that there is a societal demand for such new entrepreneurial organisations in the field of integration to work.

Conclusions

There are two main groups of enterprises in Finland which meet the criteria of the EMES definition of social enterprises: co-operatives and work centres owned by the associations for the disabled. Most co-operative social enterprises work in the service sector, producing services either for private household or for enterprises, home services being the most important area of activity. The majority of work centres are enterprises producing goods, especially in the metal and textiles industries.

Two thirds of social enterprises have multi-stakeholder ownership and management structures; the others are owned by associations and third sector organisations. In co-operative social enterprises, decision making is based on the "one member, one vote" system; this also applies to some association-based social enterprises.

Even though the "one member, one vote" system was prevailing among the enterprises surveyed, the participants in the work-integration process (if not members of the co-operatives) seldom had a real influence on the decision–making process. Participatory management methods are nevertheless used: in many enterprises, regular meetings and discussions are organised with the employees and participants before implementing or when planning major changes of production line or system.

Most of the resources of Finnish WISEs come from the market, but they are considerable differences between the two groups of WISEs regarding the resources used. Labour co-operatives derived most of their resources from the sale of services on the market; the importance of subsidies and allowances was fairly limited and voluntary work was especially important in the start-up phase. The main source of income of work centres was also the market, but the importance of subsidies for this type of social enterprises was evident - they represented about one fifth of the total resources - and donations also played an important role, especially in the start-up phase.

Networking was found to be vital to WISEs. Most Finnish WISEs being active only in local markets, connections with local businesses, third sector organisations and public sector authorities were of utmost importance and were felt to be beneficiary for the economic and social aims of the enterprises. Various aspects of the activities were developed by networking with other WISEs and with the local political decision-makers or public authorities. Preliminary processes of consortia building were found
amongst the different groups of enterprises. Networking was aiming to obtain information, have an opportunity to discuss common problems and the development needs of the enterprises. Training organised by networks or umbrella organisations was also valued. Co-operation on actual product development was only found in some cases.

The goals of WISEs are defined mainly by the original intentions of the founders and as a response to community needs. The founders remain the most influential group regarding the definition of values and norms. Constant discussion on values and norms was felt to be needed by the managing directors, due to some market-related development and pressures. In some cases, an unconscious move towards becoming "just an enterprise amongst enterprises" could be observed.

Compared with for-profit enterprises, some co-operatives offered an alternative approach to work. These enterprises were flexible in their organisation of work and offered participation opportunities for marginalised persons. Other work-integration social enterprises were more similar to traditional public organisations and private enterprises, in which the marginalised workers are not expected or allowed to participate in the decision-making process or in modelling their own work.

Finnish social enterprises are facing at least four dilemmas in their current work. Firstly, due to the increasing competition, social enterprises are faced with the necessity to increase their effectiveness in the production of goods and services, whilst employing workers with a capacity which is reduced either by physical or mental disabilities or by social exclusion. Secondly, customers are demanding products of an ever higher quality, whilst WISEs are obliged to use low-skilled workforce. Thirdly, both quality and effectiveness of the production are demanding increased professionalism from the managers and workers of the WISEs; consequently, the effectiveness of the integration process may be disturbed. And finally, most WISEs are producing goods or services which require little professional skills and therefore generate only small margins; in order to ensure their sustainability, social enterprises should increase their size and so achieve economies of scale, but the integration results seem to be more profound and lasting in small organisations than in larger ones.

The Finnish Law for Social Enterprises has weaknesses (especially for the WISEs which are active in the service sector), but it recognised the importance of work-integration social enterprises as an effective means of employing long-term unemployed and disadvantaged persons.
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www.vates.fi VATES Foundation

Interviews of fifteen managing directors of Finnish WISEs during January to June 2003.
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**EMES Working Papers relating to the "ELEXIES" Project**


