

# FINLAND

## 1. Introduction




Finland is a top performer when it comes to levels of SME innovation and value added. The start-up ecosystem of the country is growing, SME digitalisation is progressing well and most SMEs are engaged in the green economy. However, boosting exports remains a challenge for the country.

SMEs in Finland were moderately impacted in 2020 by the COVID-19 pandemic and the policy decisions taken to combat it, with SME value added being slightly affected in 2020 (-2.3%) against the EU average (-7.6%). SME employment fell by 1.1% in 2020, close to the EU average of -1.7%<sup>1</sup>. The downturn was particularly pronounced in the *accommodation and food services* sector, with SME value added dropping by 23.5% and employment falling by 12.5% in 2020. Another sector that sharply contracted was *transportation and storage*, declining by 14.9% in value added and by 4.5% in employment. The *information and communication* sector, in contrast, generated 1.5% and 3.4% growth in value added and employment, respectively.

For 2021, a partial recovery is expected, with a rise of 3.9% in SME value added, but only slight growth of 0.3% in SME employment. Overall, SME value added is predicted to exceed its 2019 level by 1.5% in 2021, whereas SME employment is predicted to remain 0.8% below its 2019 level.

In 2020, SMEs were particularly important for Finland's 'non-financial business economy'. They generated 60.1% of value added and accounted for 64.7% of employment, against 53.0% and 65.2%, respectively, in the EU. Finnish SMEs employed an average of 4.2 people, more than the EU average of 3.7. The productivity of Finnish SMEs, defined as value added per person employed, was approximately EUR 64 600, significantly higher than the EU average of EUR 40 000.

Figure 1: Number of enterprises, persons employed and value added in 2020

	 Number of enterprises			 Number of persons employed			 Value added		
	Finland		EU-27	Finland		EU-27	Finland		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
<b>Micro</b>	208 492	90.9%	93.3%	337 815	22.5%	29.6%	19.9	19.1%	18.7%
<b>Small</b>	17 148	7.5%	5.7%	338 538	22.6%	19.7%	20.6	19.7%	17%
<b>Medium-sized</b>	3 120	1.4%	0.9%	294 333	19.6%	15.8%	22.2	21.3%	17.3%
<b>SMEs</b>	<b>228 760</b>	<b>99.7%</b>	<b>99.8%</b>	<b>970 686</b>	<b>64.7%</b>	<b>65.2%</b>	<b>62.7</b>	<b>60.1%</b>	<b>53%</b>
<b>Large</b>	633	0.3%	0.2%	529 907	35.3%	34.8%	41.7	39.9%	47%
<b>Total</b>	<b>229 393</b>	<b>100%</b>	<b>100%</b>	<b>1 500 593</b>	<b>100%</b>	<b>100%</b>	<b>104.4</b>	<b>100%</b>	<b>100%</b>

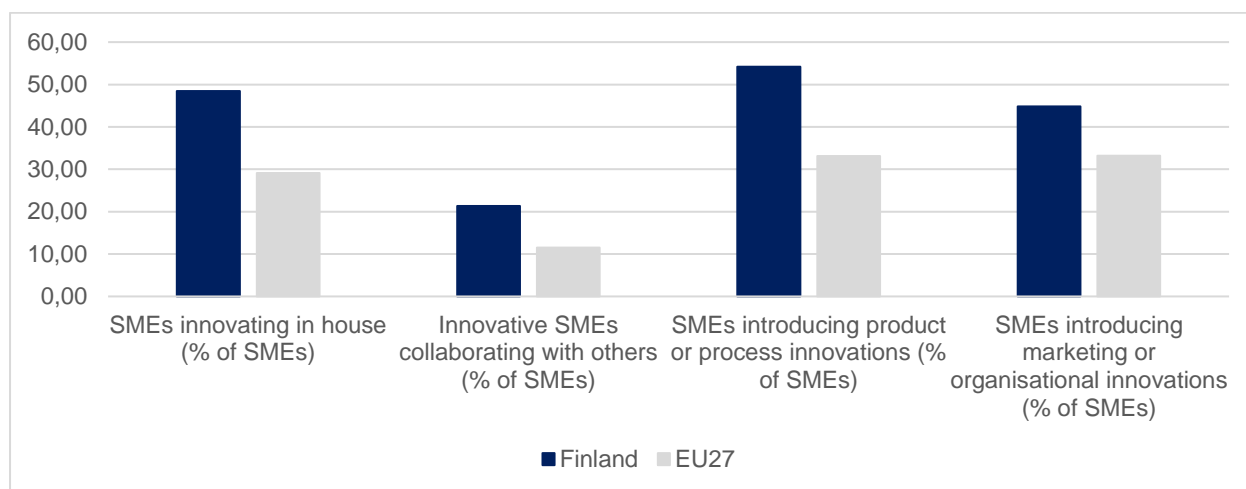
Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

## 2. Key strengths

### Finland has many innovative SMEs and start-ups.

Finnish SMEs are among the EU's top performers when it comes to innovation and high value added. Finland ranks 1st on SMEs with product or process innovations and SMEs innovating in-house according to the European Innovation Scoreboard (EIS) 2020<sup>2</sup>. In Finland, the share of SMEs that undertook some innovation activity over 2014-2016 was the 3rd highest among the EU-28<sup>3</sup> according to the Digital Economy and Society Index. The share of SMEs in high-tech manufacturing and knowledge intensive services is also above EU-28 average. The numbers of Finnish workers participating in adult training is also above the EU-28 average, and employers often provide the training. This strong performance is directly linked to the amount that Finnish SMEs invest in R&D. The share of Finnish SMEs investing in R&D has increased from 23% in 2014 to 33% in 2019. During the same period, the share of SMEs in total R&D expenditure rose by 45%.

Figure 2: Percentage of SMEs innovating in house, percentage of innovative SMEs collaborating with others, percentage of innovative SMEs introducing product or process innovations, and percentage of innovative SMEs introducing marketing or organisational innovations



Source: Community innovation survey, Eurostat, 2016<sup>4</sup>

### Most SMEs engage in the green economy

Finland is on its way to becoming a leader in the circular economy within the EU. Mostly ranking around the midpoint for circular economy indicators, Finland is 16th in the EU regarding the percentage of SMEs that minimise waste and recycle packaging and 17th as regards its 'circular material use rate' according to the Circular economy update<sup>5</sup>. With Finland ranking 3rd in the Eco-innovation Index<sup>6</sup>, the green economy (bioeconomy, circular economy) has increasingly become a growth sector<sup>7</sup> in the country and SMEs have been active in finding new business opportunities in this area. Finnish businesses are also increasingly introducing corporate responsibility policies.

Government efforts have helped increase environmental activities in Finland. The government has put in place various measures to support the bioeconomy, circular economy and cleantech. Many of these measures are strongly focused on innovation. For example, financial support is provided through the Business Finland energy aid for climate, and the development of the Smart & Clean Foundation in the Helsinki region, a joint public-private partnership supporting businesses that offer smart and clean solutions<sup>8</sup>.

The government framework for Finland's Recovery and Resilience Plan has the largest share (around 40% out of six themes) dedicated to the green transition. Although most of the funding will probably be targeted towards the public sector, it is expected that some will be distributed via Business Finland to companies (mainly SMEs). The Export and International Growth Programme 2020–2023 will have targets and measures for raising productivity and added value but also for achieving the transition to a low-carbon bioeconomy and a circular economy.

### Finnish SMEs have progressed well in digitalisation.

Finnish SMEs have progressed relatively well in digitalisation, with the country ranking top in the DESI index in this area and 2nd regarding the integration of digital technologies, with 22% of SMEs selling online (EU average of 18%)<sup>9</sup>. Moreover, regarding the number of businesses that send e-invoices, that have a website-homepage, or that buy cloud computing services, Finland strongly outperforms the EU average (79%, 96% and 64%, against the EU average of 24.2%, 75.8% and 27.8% respectively)<sup>10,11,12</sup>.

In recent years, several policy measures in the fields of digital trust, artificial intelligence, digital connectivity and smart mobility have been introduced for SMEs. Most of these measures support innovation rather than the wide-scale adoption of digital technologies. An example of such a measure includes 'Growth engine funding', which aims to create larger ecosystems of companies and research, technology development and innovation (RTDI) organisations, to develop additional business areas with a big potential growth. Other examples include the 'Digital Trust Finland programme', which provides funds for innovation and business development in the digital trust area, and the 'the Smart Life Finland programme', which supports SME growth and internationalisation in the health and wellbeing sector<sup>13</sup>. The 'Smart Mobility Finland' programme (2018-2022) also contributes in these areas.

In 2020, a new measure was introduced by Business Finland, (*Innovaatio-osaaminen kasvun tueksi – INTO*) to further support SME digitalisation<sup>14</sup>. It aims to support SMEs in accessing consultancy services to strengthen their innovation expertise.

### **Finland's start-up ecosystem is growing.**

Finland has an increasing number of start-ups in the traditionally strong ICT sector. Recently, start-up activity has been spreading to other sectors. However, this activity remains quite small when compared to the international setting. There is a large and growing start-up community in Finland and digital services is the biggest sub-sector within it. According to The Global Startup Ecosystem Report 2020<sup>15</sup>, the Greater Helsinki start-up ecosystem is the 4th most attractive location among 100 emerging ecosystems worldwide. Start-ups in Finland have been successful in attracting finance. According to the Finnish Venture Capital Association, Finnish Start-ups attracted the most venture capital investments in Europe in 2019<sup>16</sup>.

## **3. Key challenges**

### **Boosting exports remains a challenge for Finnish SMEs**

As Finland has a small domestic market due to its size, exports of Finnish goods are crucial to support its economic growth. According to Eurostat, in 2018, Finnish SMEs accounted for 35% of the value of total exports against 38% in the EU<sup>17</sup>. Similarly, the share in the value of total exports of micro-firms is particularly low (3% against 7% in the EU). Due to the inability of many SMEs to reach foreign markets, the number of high-growth enterprises in Finland remains below the EU average.

Several measures<sup>18</sup> have been put in place to support SMEs to exports. However, it was only in 2019 that the emphasis was put on business development services and internationalisation services, by means of providing additional support instruments for SMEs alongside R&D-funding.

In 2020, the Ministry of Economic Affairs and Employment launched a new programme<sup>19</sup> for exports and international growth for 2020-2023<sup>20</sup>. This programme will build up SMEs' internationalisation capabilities by increasing the number of new exporting companies and by boosting the exports of those existing companies. In particular, companies involved in the low-carbon economy and circular economy will be supported.

## Financing remains a challenge for SMEs

According to the Suomen Yrittäjät SME Barometer, the tightening banking regulation and the weakened creditworthiness of SMEs due to the pandemic has slightly decreased the share of external funding for SMEs. However, SMEs' overall access to funding has remained at a satisfactory level<sup>21</sup>. Banks continue to play a key role in SME financing, although this decreased in 2020<sup>22</sup>.

Figure 3: Cost of borrowing for small loans relative to large loans



Source: European Central Bank, 2019<sup>23</sup>.

The indicator presents the cost of borrowing, in terms of the interest rate, for small loans (below EUR 1 million) compared to large loans (over EUR 1 million). It was calculated by dividing the difference in the annual interest rate for loans up to EUR 1 million and loans over EUR 1 million with the average annual interest rate for loans of under EUR 1 million.

## Regulatory burden

The regulatory burden has been slowly decreasing thanks to specific government measures, such as the 'One-in, one-out principle' introduced in 2017, which aimed to compensate for the direct increase in regulatory burden imposed on businesses, with an equal reduction in regulatory burden<sup>24</sup>. In addition, the government digitalisation and deregulation, which were key components of the Government Programme introduced in 2015<sup>25</sup>, have helped to significantly reduce administrative burden. Over recent years, the Finnish government has made some efforts to reduce administrative costs for SMEs and implement the 'Think Small First' principle more extensively<sup>26</sup>. However, continuous efforts in that direction are required alongside the development of better legislation and digitalisation of public services.

In 2020, the time to start a business and the time to register property was still significantly higher (respectively 13 and 61.5 days) against the EU average of 12.2 and 27.4 days<sup>27</sup>. Moreover, according to the World Bank's Doing Business report in 2020, the number of procedures required to deal with construction permits was also higher in Finland (17 procedures) compared to the OECD high-income average (12.7 procedures)<sup>28</sup>. In addition, while Finland's score slightly improved in terms of dealing with construction permits between 2019 and 2020 (on a scale from 0 to 100, 2019: 75.8; 2020: 75.9), the country fell from 34th position in 2019 to 42th position in 2020, highlighting that significant effort is still needed in that dimension<sup>29,30</sup>.

In implementing the 'Think Small First' principle, in 2019, Finland adopted the Amendment to Employment Contracts Act regarding the grounds for termination of an employee's contract in an SME as well as a measure on removing the minimum share capital requirement for limited liability companies.

## 4. Other key SME-related brief insights



### IMPACT OF COVID-19 CRISIS ON SMES

Several support instruments were introduced offering financial support for SMEs and entrepreneurs affected by the COVID-19 crisis. These instruments<sup>31</sup> are temporary and new ones are being planned while the crisis continues.

Until August 31st, 2020, businesses that experienced a marked decrease in turnover due to COVID-19 and had costs that were difficult to adjust were able to benefit from financial support to cover their business costs. This support, known as the Business cost support (*Yritysten kustannustuki*)<sup>32</sup>, ranged from EUR 2,000 to EUR 500,000.

Sole entrepreneurs can apply for EUR 2000 in COVID-19 crisis support to cover sole entrepreneurs' business expenses (Operating support for sole entrepreneurs - *Kuntien yksinyrittäjien tuki*)<sup>33</sup>. The conditions to qualify for the grant are a specific minimum turnover and full-time entrepreneurship.

Several permanent and temporary changes were also introduced through legislation, e.g. regarding temporary layoffs of employees.

The sectors/ecosystems hardest hit by the crisis were *accommodation and food service activities, arts, entertainment and recreation, transportation and storage services and retail trade in personal services*.



### MARKET ACCESS

Market access is generally good. However, lack of knowledge on target markets hinders SME performance. Therefore, the most significant challenges<sup>34</sup>, are related to finding the necessary resources, skills and the right contacts and networks to enter target markets. The government has recently been focusing on providing more support to SMEs to enable them to better access to international markets.

The lack of SMEs' knowledge of foreign markets has pushed Business Finland to create a funding programme in 2020 to help SMEs access the market expertise they lack in-house.



### SOCIAL ASPECTS OF SUSTAINABILITY

Corporate social responsibility (CSR) is slowly spreading from large corporations to SMEs<sup>35</sup>. SMEs are increasingly introducing CSR policies covering topics such as employee well-being and ethical practices. Many major companies are recruiting in order to allocate appropriate resources to work on corporate responsibility<sup>36</sup>.



### START-UP ENVIRONMENT

According to the data available in the Global Entrepreneurship Report, Finland performs significantly below the EU average on several entrepreneurship indicators such as: entrepreneurship being considered a desirable career choice (Finland: 40.3% of the 18-64 population agree with the statement that most people consider starting a business a desirable career choice; EU average: 59.5%); entrepreneurial intentions

(Finland: 10.4% of 18-64 population who intend to start a business within 3 years; EU average: 13.4%); or in total early-stage entrepreneurial activity, defined as the percentage of 18-64 population who are actively involved in setting up a business they will own or co-own (Finland: 6.7%; EU average: 8.6%)<sup>37</sup>.

The Ministry of Economic Affairs and Employment is currently working on an entrepreneurship strategy to strengthen entrepreneurship in Finland<sup>38</sup>.

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- <sup>1</sup> The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- <sup>2</sup> European Commission (2020), *European Innovation scoreboard 2020*, available at: <https://ec.europa.eu/docsroom/documents/42981>
- <sup>3</sup> European Commission (2020), *DESI 2020*, available at: [https://ec.europa.eu/newsroom/dae/document.cfm?doc\\_id=66912](https://ec.europa.eu/newsroom/dae/document.cfm?doc_id=66912)
- <sup>4</sup> European Commission (2016), *Community innovation survey*, Eurostat, available at: [https://ec.europa.eu/growth/industry/policy/innovation/scoreboards\\_en](https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en)
- <sup>5</sup> Ecopreneur.eu (2019), *Circular economy update*, available at: <https://circulareconomy.europa.eu/platform/sites/default/files/ecopreneur-circular-economy-update-report-2019.pdf>
- <sup>6</sup> European Commission (2019), *Eco-innovation at the heart of European policies*, available at: [https://ec.europa.eu/environment/ecoap/indicators/index\\_en](https://ec.europa.eu/environment/ecoap/indicators/index_en)
- <sup>7</sup> Luke. Natural Resources Institute Finland (2019), *Finnish bioeconomy in numbers*, available at: <https://www.luke.fi/en/natural-resources/finnish-bioeconomy-in-numbers/>
- <sup>8</sup> European Commission (2019), *SBA Fact Sheet Finland*, available at: <https://ec.europa.eu/docsroom/documents/38662/attachments/10/translations/en/renditions/native>
- <sup>9</sup> See Note 3.
- <sup>10</sup> Eurostat 2018, *Integration with customers/suppliers and SCM*, available at: [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_bde15disc&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_bde15disc&lang=en)
- <sup>11</sup> Eurostat 2019, *Websites and functionalities*, available at: [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_ciweb&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ciweb&lang=en)
- <sup>12</sup> Eurostat 2018, *Cloud computing services*, available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_cicce\\_use](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_cicce_use)
- <sup>13</sup> See Note 8.
- <sup>14</sup> Business Finland (2020), *Into*, available at: <https://www.businessfinland.fi/en/for-finnish-customers/services/funding/research-and-development/into/>
- <sup>15</sup> Startup Genome (2020), *Explore the Global Map of Innovation*, available at: <https://startupgenome.com/ecosystems>
- <sup>16</sup> Finnish Venture Capital Association (2020), *Finnish Startups Attract the Most Venture Capital Investments in Europe*, available at: <https://paaomasijoittajat.fi/en/finnish-startups-attract-the-most-venture-capital-investments-in-europe/>
- <sup>17</sup> Eurostat (2020), *International trade in goods by enterprise size*, available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/International\\_trade\\_in\\_goods\\_by\\_enterprise\\_size](https://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods_by_enterprise_size)
- <sup>18</sup> Business Finland, *Business Finland's services for SMEs and Midcap companies*, available at: <https://www.businessfinland.fi/en/for-finnish-customers/services/smes-and-midcap-companies/SMEs-and-midcap-companies>
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- <sup>20</sup> Ministry of Employment and the Economy (2020), *Työ- ja elinkeinoministeriö: Viennin ja kansainvälisen kasvun ohjelma*, available at: <https://tem.fi/documents/1410877/16402203/Viennin+ja+kansainv%C3%A4lisen+kasvun+ohjelma.pdf/ab7fd642-28d5-1df5-adfa-ab0645ef86df/Viennin+ja+kansainv%C3%A4lisen+kasvun+ohjelma.pdf?t=1601102637962>
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- <sup>22</sup> Yrittajat (2020), *Pk-yritysbarometri 2/2020*, available at: [https://www.yrittajat.fi/sites/default/files/sy\\_pk\\_barometri\\_syksy2020\\_vk\\_raportti.pdf](https://www.yrittajat.fi/sites/default/files/sy_pk_barometri_syksy2020_vk_raportti.pdf)
- <sup>23</sup> European Central Bank (2019), *Statistical Data Warehouse*, available at: <http://sdw.ecb.europa.eu/browse.do?node=9484266>
- <sup>24</sup> Ministry of Economic Affairs and Employment, *One-in, one-out principle*, available at: <https://tem.fi/en/one-in-one-out-principle>
- <sup>25</sup> Finnish Government, *Implementation of the Government Programme*, available at: <https://valtioneuvosto.fi/en/implementation-of-the-government-programme/information>
- <sup>26</sup> See Note 8.
- <sup>27</sup> World Bank Doing Business 2020, available at: <http://www.doingbusiness.org/>
- <sup>28</sup> Ibid.
- <sup>29</sup> The World Bank (2019), *Doing Business 2019*, available at: <http://documents1.worldbank.org/curated/en/559971541095406416/pdf/131664-WP-DB2019-PUBLIC-Finland.pdf>
- <sup>30</sup> The World Bank (2020), *Ranking on Doing Business topics – Finland*, available at: <https://www.doingbusiness.org/en/data/exploreeconomies/finland>
- <sup>31</sup> TESI (2020), *Korona-ajan vakautusrahoitus keskuksille yrityksille*, available at: <https://www.tesi.fi/vakautusrahoitus-koronatilanteessa/> ; Finnish government (2020), *EUR 2,000 in operating support for sole entrepreneurs in the coronavirus situation – application to open as soon as possible*, available at: <https://valtioneuvosto.fi/en/-/1410877/yksinyrittajille-2000-euron-toimintatuki-koronavirustilanteessa-haku-avautuu-mahdollisimman-pian> ; Center for Economic Development, transport and the environment (2020), *ELY Centres' funding for companies in the exceptional circumstances caused by the coronavirus*, available at: <https://www.ely-keskus.fi/en/web/ely-en/poikkeustilannerahoitus>



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