

## Entrepreneurship in a Finnish public institution

~ Ph.D. Lecturer **Marin Burcea** (Faculty of Public Administration and Business, University of Bucharest, Romania)

***Abstract:** During the last decades the idea of entrepreneurship in public institutions has been the subject of intense debates, activities and academic research. The scopes of our article are to briefly underline the importance of developing an entrepreneurial spirit by presenting a case study from a Finnish local public administration and making aware the proactive aspect in the process of managing public institutions in Romania. Our hypotheses have been mainly of an interrogative nature. Hypothesis testing was achieved through the analysis of statistical data and conducting a set of sociological interviews with key people from Finnish institutions which were used in the survey. The results of the research emphasize that where there is an entrepreneurial behaviour with the local administration management, the community undergoes a process of conservation and development. The way in which they relate to community partners (such as entrepreneurs, non-profit organizations, citizens) is essential to the entrepreneurial spirit within the local public institution.*

**Key words:** entrepreneurship, local public institution

**JEL Classification:** H83, H32, H72, J11, J18, J21, R58

## 1. Introduction

The twenty-first century has brought rapid changes in technology, increasing global competition and corporate downsizing. By providing greater threats and larger opportunities, these factors have created the conditions for all types of organizations to become more entrepreneurial in order to face numerous challenges and to survive.

In the public sector, entrepreneurship might be seen as “business orientation, managerial competition and strict cost effectiveness” (Heinonen, 2001, p. 10). In essence, public entrepreneurs are “individuals and groups who identify opportunities for achieving social or political objectives, assemble and invest resource to achieve these objectives, and (possibly) direct the newly created public or private enterprise” (Klein et al., 2009, p. 17).

However, entrepreneurship in the public sector is not only enabled, but also constrained by the political system and institutional context (Henisz, Zelner, 2005; Maguire, Hardy, Lawrence, 2004). In the past, governments designed and implemented policies that make entrepreneurship dynamic, created sound environment that allow entrepreneurs to turn their ideas into businesses or launched programs that stimulate the entrepreneurial spirit. Today, governments search for new forms of collaboration between government, businesses and citizens in order to ensure economic growth and job creation. That is why mobilizing the entrepreneurial spirit of government, businesses (as partners) and citizens (as co-creators) has become a key issue of the

public agenda in many European countries (Government of the Future Centre & Oxford Economics, 2011).

The objective under which this mobilization is developed is that of regional development. Regional development is a major concern for policy makers interested in development of the region and the area where they live. By EU support, programmes carried out after the accession of the member state, generated a better knowledge of problems and implementation of a much larger scale regional development projects. Cooperation and transparency that accompany EU programmes have led to the creation of effective mechanisms for regional development.

Choosing Finland as a country is justified by the good results of the regional development. EU member 12 years earlier than Romania, Finland has a rich experience and many good practice cases. Finland is the only state of the Euro zone which has got the best rating given by the three big international rating agencies, as well a top position as far as economic competitiveness is concerned. According to The Global Competitiveness Report 2012–2013, Finland ranks the third place (5.55) in the global competitiveness, after Singapore and Switzerland ([http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf)).

Rankings have been established on 12 important indicators – institutions, infrastructure, macroeconomics, health and primary education, goods and market efficiency, university education and education level, labour market efficiency, technology development, financial market development, market sizes, business environment complexity and

innovation. Finland has the best educational system in the world and ranks the third place at institutions and innovation. In 2010 Finland was on the 7th place in the WEF top and now it is on the 3rd!

Choosing the Kainuu region was performed starting from the focus of the researcher, to choose a specific rural region with low population and demographic problems and with a specific experience in Finland regional governance. It is a pilot region for regional development in Finland. In this region were successfully carried out many development projects.

Approach applied internships included a case study of a rural town that has managed to achieve a particular development. Awards for most innovative and efficient municipal and national recognition enjoyed were as many reasons for choosing Sotkamo as a case study. If in most cases are supported rural development / existence of a strong centre in the Kainuu region, Kajaani was not a significant engine for development of Sotkamo town.

In the first chapter, the methodology of the study is shown, with its explicit methods, techniques and tools used and a summary of the researched elements: State of Finland, Kainuu region, Sotkamo municipality, governmental role in regional development. The second chapter analyses the research data focusing on the role of institutions and actors interested in developing the region, inter-institutional collaboration and the entrepreneurs – as a factor driving this process. The conclusions will present ways and measures to boost regional development in rural areas of Romania.

## 2. Methodology and the analysis of research

### 2.1. Purpose, objectives, assumptions, research tools

The goal is to understand how research conducted for collaboration between local institutions and entrepreneurship in the local and regional development projects. The analysis will aim at finding ways in which Romanian villages can better fulfil its role in regional development.

Objectives of the study concentrated on:

- (O1) document the actors interested in developing Kainuu region;
- (O2) analysis of regional cooperation mechanism in Kainuu region;
- (O3) identify cases of good practice in regional development; Sotkamo is the case study area.

Assumptions used are interrogative, prospective approach:

- I1. Who are those involved in the development of Kainuu region?
- I2. What is the mechanism of regional cooperation in Kainuu?
- I3. As entrepreneurs are more involved in making decisions is the development of the region greater?

### Working methods and technique

In this study several research methods have been used. In the first stage, a documents analysis related to the research topic was performed. Such documents consulted were materials and sites involved in regional development processes in Kainuu. In the second stage, 12 interviews were conducted, with stakeholders relevant for rural and regional development of Kainuu region and Sotkamo municipality. Therefore, interviewed persons

are: representatives of regional authorities (Department of Regional Development, Joint authority of Kainuu region), local authorities (municipal manager of Sotkamo) town, executive director of one of Kainuu region, government bodies with a role in entrepreneurial development (ELY-centres, meaning Centres for Economic Development, Transport and the Environment, territorial representatives of Ministry of the Employment and the Economy, Ministry of Transport and Communications, Ministry of the Environment, Ministry of Agriculture and Forestry, Ministry of Education and Culture and Ministry of the Interior; and Employment and economic development offices), representatives of the University of Oulu, of civic and youth associations as well as entrepreneurs from Sotkamo area. This range of interviews provided the necessary data collection survey.

Stakeholders' Guide covered the following topics:

- The role of each institution in regional development;
- Development projects carried out within Kainuu regional cooperation;
- How entrepreneurs were supported by various institutions involved in regional development;
- Possible ways to develop cooperation between the actors involved in regional development

### **3. Main results – framework in which to achieve the entrepreneurial spirit in local administration**

#### **3.1. Republic of Finland**

Geographical description and presentation of key economic indicators

Finland (in Finnish Suomi, Finland Swedish) is a country in Northern Europe, an EU member since 1995, the United Nations and the Euro area. Finland has direct access to the Baltic Sea through the Gulf of Bothnia. Finland has Russia to the east, with Sweden and Norway to the north west. Estonia lies to the south, separated from Finland by the Gulf of Finland.

Finland in late 2010 had a population of 5.4 million inhabitants. Surface state is 390,920 sq. kilometres, of which 9% is fresh water. Density is 13 by 8. People / sq. kilometres. In terms of GDP per capita is one of the most developed countries of Europe with € 34,000 per capita in 2010. Nominal GDP in 2010 was € 183 billion. Human Development Index in 2004 was 0.947 which is ranked 11th in the world.

Administrative division of Finland – provinces, regions and municipalities

Finland is formed, after the current odd made in 1997, of 6 provinces (Finnish *Lääni*, pl.*läänit*, Swedish *län*). Provincial authority is a constituent part of the executive in the territory and therefore has elected personnel. In the provincial capital is functioning province administration (*Lääninhallitus*, *Länsstyrelse*) headed by a prefect (*Maaherra*, *Landshövding*). The role of province administration has been strongly decreasing over time. The six provinces are:

- Southern Finland (Finnish *Etelä-Suomen lääni*, Swedish *Södra Finlands län*)
- Western Finland (Finnish *Länsi-Suomen lääni*, Swedish *Västra Finlands län*)
- Eastern Finland (Finnish *Itä-Suomen lääni*, Swedish *Ostra Finlands län*)
- Oulu (Finnish *Oulun lääni*, Swedish *Uleåborgs län*)
- Lapland (Finnish *Lapin lääni*, Swedish *Lapplands län*)

- Åland (Swedish Åland; Finnish Ahvenanmaa)

The six provinces are subdivided into regions. Regions are governed by regional councils and municipalities to coordinate components. Regions represent better than the provinces, variations in language, culture and economy of Finland. The 6 provinces are divided into 20 regions (Finnish: maakunta, Swedish: landskap); the regions are divided into 74 sub-regions (seutukunta in Finnish, in Swedish ekonomisk

region); the sub-regions are divided into municipalities (Finnish kunta, Swedish kommun). Regions are governed by regional councils have the main role cooperation between municipalities components. Only in one place ,Kainuu, there are held region council's elections, in other cases board members are appointed by municipalities. Unlike provinces that are pure administrative divisions, regions are better preserving the economic changes, cultural and dialect of Finland.

Table 1: Regions of Finland, with residence, population, area and provinces Memberships

Idx	Region	residence	Population	surface province (sq. Kilometres)	Province
	Finlanda	Helsinki	5,276,955	390920	
1	Lapland	Rovaniemi	184,935	98946	Lapland
2	North Ostrobothnia	Oulu	380,668	57000	Northern Finland
3	Kainuu	Kajaani	84,350		
4	North Karelia	Joensuu	167,519	48726	Eastern Finland
5	North Savonia	Kuopio	249,498		
6	South Savonia	Mikkeli	159,492		
7	South Ostrobothnia	Seinäjoki	193,585	34378	Western Finland
8	Ostrobothnia	Vaasa	174,211		
9	Pirkanmaa	Tampere	472,181		
10	Satakunta	Pori	229,360		
11	Central Ostrobothnia	Kokkola	70,672		
12	Central Finland	Jyväskylä	269,636		
13	Finland Proper	Turku	457,789		
14	South Karelia	Lappeenranta	135,255	34378	Southern Finland
15	Päijänne Tavastia	Lahti	199,235		
16	Kanta-Häme	Hameenlinna	169,952		
17	Uusimaa	Helsinki	1,467,453		
18	Uusimaa de Est	Porvoo			
19	Kymenlaakso	Kotka	184,241		
20	Ahvenanmaa	Maarianhamina	26,923	13517	Åland

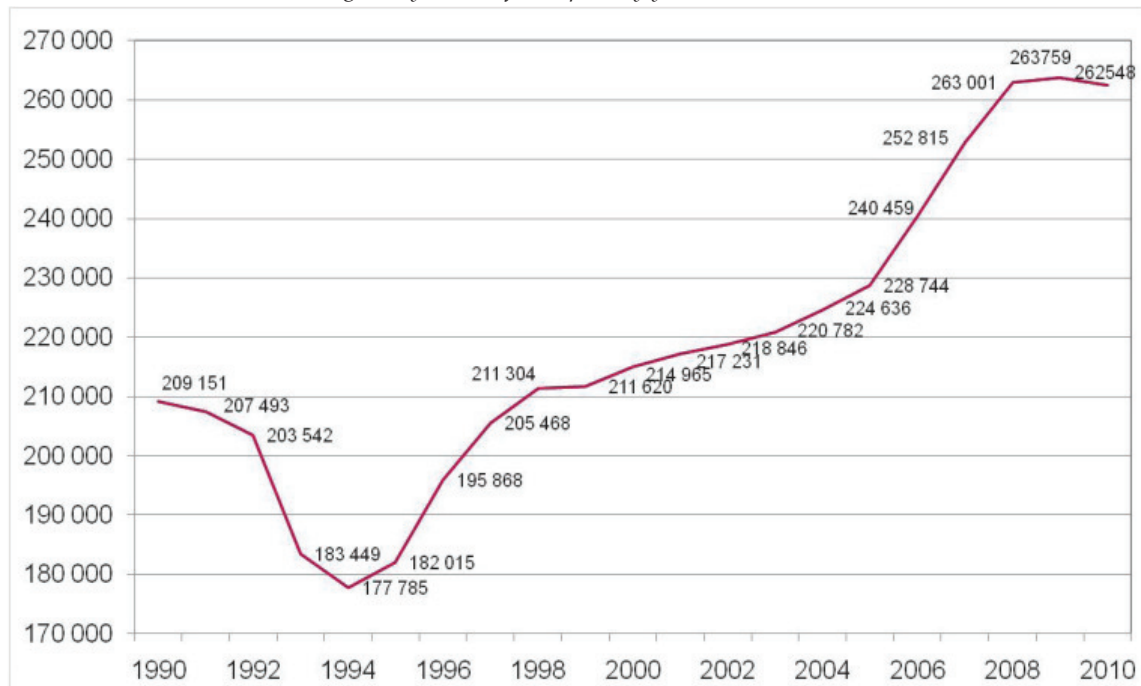
[6] [2006 – Statistics Finland, [http://pxweb2.stat.fi/sahkoiset\\_julkaisut/vuosikirja2007/html/engl0018.htm](http://pxweb2.stat.fi/sahkoiset_julkaisut/vuosikirja2007/html/engl0018.htm)]

**Economic environment in Finland**

Latest economic data are from 2010. The evolution of enterprises in Finland during 1990-2010 shows that after the economic

crisis of the years 1992-1996 when there was a significant decrease in the number of companies, the number of enterprises increased reaching in 2010a level 23% higher than in 1990 (see Figure 1 )

Fig. 1. Dynamics of enterprise by years and number



Source: Statistics Finland, Business Register 2010 (<http://www.yrittajat.fi/en-GB/> - accessed 27 July 2012)

Interesting is the importance which each type of the enterprise has in the Finnish economy. Micro-enterprises indicate entrepreneurial behaviour manifestation of population, occupying over a quarter of

employees and produces 18% of national turnover. Increased productivity and efficiency is seen in large companies that produce nearly half (48%) of turnover of Finland (see table 2)

Table 2: Economic environment in Finland in 2010

Size of enterprises	% no of enterprises	% Employees in Enterprises	% turnover in enterprises (euro)
micro-enterprises (1-9 employees)	93,3	26	18
small enterprises (10-49 employees)	5,5	20	18
medium size enterprises (50-249 employees)	0,9	17	16
large enterprises (250 - employees)	0,2	37	48
Total, percentage	99,9	100	100
Total	262 548	1 376 628	350 000 000 000

Source: Statistics Finland, Business Register 2010 (<http://www.yrittajat.fi/en-GB/> - accessed 27 jul 2012)

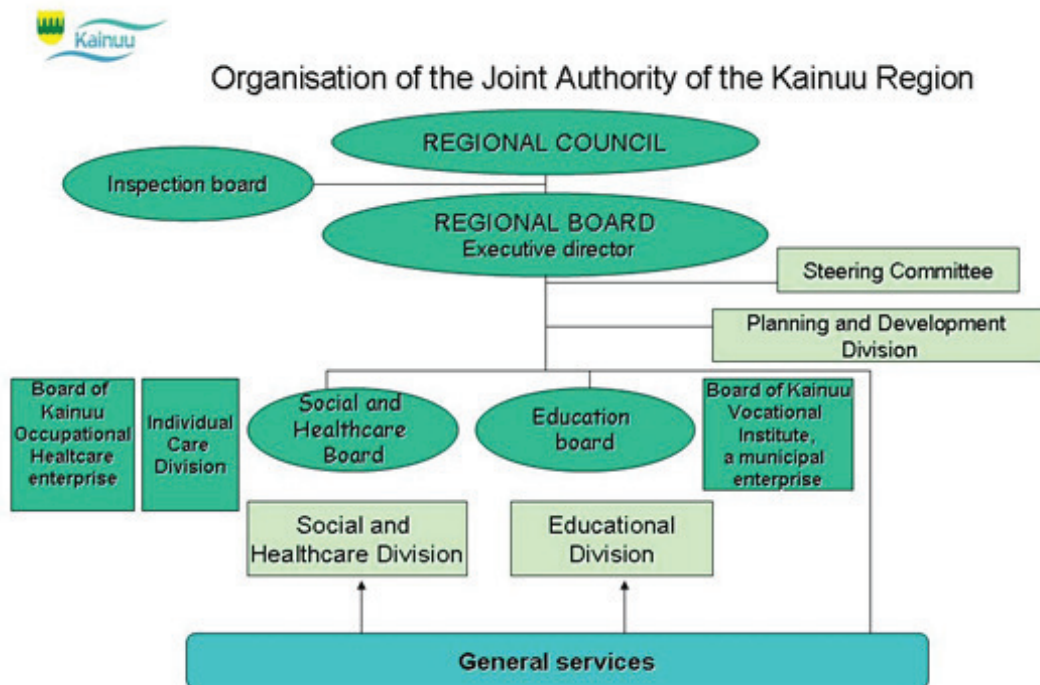
In Finland in 2010 had 318 951 enterprise (262 548 without Agriculture, Forestry and Fishing) with 1444031 employees (1 376 628 without Agriculture, Forestry and Fishing) with turnover 357 billion euros (350 billion without Agriculture, Forestry and Fishing). Agriculture, Forestry and Fishing represented 17.68% of no enterprises, 4,66% of no employees and 1,96% of turnover in enterprises in Finland in 2010.

### 3.2. Kainuu region

The Kainuu Region is a special region which has undergone an experimental regional administration in a critical period, commenced in Kainuu in 2005, and it will end at the end of 2012 ([http://www.kainuu.fi/index.php?mid=2\\_150&la=en](http://www.kainuu.fi/index.php?mid=2_150&la=en)). The highest decision-making of the region has been centralised into one organisation, the Joint authority of Kainuu Region. The distribution

of tasks between region and municipality has been reorganised. The arrangement of practically all social and health care services, for example, together with upper secondary and vocational education, are now the responsibility of the Joint authority of Kainuu Region. Within the Joint Authority, the highest decision-making body is the Regional Council, elected by the citizens of Kainuu.

The future of the administration of the region is currently under consideration. The experiment ends in 2012 and new decisions are expected from the national authorities. In Kainuu, there is a strong consensus about the benefits that the administrative experiment has brought along, and consequently, there are also wishes of continuing on the path of centralised administration for the whole region. Joint Authority of Kainuu Region will inform the public about the issue as soon as the decisions about the future of the administrative structures in the region are made.



Source: [www.kainuu.fi](http://www.kainuu.fi)

Kainuu region is a small region in terms of population, Kajaani is concentrating almost 45% of the population - but with an

area comparable to a country as Belgium. It is among the most sparsely populated regions in Europe (see table 3).

Table 3: Distribution of the localities Kainuu region of the main indicators of social-demo in 2008

	Population				Area		Population Density	Population with school / academic diploma
	31.12.2008	14 years and under (%) 2008	15-64 years (%) 2008	65 years and over (%) 2008	Total km2	Water area (lakes etc.) (%) of total	Inhabitants/land km <sup>2</sup>	(%) 2007
Hyrynsalmi	2877	12,3	61,3	26,4	1522	6,6	2,0	50,7
Kajaani	38132	16,7	66,4	16,9	2264	18,9	20,8	66,6
Kuhmo	9798	13,1	63,5	23,5	5457	11,9	2,0	58,1
Paltamo	3998	15,0	63,3	21,7	1139	19,3	4,4	56,3
Puolanka	3183	12,7	62,1	25,2	2599	5,3	1,3	51,4
Ristijärvi	1548	10,6	59,9	29,5	898	6,9	1,9	53,0
Sotkamo	10719	16,1	64,0	19,9	2952	10,3	4,1	53,9
Suomussalmi	9435	12,7	63,0	24,3	5858	10,0	1,8	61,5
Vaala	3470	15,5	59,3	25,2	1764	26,2	2,7	57,6
Kainuu	83160	15,2	64,4	20,4	24453	12,1	3,9	61,4

Source: Statistics Finland. National Land Survey of Finland. ([http://www.kainuu.fi/UserFiles/File/Kainuu/Tilastoja/Taskutilasto\\_2009/KM\\_Taskutilasto2009\\_EN\\_screen.pdf](http://www.kainuu.fi/UserFiles/File/Kainuu/Tilastoja/Taskutilasto_2009/KM_Taskutilasto2009_EN_screen.pdf))

*Economic environment in Kainuu*

Data on the economy regions is relatively old (2007). Of the nine localities, four do not have any export activities; the main export

activity is concentrated in Kajaani - almost 80% of the region- (see table 4). Obviously the caution should be used as data may be changed due to the last years dynamics.



Table 4 : Industry in Kainuu in 2007

	Firms	Personnel	% value added during processing	Exports 1 000 €
Hyrnsalmi	21	59	54,3	2
Kajaani	135	2603	32,6	428222
Kuhmo	59	347	28,3	35772
Paltamo	21	73	36,4	1587
Puolanka	14	35	15,0	2
Ristijärvi	9	10	79,9	.
Sotkamo	69	574	22,3	43639
Suomussalmi	43	548	38,6	30270
Vaala	16	85	78,3	.
Kainuu	387	4334	32,7	542482
Whole country	29210	426801	29,8	77230477

Source: Joint Authority of Kainuu Region ([www.kainuu.fi](http://www.kainuu.fi) – accessed 27 July 2012)

Value added outside the region is quite low as a share of national (0.2%) and is given mainly by agriculture and forestry sector (see table 6)

Table 6: Gross value added 2007\* billion euro

	Outer Kainuu Region	Kainuu Region	Kajaani	Whole country
At current prices				
Agriculture and forestry	114	101	215	5 095
Manufacturing	56	296	352	41134
Construction	21	108	129	10 028
Trade, transport, communications	90	202	292	33 858
Other services	73	224	297	33 294
Public services	73	416	489	33 503
All lines of business total	427	1 347	1 774	156 912

Source : Joint Authority of Kainuu Region ( [www.kainuu.fi](http://www.kainuu.fi) – accessed 27 July 2012)

### 3.3. Sotkamo

Sotkamo's prizes for being Finland's most creative municipality, for developing a successful image and for municipal development all testify the open-minded, lively and bold activities of Sotkamo Municipality. The Vuokatti area ranks as one of the world's most versatile tourism centres offering activities all the year round while Sotkamo as a whole boasts high quality municipal and private services ([www.sotkamo.fi](http://www.sotkamo.fi), accessed 25 July 2012)

According to City Manager, the awards received are related to the working model of Sotkamo, and its decision-making capacity, which produces good results for the community: "... but the essential condition is that municipality is able to make decisions as necessary and that it has a culture in decision making. These are things that make a strong municipality ". Success in this direction made possible the granting of such awards <the most productive creative place or locality> awards are not important, but that the municipality functions well." In Finland the organization of municipalities is dual: on the one hand are those who are employed in various capacities and on the other hand are the elected. These two bodies are kept separate and there is a clear division of labour between them. The mayor is not elected by people, but it is employed as an expert, based on a competitive basis to perform necessary functions. So my position is to make sure that the municipality works, financial situation is good and good decisions are made. In Finland, decisions are made by Mayor's suggestion, based on his previous discussions and documentation on the matter in question. (Municipal Manager)

How does a municipality in Finland function? How does the municipality Sotkamo function?

Municipal revenues come from three different sources: first source is given by the taxes collected; the taxes in Finland may be collected from three levels: at local, national and also at the parish. Main source of the tax is the income tax. The second source is given by the state support. And the third source of income for the municipality is given by people paid for contracted services, for example kindergartens. There are three different types of taxes: are individual income taxes of employees, tax collected from associations or companies, and the third is the property tax (such as tax for owning the various buildings or land). "For Sotkamo to survive, it needs 65 million to cover the costs; from the state Sotkamo receives only 20 million. So 45 million is collected as taxes or from sale of services (e.g. kindergarten services to families)." (interview city manager Sotkamo).

Sotkamo's economy is based on tourism then mining (a traditional industry). And from the total labour force, about half is employed in services (municipal manager Sotkamo). Since years' 90, without the municipality to fall into debts, in Sotkamo have been invested 1.7 billion euros. The most obvious investment in Talvivaara mine and in tourism have been invested around 600 million euros. And if the made plans are followed, it will be invested another 120 million in tourism and in mining 500, 600 million euros. Invested money does not come from the municipality, but the municipality by the decisions made and the the environment created make this investment possible. We are one of the communes whose population is about the same size, increasing a bit, and

the jobs are increasing. (municipal manager, Sotkamo).

#### 4. Conclusions

Regional development is a complex and continuous process. It involves a multitude of players with specific roles and tasks. Paraphrasing statements of interviewees', regional cooperation in research "isn't a theatre club" but a sustainable action made possible by programmes and projects planned on the long term. Concern for rural taxpayer leads paradoxically, to the prosperity of the business. It is a lesson on the importance of

institutional separation, the distinct roles played by municipalities, civic associations and other associations and entrepreneurs. Successful fulfilment of obligations assumed by each actor involved in regional development creates the framework in which all are living.

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