



Performance audit report

Encouraging business investments

Overall assessment



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Performance audit report of the National Audit Office

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As part of its audit plan, the National Audit Office has conducted an audit in which the encouragement of business investments is examined from an overall perspective. The audit has been carried out in accordance with the performance audit guidelines issued by the National Audit Office.

Based on the audit, the National Audit Office has issued an audit report, which will be submitted to the Ministry of Education and Culture, the Ministry of Economic Affairs and Employment, the Prime Minister's Office and the Ministry of Finance. Copies of the report will also be submitted to the Parliamentary Audit Committee and the Government financial controller's function for their information.

Before the issuing of the audit report, the Ministry of Education and Culture, the Ministry of Economic Affairs and Employment, the Prime Minister's Office and the Ministry of Finance were provided with an opportunity to ensure that there are no factual errors in the report and give their views of the opinions of the National Audit Office contained in the report.

In the audit follow-up, the National Audit Office will determine which measures have been taken on the basis of the opinions presented in the audit report. The follow-up will take place in 2019.

Helsinki 3 April 2017

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The purpose of this audit is to find answers to the question: How can central government encourage business investments?

An overall picture of the Finnish investment environment is produced by comparing the situation with Sweden, Denmark and the Netherlands. A total of 53 interviews were conducted for the audit in these four countries. The interviewees included government officials, business executives, representatives of business organisations and other experts. The results of two workshops attended by about 50 experts from companies and public administration were also used in the audit. In addition to the interviews, international competitiveness indices and other literature were also used as sources.

Central government can do a great deal to encourage business investments

Companies always make their investments on the basis of their own situation and needs. However, in a country like Finland, which has a large public sector covering a broad range of different fields, many of the decisions taken by central government can also encourage business investments.

In many respects, building a good society means building a good investment environment. Good basic services provided by the public sector, equality and pleasant living environment help to attract high-productivity investments to Finland. In fact, all administrative branches are responsible for building a good investment environment.

Public administration could start the process by changing its own practices and setting a good example in customer service, innovativeness and regeneration

New thinking and approaches in public administration would be a cost-effective way of improving the investment environment.

Even though companies appreciate the professionalism, impartiality and reliability of the Finnish public administration, they often view the working practices of the authorities as too slow, complex and inefficient.

Public administration actors can also contribute to a better operating culture with their own action: innovation capability, agility, experimental culture, networking, service-orientation, open mind and marketing skills can also encourage Finnish companies to adopt these positive qualities. When central government issues statements urging companies to embrace these qualities, it would be natural for central government actors to develop their practices in accordance with these qualities.

If public administration actors adhere to old operating models, this may result in regulation and official controls that prevent reforms in the operating environment and business practices. In addition to ensuring that the operating practices are in accordance with existing norms, public administration should also pay attention to what can be done.

The authorities should invite companies to a dialogue and use their expertise

International competition provides a benchmark for Finland's investment environment and the performance of its public administration. The way in which the companies making investments rate Finland in this respect and their own experiences of Finland are crucial factors in this area.

Companies value cooperation and are willing to share their knowledge with the authorities. The authorities should invite companies to a dialogue, use their expertise and learn from them.

In business policy, it would be important to hear both economics and business economics experts on how companies make decisions and how they succeed.

Central government can enhance the status of marketing and help to improve marketing skills in Finnish companies

Finland lags behind its competitors in marketing skills and in the way in which companies view marketing. Finnish companies have not done particularly well in the consumer market and they have fewer valuable consumer brands than companies in other countries. Furthermore, unlike companies in other countries, Finnish firms have not managed to become important players in online commerce.

Finnish Government and authorities should recognise the role of marketing as a factor contributing to profitability of business operations and the national economy as a whole.

Proposals for enhancing the status of marketing and for improving marketing skills in Finnish companies are presented in this audit. The most important of these are as follows: giving commercialisation of innovations a higher priority in product development funding, improving basic education so that students finishing comprehensive school would possess better presentation skills, and the establishment of a marketing development centre. The marketing development centre would bring together top marketing experts, serve as an information hub, and organise cooperation projects for companies. The centre would act as an engine for strengthening marketing skills in Finnish companies.

Business executives expressed the hope that Finland's government leadership would commit itself to promoting Finland as an investment location

When companies are making decisions on where to invest, marketing a country as an attractive location may be of crucial importance. Finnish government ministers and the country's top leaders are less actively involved in the efforts to attract investments than their colleagues in the other reference countries.

It is important to listen to foreign investors so that we can understand their problems and what they want. It is also important to listen to companies after they have invested in Finland so that we can ensure that they stay here and expand their operations in the new location. This interaction is an area where improvements are needed in Finland.

These are the main strengths and weaknesses of Finland as an investment environment:

	Strengths	Weaknesses
Business operations	<ul style="list-style-type: none"> Good basic education providing equal opportunities Highly educated workforce Innovativeness and high-quality research Ample natural resources Availability and price of energy Good availability of workforce in many sectors Competitive business taxation Good flight connections 	<ul style="list-style-type: none"> Low status of marketing and poor marketing skills Slow land use planning and building permit processes It is difficult to end permanent employment relationships Finland does not always defend its interests in the EU single market Prerequisites for business in remote areas
Society and living environment	<ul style="list-style-type: none"> Good living environment: good basic services, unpolluted nature and safety Equality Trust between citizens Public administration is competent and reliable 	<ul style="list-style-type: none"> Small market Unfavourable location Finland is little-known in the world Cities do not have international appeal Growing gaps in living standards between citizens
Economy	<ul style="list-style-type: none"> ICT cluster and programming skills Successful forest industry 	<ul style="list-style-type: none"> Weak growth prospects Narrow industrial base, few well-known brands, weak success in consumer market Few international investments that would attract new investments

The National Audit Office recommends that:

1. The Ministry of Economic Affairs and Employment should allocate more product development funding to commercialisation of innovations and marketing.
2. The Ministry of Finance should monitor how satisfied companies are with the services provided by the authorities and develop central government activities so that companies will have more positive experiences of how the authorities deal with them.
3. Finpro should make more use of diplomats and business executives when attracting investments to Finland and have more extensive long-term contacts with companies that have established themselves in Finland.

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1 Scope of the audit

The level of business investments in Finland is still lower than it was before the financial crisis. This is a reflection of the general state of the Finnish economy and the weak outlook for domestic and export demand.

The Finnish economy is still smaller than in 2007. Cyclical factors are not the only reason for the weak growth over the past ten years, as there are also structural problems affecting the Finnish economy. For this reason, Finland should shift its economic policy focus from macroeconomics to structural policy (construction of a favourable business environment)¹.

Balancing central government finances requires both spending cuts and new sources of revenue. Ultimately, Finland's central government relies for the income generated by companies and central government borrowing for its revenue. Increasing production, expanding the tax base and encouraging business investments are central objectives in the Programme of Prime Minister Juha Sipilä's Government.

Even though companies make their investments on the basis of their own situation and needs, in a country like Finland, which has a large public sector² covering a broad range of different fields, central government can contribute to the creation of an environment where companies can grow and invest in high productivity operations.

The purpose of this audit is to produce information and development proposals on how central government could encourage companies to make investments. The audit provides answers to the following questions:

1. What are the characteristics of a favourable investment environment?
2. What are the strengths, weaknesses, threats and opportunities of Finland's investment environment in relation to the other reference countries (Sweden, Denmark and the Netherlands)?
3. How could Finland improve its investment environment?
4. How could Finland attract more foreign investments?

In this context, investment environment means all those factors that increase or decrease the likelihood that a company makes an investment. These factors include the availability of skilled workforce, infrastructure, taxation and the functioning of the judicial system. The characteristics of society in general also have an impact on how easy it is for companies to make investments.

An overall picture of the Finnish investment environment is produced by comparing the situation with Sweden, Denmark and the Netherlands. An international comparative perspective is included because in a globalised economy, countries compete with each other for business investments. The audited material and the knowledge formation process are described in a separate appendix.

In the audit, the issue is examined from a development-oriented, future-oriented and macroeconomic perspective. This means that the main aim of the audit is not to examine the performance of individual authorities or the success of individual policy measures but to determine how central government could better encourage business investments³. The auditors make conclusions of the societal reality that has arisen from public

Investment is an expenditure item that will generate income in the long run

Finland cannot solve its problems if its economy remains stagnant

The objective of this audit is to produce information and development proposals on how central government could encourage business investments

Government officials, business executives and representatives of business organisations in four countries were interviewed for this audit

sector decision-making and activities and in which the companies operate. In other words, the issue is not primarily examined from the perspective of the outputs generated by the authorities. The aim of the audit is not to determine how investment volumes have grown or how investment volumes have been impacted by specific central government measures⁴.

The audit relies on the following base assumptions: The first assumption is that companies should make more investments. The second assumption is that central government could do more to encourage business investments.

All business investments made in Finland, irrespective of whether they are made by Finnish or foreign-owned companies are examined. Conclusions and findings of the audit apply to both tangible and intangible investments. Public sector investments are outside the scope of audit.

The audit report of the National Audit Office "Encouraging business investments - Views of four sectors" (audit report 4/2017) is published simultaneously with this report. In that audit, the Finnish investment environment is examined from the perspective of four sectors: mining, pharmaceutical industry, software industry and retail trade. The audit report is mainly based on the interviews with business executives.

Why are investments important from the economics perspective and the perspective of companies?

Business investments do not play a prominent role in the endogenous growth theories, which dominate economics thinking. According to these theories economic growth mainly results from technical innovations.

From the economics perspective, investments are sensitive to business cycles and, in relation to consumer demand, a small component of aggregate demand (Table 1 and Figure 1). Investments are needed to compensate for capital consumption and to help to meet the needs arising from changes in the workforce. Investments may also improve productivity.

However, promoting economic growth and encouraging investments are not conflicting objectives: A good business environment helps to increase both investments and economic growth.

From the companies' perspective, investments are essential to growth.

Table 1: Finland's balance of supply and demand in 2015

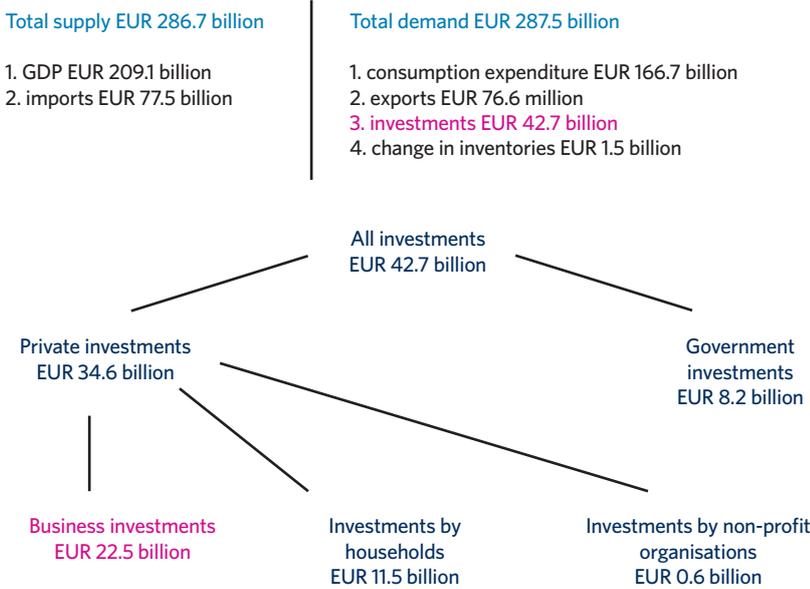


Figure 1: Business investments as part of total investments in 2015



2 How to create a good investment environment?

Companies base their investment decisions on their own situation and needs. However, Finland has a large public sector covering large areas of society, which means that the decisions made by central government have a significant impact on business investments.

Each country must make choices when deciding where it wants to be better than other countries. For example, high tax rates may negatively affect business investments, while at the same time, tax revenue can help to construct an otherwise favourable investment environment. Welfare states such as Finland use high productivity and good public services as competitive advantages.

International competition sets the criteria for Finland's investment environment and the performance of its public administration. In this competition, the views, perceptions and experience of the companies making the investments are crucial and the performance based on objective indicators is less important.

Companies know best what factors promote or slow down their investments and for this reason it is important to use their expertise in business policy.

Investments in innovation, management and marketing are becoming increasingly important. In business policy, it is important to understand the role of intangible investments even though they rarely appear as investments in the companies' balance sheets or the national accounts.

2.1 Building a place that is good for everybody

The basic factors must be in good shape

The business executives interviewed for the audit emphasised that when business investments are encouraged, the focus should be on building a favourable business environment rather than supporting individual investments⁵.

The business executives expressed the hope that central government would provide citizens with general incentives for entrepreneurship and guarantee all companies a level playing field. However, other areas of growth and competition should be the companies' own responsibility. In the words of one business executive, the Government and the authorities should "view things from the overall perspective" or formulate the overall view of trends in society and how it should develop.

The business executives interviewed for the audit were critical of business subsidies and viewed them as an impediment to a level playing field. Furthermore, the business executives did not mention business subsidies when they were asked to list factors influencing investment decisions.

In many respects, building a good society means building a good investment environment

The strategy of the welfare state is based on high productivity and good public services

Creation of a favourable investment environment is always a matter of making strategic choices of which sectors have priority. It is important to be aware of this because it is difficult or impossible for a country to be number one in all criteria of a favourable investment environment as some of these factors are contradictory.

In Finland, as in other welfare states, the fundamental choice is to use high productivity as a competitive advantage rather than to emphasise low labour costs. Central government can only provide high-quality public services if it collects tax revenue. Taxes increase the cost of labour and high-cost labour can only be profitable if work productivity is high. So far, the reference countries used in this audit have done quite well in their efforts to use productivity as a competitive factor: Productivity in them is almost three times higher than the world average⁶.

Even though high tax rates and social security contributions are a factor hampering business investments, tax revenue can help to maintain public services (health care, education, social assistance and pensions) that make the country attractive to high-productivity investments.

For example, in the United States, the overall tax rate is lower than in Nordic countries, workforce is highly flexible and the cost of labour in low-productivity jobs is lower. Even though these factors help to grow business investments, it is not necessarily in keeping with the Finnish strategy to have the same aim as that would mean more social inequality.

Ensuring a favourable investment environment is the responsibility of all administrative branches

Following are some of the (short-term or long-term) factors contributing to a favourable investment environment: size of the market, economic situation, culture, skilled workforce, high-quality research, infrastructure, supply and price of energy, taxes and subsidies, low level of bureaucracy and corruption, effective and impartial judicial system, international image of the country and pleasant living environment. Broadly speaking, encouraging investments is the responsibility of all 12 administrative branches (Figure 2).

Strategy is a matter of choices

Some of the weaknesses in the investment environment may arise from the competition strategy chosen by the country

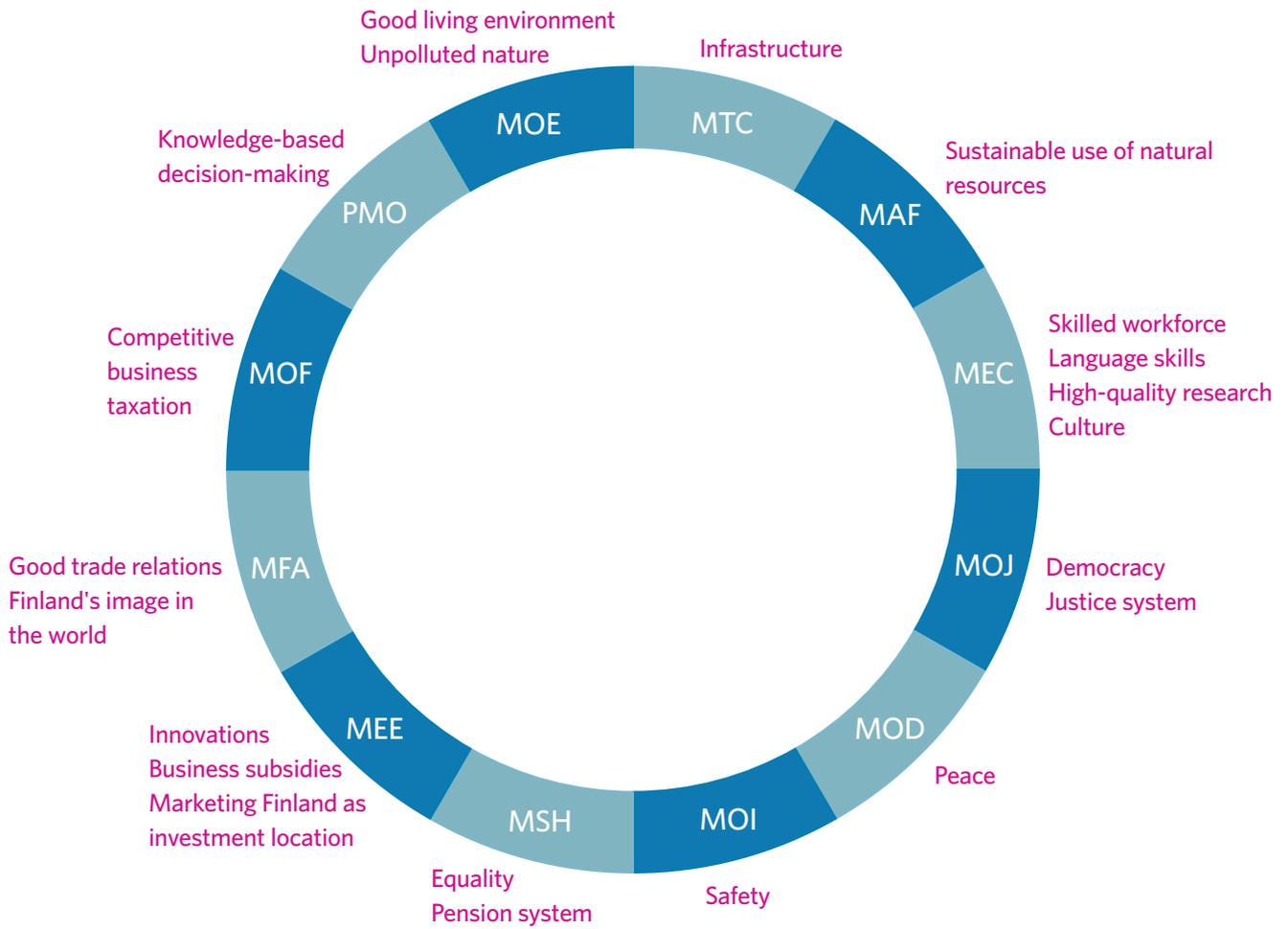


Figure 2: Broadly speaking, encouraging investments is the responsibility of all 12 administrative branches

- Ministry of Transport and Communications (MTC)
- Ministry of Agriculture and Forestry (MAF)
- Ministry of Education and Culture (MEC)
- Ministry of Justice (MOJ)
- Ministry of Defence (MOD)
- Ministry of the Interior (MOI)
- Ministry of Social Affairs and Health (MSH)
- Ministry of Economic Affairs and Employment (MEE)
- Ministry for Foreign Affairs (MFA)
- Ministry of Finance (MOF)
- Prime Minister's Office (PMO)
- Ministry of the Environment (MOE)

2.2 The way in which companies view the public administration is crucial to succeeding in international competition

Rest of the world as a benchmark

Globalisation means more competition. People, companies and capital are becoming increasingly mobile. Moving a factory to another country is difficult but moving an IT company is easy. Technological advances will mean faster globalisation.

Finland's public administration also has to face the consequences of globalisation: Countries are competing with each other on how they can serve as favourable investment environments for companies and as pleasant living environments for foreign experts.

Even a well-performing public administration is not good enough if it is not better than in the reference countries. The way in which the companies making investment decisions see the country's public administration and they own experiences with it are the crucial factors. In other words, the functioning of the public administration, as measured with objective indicators, is not the only consideration.

Even a well-performing public administration is not good enough if it is not better than in the reference countries

Companies weigh alternatives at global level

"There are very few areas where there is competition at national level any more as we are looking at the matters from a global perspective and weighing alternatives at global level."

- excerpt from an interview with a Finnish business executive

Competitiveness from the company's perspective

"For me, competitiveness is a matter of winning a contract. If I win the contract, I'm competitive, if I don't, I'm not competitive. That's the only definition I need."

- excerpt from an interview with a Finnish business executive

Companies must have the will to do well in international competition

The interviewees wanted public administration to take a more active approach. Public administration actors know enough about the problems and how to solve them - the problem lies with the implementation. According to one government official, public administration actors already know what should be done to encourage business investments and there is no need to produce new strategies or reports or to set up new working groups.

The findings of this audit support the conclusions made by Jorma Eloranta in his report: The right attitude, enthusiasm and boldness are the most important factors when business investments are encouraged⁷.

Usually public administration actors have enough information - the problem is the implementation

Even if you are already a top player, you must always have the will to become even better

“We are good, but the minister encourages us to become even better.”
– excerpt from an interview with a Dutch government official

Public administration should set itself ambitious targets

“The target may be overoptimistic but the movement towards the target is more important than achieving it.”
– excerpt from an interview with a Finnish government official

The expertise possessed by companies should be used

Companies know best what factors promote or slow down their investments and for this reason it is important to use their expertise in business policy.

The business executives interviewed for this audit emphasised that there should be a more extensive dialogue between companies and the authorities. In the companies' view, the authorities should take a more active role in the launching and maintaining of this dialogue.

The dialogue would provide the authorities with a better understanding of the companies' experiences. It would make it easier for the authorities to put themselves in the other party's position and to view things from the other party's perspective.

Relevant authorities should ask companies the following questions: What changes are required so that companies would make investments? What are the things that the authorities could do better? What is good and what is bad in the business operating environment?

The dialogue would make the authorities more aware of the issues considered important by companies but it would also send a signal that the authorities consider business investments important and are committed to improving the investment environment. This could make the investment environment more predictable in the eyes of the companies.

It seems that government officials are sometimes unwilling to listen to companies: They are afraid of losing their impartiality and are too eager to see companies as promoters of their own narrow interests. It is of course important to be aware of the companies' own interests and to apply source criticism but work should not be based on the assumption that companies are dishonest.

The general impression of the interviews was that companies are willing to share their knowledge with the authorities and they appreciate cooperation with the authorities, such as participation in the planning of strategies and development projects.

The dialogue would provide the authorities with a better understanding of the companies' experiences

It seems that public administration is too eager to see companies as promoters of their own narrow interests

Views on the dialogue between companies and the authorities

"I haven't received too many phone calls."

- excerpt from an interview with a Finnish business executive

"Danish authorities are open to a dialogue, in fact they want to have a dialogue."

- excerpt from an interview with a Danish business executive

"We should go and ask the companies: How can we help you? At least we should try to keep the companies in this country."

- excerpt from an interview with a Swedish government official

"The important thing is that different central government actors are open for cooperation and that the interaction is unbureaucratic. The hope is that the public sector would react more quickly to companies' wishes and take a more active approach to the understanding of their needs and to a continuous dialogue."

- excerpt from an interview with a Finnish business executive

Business policy should be based on an understanding of why companies succeed

When ministries are preparing new legislation or other important decisions, they should analyse the impacts of the different options, obtain information about the current situation in society and anticipate what may happen in the future. These principles are also included in the Government's legislative drafting guidelines.

It is important that in public decision-making, business economics experts in such fields as management, marketing, accounting, financing, entrepreneurship and logistics are also heard. The way in which companies make decisions and succeed is studied in business economics. In business economics, companies are typically considered as active and independent actors that are not merely at the mercy of circumstances.

Business economics help to provide answers to the following question: What kind of public decisions should be made if the aim is to encourage business growth?

In business policy, it is important to hear both economics and business economics experts

Good interaction practice: Swedish Innovationsrådet

In 2014, Sweden established the Innovationsrådet, a body which is chaired by the Prime Minister and that has five other important ministers and ten representatives of companies and universities as its members. The purpose of the Innovationsrådet is to serve as a forum for a continuous dialogue between the Government, companies and research institutes. The aim of the body is to provide an overall picture of the Swedish economy and strengthen Sweden's innovative capacity and competitiveness. It submits development proposals to the Government and makes new openings.

2.3 It is important to recognise the role of intangible issues in success

Intangible investments are important even though they do not appear in a company's balance sheet

A growing proportion of business investments do not appear as investments in the companies' balance sheets or in national accounts. Product development investments and software purchases are more or less the only intangible investments entered in the balance sheets.⁸

The inputs that a company makes into its personnel, marketing, organisational culture and working conditions are not usually entered as investments in the accounts even if they could be considered as such. Instead, they are nearly always entered as costs. This is because of the good accounting principles and tax planning. However, in management accounting such inputs can be treated as investments.

Invisible matters should be made visible

An example of an "invisible" investment in the IT sector

"When a game company holds a party in honour of a game it has "killed", it is an investment in the company's successful culture that also permits failures. However, it is not entered as an investment."
- excerpt from an interview with a Finnish business executive

It is important to recognise the role of "soft" matters in successful business operations

According to the interviews and the literature used as sources in the audit, the following intangible factors can contribute to a company's success:

Intangible resources	competence, innovations, commercialisation skills, marketing, brands, networks
Management	management skills, efficiency, ability to find the right people, motivation skills
Operating in the market	strategic thinking, agility, growth-orientation, boldness, renewal
Business culture	performance-orientation, energy, creativity, dynamism, good atmosphere
Qualities of an individual	Diligence, leadership, self-confidence, will, ambition, ability to learn, sharp thinking
Surrounding culture	attitudes towards success and setbacks, economic atmosphere, trust, tolerance

At the same time, intangible public administration success factors supporting a company's operating prerequisites include the following:

Public administration	decision-making and problem-solving, competence, reliability, predictability, service-orientation, flexibility, ability to engage in a dialogue, innovativeness, empathy, ability strengthen other people as actors
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Perceptions play a role in investment decisions

According to the interviews with business executives, even though information is collected for investment decisions and calculations of alternatives are made, investment decisions are not entirely logical decisions based on facts. Companies often have to produce their analyses in a hurry in which case the circumstances, emotions, intuition and chance impact the decision. In the words of one business executive, investment decisions include the “component of the possible”.

Occasionally, investment decisions are made even though there is no information on what the result of the investment would be. According to a Finnish business executive, one example of this is an IT company that invests in the development of artificial intelligence and robotisation even though it does not have any clear picture of the concrete outputs or benefits of the development work.

When a company decides which country it selects as an investment location, in addition to the other business environment factors, it also considers the following: how interesting and well-known the country is, the country’s image in the world, experiences of contacts with the country’s authorities, company’s ties with the country, and personal relationships (see also Chapter 5.2 and Figure 8).

In addition to investment calculations, there are also many other factors influencing investment decisions



3 What are the strengths, weaknesses, threats and opportunities of Finland's investment environment in relation to the other reference countries?

Finland, Sweden, Denmark and the Netherlands are almost equal when measured with international competitive indices.

Finland cannot achieve competitive advantages by relying solely on the matters in which all its competitors are also good, which include innovativeness, equality and reliable public administration. At the same time, Finland does not do poorly because of the weaknesses that our competitors also have. For example, all reference countries have high tax rates.

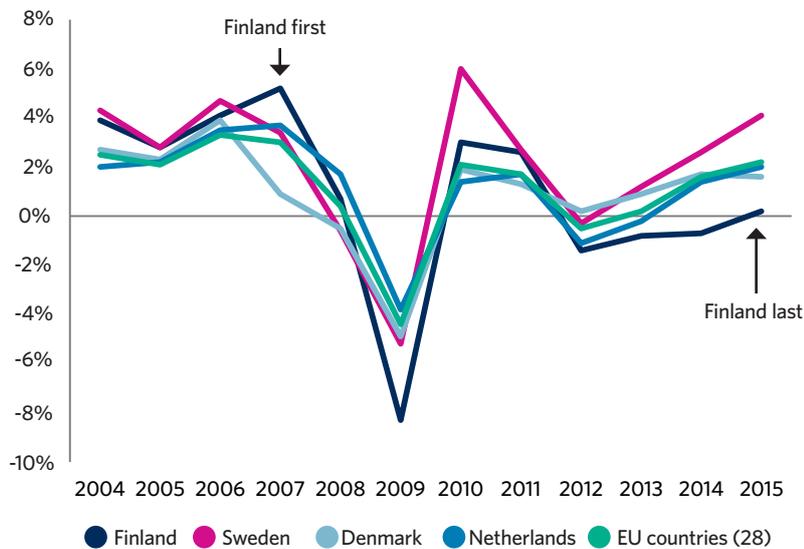
In areas of competence, good basic education and availability of programming skills are strengths specific to Finland. The lack of marketing skills is our weakness.

Finland is not as well-known and attractive as an investment location as the other reference countries. Tendency of investments and business operations to concentrate in certain countries puts Finland at a disadvantage.

Finland's geographical location is less favourable than that of the other reference countries. However, the centrality of the location is not only a matter of geography; social factors also play a role and for this reason the location can be made more central.

In addition to the issues measured with indices, there are also two other factors that are important considerations for companies making investment decisions: demand in the market area and expected economic growth. Since the year 2012, Finnish economic growth has been slower than in the three other reference countries.

3.1 Economic growth: Finland has dropped from the first place to the last



Source: Eurostat

Figure 3: GDP growth in the reference countries and average growth in the EU countries between 2004 and 2015

During the financial crisis, the Finnish economy contracted substantially more than in the other reference countries.

In 2010 and 2011, the Finnish economy grew fairly rapidly but since 2012 the growth has been substantially slower than in the other reference countries and below the EU average. The Finnish economy contracted during three successive years (2012, 2013 and 2014) and in 2015, the growth was only 0.2 per cent.

The Finnish economy is still smaller than in 2007, when measured with GDP per capita at comparable prices.

Of the reference countries, only the Swedish economy has reach the growth rates that it enjoyed before the financial crisis (in 2010).

Since 2012, economic growth in Finland has been considerably slower than in the other reference countries

It is clear that a lot has to be done

“Situational picture of the Finnish economy: We must do all we can.”
- excerpt from an interview with a Finnish business executive

3.2 Strengths: Finland is particularly strong in basic education and the ICT cluster but there is still room for improvement in other areas

Improvements in areas where all four countries are strong would give us a competitive advantage

The investment environments in Finland, Sweden, Denmark and the Netherlands are very similar and many of the strengths are common to all four countries. They are all welfare states that use high productivity as a competitive advantage.

Strengths that the other reference countries also possess do not give Finland any competitive advantage but Finland could stand out among its competitors by strengthening some of these areas. As there are only slight differences between the four countries, even small improvements could help Finland to distinguish itself from the rest of the reference group. Finland could stand out from the other countries in such areas as the performance and innovativeness of public administration and citizens' trust in each other and the authorities.

Finland has a particularly strong basic education system and ICT cluster

According to the PISA survey, the basic education systems in Finland and the Netherlands are of higher quality and more equal than in Denmark or Sweden⁹. A high-quality basic education system is an important strength, which Finland must preserve because skills are an important competitiveness factor when countries use high productivity as a competitive advantage. A basic education system offering equal opportunities to all students even provides with Finland with a competitive advantage against Sweden and Denmark.

Another area where Finland is particularly strong is our ICT cluster. Finland has long traditions in the development of the ICT sector and a good ICT innovation ecosystem. Furthermore, the availability of programming experts is better in Finland than in the other reference countries. Even though all four countries are highly developed information societies, Finland should try to stand out from the other countries because Finland already has a strong ICT sector and has advantages in the sector compared with its competitors.

Finland has the lowest business tax rate among the reference countries (20%). It is lower than in Sweden (22%), Denmark (24.5%) and the Netherlands (25%), and the Finnish tax rate is also below the EU average (21.9%). In the international comparisons measuring the competitiveness of business taxation, Finland is also the best of the four reference countries¹⁰.

The Slush start-up event is well-known around the world and the interviews also indicate that it has a positive impact of Finland's country image.

In global comparisons, all four countries are strong in competence, equality and openness

A comparison with Sweden, Denmark and the Netherlands shows that Finland has few such strengths that these countries did not have

Finland has a competitive business taxation system

Finland's basic education system attracts praise

"In the Netherlands, teachers' salaries were cut during the previous financial crisis. When I worked in the sector, teacher's profession was still highly appreciated but this is no longer the case. People think that if you end up as a teacher, it means that you are unable to get any work in the private sector. Of course this is not true. However, this means that the quality of the teaching suffers. In Finland, teachers have a much higher status than in the Netherlands. We could learn from you in this respect."
- excerpt from an interview with a Dutch expert

Programming expertise gives Finland a competitive advantage

"There is a huge shortage of programming experts in Sweden."
- excerpt from an interview with a Swedish government official

"The shortage of IT experts is a serious problem in the Netherlands. Companies train their own IT experts. In the Netherlands, like in other countries, it has been proposed that schoolchildren should be introduced to coding and digital skills at an early age. However, it will take twenty years before today's four-year olds are in working life."
- excerpt from an interview with a Dutch expert

Strengths of Finland's competitors: tendency of investments to concentrate, internationalism and broad industrial base

Business investments and international business operations tend to concentrate in countries that have already attracted them. Investments have positive multiplier effects as the demand and supply in a sector help sustain each other. Investments strengthen competence and ecosystems in a sector. This phenomenon, which is called path dependency, currently favours Finland's competitors. A substantial majority of large companies have their Nordic head offices in Sweden and Denmark, too, has more than twice as many of them as Finland (Table 2).

Even if the four reference countries would otherwise provide similar business operating prerequisites, concentration of investments puts Finland in a weaker position. In order to break this trend, it is essential for Finland to improve its investment environment and to successfully market it to foreign investors.

Matthew effect in the concentration of investments:
Those who already have will get more

Table 2: Global head offices of the world's 2000 largest companies in the reference countries in 2015

	Number
Finland	10
Sweden	24
Denmark	11
Netherlands	25

Source: Stockholm Business Region & Øresundsinstittet 2015, Global Companies with Offices in the Nordic Region

Finland has substantially fewer global head offices of large companies than Sweden and the Netherlands

Table 3: Nordic head offices of the world's 2000 largest companies in the reference countries in 2014

	Number	Percentage
Sweden	159.5	64%
Denmark	50	20%
Finland	21.5	7,5%
Norway	19	8,5%
Iceland	0	0%
Total	250	100%

Source: Stockholm Business Region & Øresundsinstittet 2015, Global Companies with Offices in the Nordic Region

Sweden has more than seven times as many and Denmark more than twice as many Nordic head offices of large companies than Finland

Sweden, Denmark and the Netherlands are well-known countries and they have attractive cities. They have long traditions in international trade and thus also extensive international networks. Their top government leaders are also more actively involved in the efforts to attract foreign investments.

Finland also has a narrower industrial base than the other three reference countries. They have more strong sectors than Finland, especially in the consumer business. The three other reference countries have better marketing skills.

Denmark stands out among the group with the flexicurity scheme, which makes its labour market particularly flexible. In Denmark, it is easy to lay off employees but unemployment benefits are fairly generous. For this reason, workforce is more mobile in Denmark than in the other three countries. Denmark also has the lowest unemployment rate among the reference countries (3/2016).

The Netherlands offers more tax benefits to foreign companies and foreign experts than the other three countries. The Netherlands has introduced tax schemes that prevent double taxation in situations where income is paid from subsidiaries to the parent company. Foreign experts living in the Netherlands may receive a thirty per cent tax deduction in their income taxation and social security contributions.¹¹

The Netherlands offers more tax benefits to foreign companies and foreign experts than the other three countries

These tax benefits have created jobs and attracted international networks to the Netherlands. However, many of the international companies domiciled in the country are "PO Box companies" that are only located in the country for tax reasons and that do not have any real business operations in the Netherlands.

Instructions for reading the SWOT tables

The comparative SWOT analysis of the investment environment in the four countries is presented in four tables: strengths, weaknesses, opportunities and threats.

The matters that are common to all four countries (Finland, Sweden, Denmark and the Netherlands) are listed in the centre column. The matters specific to Finland are shown in the first column, while the third column shows matters specific to the three countries competing with us. The purpose of the comparative setting is to illustrate in which matters Finland could get a competitive advantage against the other three countries or fall behind.

The strengths, weaknesses, opportunities and threats are grouped in accordance with their character into factors concerning business prerequisites, society and the living environment, and the national economy.

An overall assessment produced by the National Audit Office based on source literature, international competitiveness comparisons and interviews is presented in the tables.

Table 4: Finland's strengths as an investment environment in relation to the other reference countries

	Main strengths	Strengths common to all four countries	Examples of the strengths
Business operations	<p>High-quality basic education providing equal opportunities. (also applies to the Netherlands)</p> <p>Availability of programming, technology and science experts.</p> <p>There are direct connections from Helsinki Airport to different parts of the world, especially Asia.</p> <p>Slush is an important global meeting place for start-up companies.</p> <p>Competitive business taxation.</p> <p>Membership in the euro area reduces currency risk. (also applies to the Netherlands)</p> <p>Ample natural resources: wood and minerals. (also applies to Sweden)</p> <p>Closeness of Russia, especially St Petersburg.</p>	<p>The countries are in the global top league in nearly all areas when measured with investment environment variables.</p> <p>Open economies.</p> <p>Highly educated workforce.</p> <p>High quality research.</p> <p>Good innovation ecosystems and public sector support for innovation activities.</p> <p>Availability of funding.</p> <p>Easy to set up a business.</p> <p>Price and availability of energy.</p> <p>Good language skills.</p> <p>More positive attitudes to entrepreneurship and growth of start-up entrepreneurship.</p> <p>Design skills.</p> <p>Workable democracy, safety, workable justice system, ownership rights, competent administration, low level of corruption.</p> <p>Citizens trust the authorities.</p> <p>In large projects, statute-drafting is typically broad-based.</p>	<p>Success in international trade has multiple effects (capital, skills and networks). (Sweden, Denmark and the Netherlands)</p> <p>High status of marketing and marketing skills. (Sweden, Denmark and the Netherlands)</p> <p>Strong and well-known clusters. (Sweden, Denmark and the Netherlands)</p> <p>Flexicurity makes labour markets flexible. (Denmark)</p> <p>Good broadband connections. (Sweden, Denmark and the Netherlands)</p> <p>Oresund Bridge serves as a link to Continental Europe. (Sweden)</p> <p>Good flight connections. (Denmark and the Netherlands)</p> <p>Rotterdam is Europe's biggest port. (Netherlands)</p> <p>Good location in Continental Europe; a country that is small in terms of its size are but a part of a large market. (Netherlands)</p> <p>Business tax rates are lower than elsewhere in Europe and tax incentives are offered for foreign investments. (Netherlands)</p> <p>Favourable climatic conditions for agriculture and horticulture. (Netherlands)</p> <p>Government ministers and members of the Royal Family are committed to promoting investments. (Denmark)</p>
Society and living environment	<p>Long traditions with trade with Russia.</p>	<p>Welfare states, high level of social equality.</p> <p>Gender equality.</p> <p>Highly developed information societies.</p> <p>Known as reliable trading partners.</p> <p>Unpolluted environment.</p> <p>Known as tolerant and liberal societies.</p>	<p>Well-known in the world. (Sweden, Denmark and the Netherlands)</p> <p>Attractive and vibrant cities. (Sweden, Denmark and the Netherlands)</p> <p>Long traditions and extensive networks in international trade. (Sweden, Denmark and the Netherlands)</p> <p>Because of immigration, population grows more rapidly than in the other reference countries. (Sweden)</p>
Economy	<p>ICT and forest industry as successful sectors.</p> <p>Euro area countries have more room for manoeuvre in fiscal policy. (also applies to the Netherlands)</p>	<p>Specialised in high added-value production.</p> <p>Substantial R&D inputs.</p> <p>Broad tax base.</p>	<p>Broad industrial base, several strong sectors. (Sweden, Denmark and the Netherlands)</p> <p>Several companies with successful international operations and consumer brands. (Sweden, Denmark and the Netherlands)</p> <p>Most of the head offices of Nordic companies are located in Stockholm. (Sweden)</p> <p>Strong and stable economic growth. (Sweden)</p> <p>Low unemployment. (Denmark)</p>

3.3 Weaknesses: Finland lags behind the other three countries in economic growth and attractiveness, not so much in business prerequisites

Some of the weaknesses common to all reference countries result from the competitive strategy chosen by welfare states

Due to taxation and social security contributions, the cost of labour is high in all four countries, especially in low-productivity jobs. However, these weaknesses are mainly the result of the fact that the countries have decided to provide extensive public services.

Even though all four countries are in the global top league in equality, socio-economic gaps between different population groups in them have widened during the past two decades.

Living in large cities is expensive

Living in large cities is expensive in all four countries. Stockholm is a particularly expensive place to live. Because of rent controls, rental flats are scarce in the city and the capital gains tax on inheritance has reduced the number of flats on sale, especially in the centre of Stockholm. Helsinki and Copenhagen have a competitive advantage in relation to Stockholm in this area.

The high cost of living is partly the result of the slow land use planning process. The slow land use planning and building permit processes also constitute a direct obstacle to investments in the reference countries.

All reference countries have a high overall tax rate

Unbureaucratic land use planning would give Finland a competitive advantage

High housing prices mean that the area is attractive

“At the same time, housing shortage is common in attractive areas. Living is expensive in New York, it's expensive in London. However, the situation would not be as bad if we had acted in the right manner.”
– excerpt from an interview with a Swedish government official

In Stockholm, the housing shortage also affects business

“The housing shortage is a real problem and we can call it a crisis. The housing situation means that people are less mobile. The fact is that more flats are being built in Stockholm than at any time during the past 40 years but it's not enough.”
– excerpt from an interview with a Swedish government official

“Spotify has problems with recruiting people in Stockholm because there are no flats.”
– excerpt from an interview with a representative of a Swedish business organisation

High cost of Stockholm gives Copenhagen a competitive advantage

“Having a head office in Stockholm is between 15 and 20 per cent more expensive than in Copenhagen. Copenhagen and Stockholm are very similar, we can offer the same talent but if this is a cheaper place... This is an important success factor for us.”
– excerpt from an interview with a Danish government official

Finland does not have weaknesses in business prerequisites

With regard to business prerequisites, one can agree with Jorma Eloranta: Finland does not have any significant strengths or weaknesses as an investment location compared with its competitors¹².

However, in marketing skills and the way in which marketing is viewed, Finland lags behind the other reference countries (see Chapter 4.2).

Especially the business executives interviewed for the audit expressed the view that Finnish companies are at a competitive disadvantage in the European single market because the directives are more strictly implemented in Finland than in other EU countries. However, this view is not supported by comparative studies. In the projects aimed at improving the quality of regulation, a small number of cases have been identified in Finland in which directives have been implemented in a manner that negatively affects business operations¹³.

In the flexibility of the labour market, Denmark stands out among the reference countries with its flexicurity model. In Finland, Sweden and the Netherlands, the labour market is divided: Some of the workforce is highly inflexible and some of it is highly flexible. It is difficult to lay off inflexible

It is important to safeguard the position of Finnish companies in the European single market

Some of the workforce is highly flexible and some of it is highly inflexible

workforce, it is not sufficiently mobile and it is not interested in retraining. The flexible workforce includes temporary agency workers, self-employed individuals, part-time workers and fixed-term employees. An increasing number of individuals are also offering their work inputs on online platforms through intermediaries.

Finland is less known and less internationalised and has a stagnant economy, which make it less attractive as an investment location

The fact that Finland is little known means that it may not even be included in the long list of potential locations compiled by a foreign company considering investments. As stated above, Finland has fewer global head offices of large companies than the other reference countries. Finland has also managed to attract considerably fewer Nordic head offices of large companies than Sweden or Denmark (Tables 2 and 3).

Since the year 2012, Finnish economic growth has been slower than in the other reference countries. Weak economic growth reduces demand in the market and thus also makes the country less attractive as an investment location. The unemployment rate in Finland is also substantially higher than in the other reference countries.

The interviews reinforced the view that Finland and the strengths of its investment environment are not well-known in the world

Finnish population is growing, albeit fairly slowly

According to economics thinking, labour input is one of the factors explaining economic growth. Labour input can be measured by the number of employed people or the hours worked.

Between 2009 and 2015, Sweden had the fastest growing population among the reference countries (6.4 per cent). In Denmark the figure was 3.5 per cent and in Finland and the Netherlands 3 per cent.

In 2015, Sweden accepted 32,200 asylum applications, which was substantially more than in any of the other reference countries. The Netherlands granted an asylum to half this number (16,500), while the figure for Denmark was considerably lower (9,920) and for Finland only 1,700¹⁴. However, it is more difficult for people arriving in a country as asylum seekers to find work and they will not necessarily increase the labour input to the same amount as people immigrating for work.

Sweden is the country with the fastest growing population

Some of the weaknesses in other countries give Finland a competitive advantage

There is a shortage of programming experts in the other three reference countries, whereas the situation in Finland is good in this respect.

In Finland, the quality of basic education is higher than in Sweden, Denmark and many other countries competing with us, and it also provides more equal opportunities.

Helsinki provides better direct flight connections to the rest of the world than Stockholm.

Table 5: Finland's weaknesses as an investment environment in relation to the other reference countries

	Weaknesses specific to Finland	Weaknesses common to all four countries	Examples of the weaknesses
Business operations	<p>Inability to commercialise promising innovations.</p> <p>Lack of marketing skills (also at managerial level).</p> <p>Difficult to lay off employees, at the same time there is also flexible workforce. (also applies to Sweden and the Netherlands)</p> <p>Little success in regulatory competition in the single market.</p> <p>Rigid public administration, bureaucracy and slow permit processes. Public administration has insufficient customer service skills and government officials do not have enough understanding of the way in which companies view different issues.</p> <p>Public administration does not provide companies with services or information in English.</p> <p>Business environment in sparsely populated areas. (also applies to Sweden)</p> <p>Few internationally known clusters.</p>	<p>Expensive workforce, especially in low-productivity sectors.</p> <p>High total tax rate weakens purchasing power.</p> <p>There is too little growth entrepreneurship.</p> <p>Entrepreneurs have weaker social security than wage earners.</p> <p>Making land use planning decisions takes too long from companies' perspective.</p>	<p>Difficult to lay off employees, at the same time there is also flexible workforce. (Sweden and the Netherlands; also applies to Finland)</p> <p>Poor quality and inequality of basic education. (Sweden and Denmark)</p> <p>Shortage of experts in programming, technology and sciences. (Sweden, Denmark and the Netherlands)</p> <p>There are relatively few direct connections between Stockholm Arlanda Airport and the rest of the world. (Sweden)</p> <p>National currency increases currency risk. (Sweden and Denmark)</p> <p>Business environment in sparsely populated areas. (Sweden; also applies to Finland)</p> <p>Consumers adopt new technologies more slowly than consumers in other countries. (Netherlands)</p> <p>Availability of SME funding. (Netherlands)</p>
Society and living environment	<p>The country is little-known in the world.</p> <p>Attracting international experts is difficult; Helsinki is relatively small and quiet.</p> <p>Internationalisation is a recent phenomenon.</p> <p>Quietness and modesty are typical cultural features and they have not contributed to marketing skills.</p> <p>Fewer foreign students than in the other countries.</p> <p>Distinctive language.</p> <p>Remote location and small market.</p>	<p>Housing in large cities is expensive.</p>	<p>Rent controls and capital gains tax make it expensive to rent out flats in Stockholm. (Sweden)</p>
Economy	<p>Economic growth has remained weak (GDP grew by 0.2% in 2015) and unemployment is high (8.7%).</p> <p>Investments are still lower than in 2008.</p> <p>Inflexible labour markets: There is little mobility between localities and sectors and little retraining.</p> <p>General government sustainability gap creates pressures for tax increases and cuts in subsidies, which reduces purchasing power.</p> <p>Narrow industrial base: Finland has had little success in the international consumer market.</p> <p>For many years, there was little international competition in many sectors and for this reason companies did not have any incentives to develop their operations in accordance with the requirements of international markets.</p>	<p>The level of business investments is still lower than it was before the financial crisis.</p> <p>Consumers' expectations of future economic growth have remained pessimistic, which reduces consumption.</p>	<p>Business taxation has created wrong incentives and attracted PO box companies to the country. (Netherlands)</p> <p>National currency limits room for manoeuvre in fiscal policy. (Sweden and Denmark)</p>

3.4 Threats: The Finnish economy continues to grow more slowly than the economies of the other reference countries, central government revenue base will erode and Finland is no longer able to use competence as a competitive advantage

If a country is unable to respond to the challenges of international competition, the revenue base of the welfare state will erode and the benefits of an equal society will be lost

Tougher international competition poses a challenge to the companies, economies and public administration in the four reference countries. The most significant threats facing the reference countries arise from the prospect that economic growth will be slower than expected, which will erode the tax base and important societal strengths and make the living environment less attractive. There are no significant threats in any of the reference countries that arise from the weakening of the legislative prerequisites for business operations.

Sweden has by far the best economic situation among the reference countries and Finland the weakest. Investments are largely dependent on economic growth and the danger is that business investments in Finland, Denmark and the Netherlands will also remain below the pre-financial crisis levels in the coming years.

Collecting taxes will become more difficult as companies and wealthy individuals will be able to change their countries of residence more easily, which will lead to a tax competition between countries (race to the bottom). However, the EU is planning measures to tackle the most extreme forms of tax competition, which would particularly affect the Netherlands among the four reference countries.

Companies in all four countries face the threat of not succeeding in online commerce, as a result of which an increasing proportion of consumption will be channelled abroad and the seller companies will not make any investments in the consumers' countries of residence. This threat is particularly relevant to Finnish companies, which have been less successful in online commerce than companies in the other three reference countries (see Chapter 4.2).

Slower globalisation is also a threat. In Britain, a majority of the citizens voted for the country's exit from the EU in June 2016. Brexit may be one of the first signs that the process of EU integration is slowing down. The threat is that EU starts dismantling its single market (free movement of people, goods, services and capital).

A threat is an undesirable event that may take place in the future

Competition between countries reduces tax revenue from business income and capital gains

A more rapid globalisation involves threats but dangers also arise if globalisation slows down

Finland's competence base must remain strong if it wants to use productivity as a competitive advantage

There is a danger that spending cuts will weaken the quality of Finland's education and research system. Prime Minister Juha Sipilä's Government has cut spending on education and research by about 1.1 billion euros or six percent, compared with the spending levels in 2009¹⁵. There is no evidence that these cuts have affected the quality of education and research in Finland. However, this is an undesirable threat scenario because a high-quality basic education providing equal opportunities has been perhaps the most important factor specific to Finland that helps to make our country an attractive business location.

In all reference countries, ageing of the population may lead to a situation where there are no longer enough skilled workers available. However, Sweden is in the best position because its population is growing more rapidly than in the other three countries.

There is a danger in all four countries that supporting innovations through public sector grants becomes more difficult as the grants end up abroad¹⁶.

If the quality of education and training is improved spending cuts will not weaken the performance of the education and training system

Product development grants provided by the public sector may end up in other countries

Mobility and multinational nature of companies make innovation funding more difficult

"It used to be quite clear: Vinnova supported Swedish companies doing research in Sweden. However, everybody is now doing virtual research everywhere and with everybody. Funding granted to a Swedish company may end up supporting Microsoft's development efforts. Many of the Swedish tech start-ups have an office in the Silicon Valley. There have been cases where Vinnova has provided the company with funding, the company takes the money and moves to the Silicon Valley. But what can you do? If you don't give the money, the company may die."
- excerpt from an interview with a Swedish government official

Inability of companies and the public administration to accept reforms is a threat facing Finland

Inability of companies to accept reforms and to create novel business has been one of the problems facing Finland¹⁷. In the interviews for the audit, public administration was also criticised for its inability to undergo reforms as well as for the lack of innovativeness and agility. These two issues may be interconnected, if the adherence of public administration to old models will create such regulation and official controls that prevent reforms in the operating environment and business operations¹⁸.

Another threat is that the decisions required for improving Finland's economic situation and encouraging business investments are not taken.

Inflexible legal regulation may prevent the creation of novel business operations

Being the only euro area country in the Nordic region provides Finland with a competitive advantage

Large investors in particular may want to prioritise their investments in countries with lower currency and interest rate risks. Being a large currency, euro is usually more stable than the currencies of small open economies.

The problem in a small euro area country like Finland is that the monetary policy of the European Central Bank may not be what the country would need. The monetary policy in the euro area is usually best suited for the large member states, such as France and Germany.

Even though euro area countries do not have independent monetary policies they may have room for manoeuvre in their fiscal policy. This is because in small euro area countries in particular, fiscal stimulation will not lead to higher interest rates as easily as in countries with their own currencies. On the other hand, the rules of the euro area limit the chances of the member states to apply fiscal stimulation.

Table 6: Threats facing Finland's investment environment in relation to the other reference countries

	Threats specific to Finland	Threats common to all four countries	Examples of the threats
Business operations	<p>Quality of education, research and product development will suffer as a result of budget cuts.</p> <p>Inflexible regulation may prevent reforms in individual sectors and the creation of new industries.</p> <p>Availability of skilled workforce in the future as the population is ageing. (also applies to Denmark and the Netherlands)</p> <p>Decrease in and uncertainties concerning trade with Russia.</p> <p>Lack of common will in the encouragement of investments.</p> <p>Short-term nature of political decision-making and the tendency to seek compromises.</p>	<p>EU starts dismantling the single market (free movement of workers, goods, services and capital).</p>	<p>Availability of skilled workforce in the future as the population is ageing. (Denmark and the Netherlands; also applies to Finland)</p> <p>EU may take measures to deal with the most extreme forms of tax competition. (Netherlands)</p> <p>Demand for logistics sector may decrease with the growth of circulation economy and 3D printing. (Denmark and the Netherlands)</p>
Society and living environment	<p>The economic benefits of foreign investments are not fully understood.</p> <p>Strict immigration policy; immigration does not bring new workforce. (also applies to Denmark)</p>	<p>Gaps in living standards between citizens widen and social mobility weakens. Equality in education is eroded.</p> <p>Trust capital in society is eroded.</p> <p>Efforts to integrate immigrants into society and to provide them with jobs will fail.</p> <p>Weakening of internal security and security in relation to foreign countries.</p>	<p>Strict immigration policy; immigration does not bring new workforce. (Denmark; also applies to Finland)</p>
Economy	<p>There is no prospect of economic growth.</p> <p>Companies and sectors are unable to overhaul their operating practices as operating environments are changing.</p> <p>Dependency on the success of two sectors: ICT and forest industry.</p> <p>Long-term unemployment is on the increase.</p> <p>Ageing of the population will increase pension and care expenditure.</p> <p>Finland has been less successful in online commerce than other countries and there is a risk that an increasing proportion of consumption will go abroad and there are no investments in Finland.</p> <p>Brain drain: People that have received education or training in Finland cannot find work and move abroad.</p> <p>Membership in the euro area does not allow independent monetary policy. (also applies to the Netherlands)</p>	<p>Productivity does not remain high enough so that the welfare state could be maintained.</p> <p>Productivity drops as the service sector increases.</p> <p>International competition gets tougher and the share of Western countries in world trade and investments will decrease.</p> <p>An increasing proportion of consumption will go to foreign platforms and online commerce.</p> <p>Consumers are indebted and if interest rates go up, there will be less money for consumption.</p> <p>Revenue base is eroded by tax competition.</p> <p>Public sector R&D subsidies end up in other countries.</p> <p>Growing circulation economy weakens economic growth.</p>	<p>The Dutch economy is dependent on the growth in international trade and the growth in such economies as Germany. (Netherlands)</p> <p>Ageing of the population will increase pension and care expenditure. (Denmark and the Netherlands)</p> <p>Euro area countries do not have any independent monetary policy. (also applies to Finland)</p> <p>Instability of national currency (Sweden and Denmark)</p>

3.5 Opportunities: Both Finland and the other reference countries have a number of opportunities the using of which is in their own hands

The countries are able to adhere to a good social model and open culture

A good living environment, unpolluted nature, liberal attitudes and reliable public administration are things that will continue to attract skilled workforce and high-productivity companies to these countries. These factors may assume an even greater importance in the future. It is important that these strengths could also be communicated to the rest of the world.

Most of the opportunities of the reference countries are common to all of them

Competence development provides Finland with important opportunities

Negative attitudes towards marketing and weak marketing skills are a problem for Finland (see Chapter 4.2). Better marketing skills would provide Finland with opportunities that, in an ideal situation, would also help us to build a broader industrial base.

Changing attitudes towards marketing and better marketing skills would be a major opportunity for Finland

There is now more teaching in artistic and practical subjects, and programming has also been introduced as a subject. Developing basic education so that it would provide students with better working life skills, especially good skills of persuasion and presentation, is a major opportunity, even though it would only have a long-term impact.

Aalto University provides a combination in commercial, engineering and design competence that is also at high level internationally.

Finland can also turn its geographical location into an advantage

Finland's geographical location may well become more central as result of such factors as growth in trade with Russia and the Northeast Passage. New public transport solutions, such as the tunnel between Finland and Estonia, high-speed low-pressure tubes or new rail connections through Eastern Europe would also bring Finland and the rest of Europe closer.

A central geographical location is not permanent, economically, socially or culturally

Succeeding in online commerce would be a particularly significant opportunity for Finland because in this area Finland is lagging behind the other reference countries and geographical location is less important in online sales.

Table 7: Opportunities for Finland's investment environment in relation to the reference countries

	Opportunities specific to Finland	Opportunities common to all four countries	Examples of the opportunities
Business operations	<p>Marketing skills will improve and product design will become more consumer-oriented.</p> <p>Companies will become better at commercialising innovations. R&D funding will also be allocated to commercialisation and retail trade.</p> <p>Deregulation will create new business opportunities.</p> <p>Aalto University brings together commercial, engineering and design expertise.</p> <p>Universities will attract more foreign students and competence for the labour market.</p> <p>Cost competitiveness will improve.</p> <p>Basic education will become better at meeting today's demands, which will help to improve presentation skills and innovativeness.</p> <p>Trade with Russia will grow; Finland will remain a stable market next to Russia.</p> <p>Northeast Passage to Asia and Arctic knowhow.</p>	<p>Success in international online commerce.</p> <p>Strict environmental legislation serves as an incentive for new environmental technology and products for which there may be global demand in the future.</p> <p>Ageing of the population serves as an incentive to develop new services and products for the elderly and there will also be demand for them in other countries with ageing populations.</p> <p>Digitalisation of public administration will boost the ICT sector.</p> <p>Efficient, innovative and development-oriented public administration will attract positive attention and investments.</p> <p>Public administration assumes a more central role as an innovator and will develop services in cooperation with companies.</p> <p>Free trade agreement between the EU and the USA.</p>	
Society and living environment	<p>Growth of Helsinki and other cities and increasingly vibrant urban culture will make Finland more attractive.</p>	<p>Growth of cities will attract experts and companies.</p> <p>Immigration will bring new workforce and makes the population more diverse.</p> <p>Open-minded culture and liberal attitudes in the reference countries may serve as stronger competitive advantages in the future.</p>	<p>Population is growing more rapidly, which will increase the workforce. (Sweden)</p>
Economy	<p>Successful structural reforms and development of the business environment will be reflected in economic growth.</p> <p>Industrial base will become more diverse if the consumer market will become stronger.</p> <p>Green economy and high-productivity innovations in the forest industry.</p> <p>ICT sector will be able to overhaul its operating practices.</p>	<p>Automation and technological advances will improve productivity.</p> <p>There will be more foreign investments.</p> <p>Entrepreneurship will become more appealing and popular. There will be more growth entrepreneurship.</p>	<p>Path dependency of foreign investments: Investments tend to accumulate in countries where investments have been made in the past. (Sweden and the Netherlands)</p> <p>As other economies (especially Germany) grow, the Netherland will quickly benefit from this. (Netherlands)</p>

3.6 Overall assessment of the investment environments in the reference countries

Reading the traffic light table

The table illustrates the overall assessment of the National Audit Office on the quality of the investment environment factors in Finland, Sweden, Denmark and the Netherlands in relation to the other reference countries. An assessment of how these factors have developed in relation to the other reference countries is also included.

The factors have been assessed in relation to other developed countries. The colours should be interpreted as follows:

- Green light: Based on this variable, the country is in the top group of developed countries.
- Yellow light: The country is well-placed in relation to other developed countries but not in the top group.
- Red light: The country has no more than fair performance in relation to other developed countries.

The arrow next to the light describes the way in which the factor has developed between 2008 and 2015. The arrows should be interpreted as follows:

- Arrow pointing upwards: There has been an improvement in this factor in relation to the other developed countries.
- No arrow: No major changes have taken place concerning this factor.
- Arrow pointing downwards: There has been a weakening in this factor in relation to other developed countries.

A positive trend means that the country's ranking in a competitiveness index has improved by at least five places between 2008 and 2015. A negative trend means that the country's ranking has fallen by at least five places. If necessary, the overall picture has been supplemented with other source literature and interviews.

The assessment presented in the table is mainly based on the following competitiveness indices:

- World Economic Forum: Global Competitiveness Report
- International Institute for Management Development: World Competitiveness Yearbook.

The assessments of the indices have been supplemented with other literature and interviews if the indices have not provided an adequately comprehensive picture of the factor.

Table 8: Overall assessment of the investment environment and changes in it in Finland, Sweden, Denmark and the Netherlands

	Finland	Sweden	Denmark	Netherlands
Competence				
overall education and training level	↓ ●	↓ ●	●	●
innovativeness	●	↑ ●	↑ ●	●
quality of research	●	●	↓ ●	●
Workforce				
cost of labour	↓ ●	↓ ●	↓ ●	●
ease of being an employer	↓ ●	●	↓ ●	●
marketing skills	↓ ●	↓ ●	↓ ●	↓ ●
customer service skills	↑ ●	●	↓ ●	↑ ●
availability of ICT experts	↑ ●	↑ ●	●	↑ ●
Legislation				
predictability of policies	●	↓ ●	↑ ●	●
ease of setting up a business	↓ ●	↓ ●	↓ ●	●
simplicity of company law	↓ ●	●	↓ ●	●
Funding				
availability of funding	↓ ●	●	↓ ●	↓ ●
Taxes and subsidies				
business taxation	↑ ●	↑ ●	●	●
taxation of work	↓ ●	↑ ●	↑ ●	↑ ●
value added taxation	↓ ●	●	●	↓ ●
capital taxation	↓ ●	●	↓ ●	↑ ●
business subsidies	●	↓ ●	↓ ●	↓ ●
tax subsidies for investments	↑ ●	↑ ●	↑ ●	↑ ●
Infrastructure and energy				
roads	●	●	↓ ●	↑ ●
information networks	↑ ●	↓ ●	↓ ●	↓ ●
airports	●	↓ ●	↓ ●	●
ports	●	↓ ●	↓ ●	●
price of energy	●	●	●	●
availability of energy	●	↓ ●	●	●
Society				
economic and social equality	↑ ●	●	●	↓ ●
how well-known is the country abroad?	↓ ●	●	●	↑ ●
how attractive is the country to foreign experts?	↓ ●	↓ ●	↓ ●	●
internationalisation	↑ ●	●	●	↑ ●
freedom of foreign investments	●	●	●	●
business environment in sparsely populated areas	↓ ●	↓ ●	↓ ●	●

The positions of the four reference countries in international competitiveness indices are very similar

There are no clear differences in the quality of the investment environments of the four countries when measured using the traffic light table.

However, not all essential factors impacting business investments (such as the economic situation, size of the market or cultural factors) are included in the traffic light table. Finland might well lag behind the other reference countries in these areas.

All reference countries use competence as their most important competitive advantage

In terms of overall educational levels of the population and the quality of research, all reference countries are doing equally well, except for Sweden, where the overall educational level of the population is no more than fair when compared with other developed countries.

All four countries are in the top league in innovativeness and it is essential for Finland to remain in this group.

Finland stands out among the reference countries in the availability of ICT experts.

Finland is the only one of the reference countries rated no more than fair in marketing and customer service skills. Furthermore, marketing skills in Finland have weakened during the past few years. State of the marketing skills and improving them are discussed in more detail in Chapter 4.2.

All four reference countries have high tax rates but they do not use taxation as their main competitive advantage

None of the reference countries is known for low tax rates. However, taxation in the Netherlands is lower than in Finland, Sweden or Denmark.

Relatively low business tax rates provide Finland with a competitive advantage and corporate taxes have also been lowered twice in the past few years.

In addition to social security contributions, high taxation is a factor making labour costs high in all four countries, at least in low-productivity jobs. However, welfare states such as Finland, Sweden, Denmark and the Netherlands do not primarily compete as tax havens characterised by low labour costs as they use quality of work as a competitive advantage. The services and equality provided by a welfare state may also make a country attractive to foreign experts and high-productivity investments.

Equality strengthens trust between citizens and between citizens and the authorities. Such trust is not self-evident in the world, not even in all Western countries. Trust can be an advantage when companies plan investments because it means more predictability and lower transaction costs and facilitates product development operations in many ways.

Finland and Denmark share the first place in the assessment of economic and social equality. Furthermore, Finland has improved its position in this respect during the past few years.

Trust makes doing business easier

Finland lags behind other reference countries in the regulatory environment

Finland lags behind other reference countries in the simplicity of company law and the trend in this area has been negative. In such areas as political predictability and the ease of setting up a business Finland is not among the world's best either. At the same time, Denmark and the Netherlands do extremely well in these areas.

Finland should simplify business regulation

Finland is less known and less international than the other reference countries

Finland lags behind the other reference countries in the variables measuring how interesting the country is in the eyes of foreign companies (how well-known the country is in the world, how attractive the country is to foreign experts and how internationally oriented the country is). The Netherlands is number one in these areas, which is partly explained by its location in Europe.

As stated above, Finland does well when measured with economic and social equality. Good public services and equality could attract foreign experts and for this reason it is regrettable that the strengths of Finnish society are not known internationally. The role of a good living environment in the efforts to attract foreign experts is discussed in more detail in Chapter 4.3.

Finland's strengths are not known in the world

Finnish infrastructure of good quality, considering long distances and a unfavourable geographical position

In global comparisons, Finland's roads, airports and ports are at least of good quality. In data networks, Finland does slightly worse than the other reference countries but the new submarine cable between Helsinki and Germany has improved Finland's data communications links.

The Netherlands does better than the other reference countries in infrastructure, which is partially due to its location and small size.

Energy prices and availability of energy in relation the rest of the developed world are at least good in all four reference countries.



4 What could central government do to promote certain intangible success factors in the investment environment?

Countries compete with each other in the quality of the networks and centres of excellence that they can offer companies. Clusters have an important communicative role and the authorities can help in their branding.

It seems that Finland suffers from the “vicious circle of marketing”, in which the low status of marketing has led to a situation where business executives do not know how to use the full potential of marketing in the efforts to improve profitability. Finland has relatively few well-known international brands and Finnish companies are less actively engaged in online commerce than companies in the other reference countries. Central government could improve the status of marketing by issuing opinions on the subject and by supporting both product development and marketing. Measures aimed at improving marketing education are presented in this report.

A vibrant and pleasant living environment is a major strength when countries compete with each other to attract high-productivity workforce. According to the interviews, it is also important that social ties and networks are established between the native population and immigrants.

Competence and reliability are the strengths of Finnish public administration. However, from the companies’ perspective, public administration is occasionally too slow, complex and ineffective. It would be natural for public administration to set a good example in customer service, innovativeness and renewal.

4.1 Central government could support the establishment of networks and centres of excellence

Countries use networks as a competitive factor

Learning and innovation result from interaction between people. Countries compete with each other in the quality and extent of the networks that they can offer companies.

In the opinion of one interviewee, it is not enough if the authorities provide product development work with good facilities and technology as they must also provide companies with networks. This is because networks help companies to find people that have the potential to create something new.

Research institutes play a major role in the creation of networks. According to the interviewee, research institutes can create neutral and thus also reliable platforms for cooperation, product development and entrepreneurship. Such neutral platforms are not necessarily created in the private sector.

Mobility in the labour market between different sectors and different tasks supports the creation of networks. There is little mobility of workforce between the business sector and public administration in Finland. Encouraging such mobility would make public administration more familiar with the way in which companies operate and it would provide government officials with more network capital.

There should be more mobility between public and private sectors

Contacts between individuals are crucial

“Human level is essential. Cooperation between organisations is ultimately a matter of cooperation between individuals.”
- excerpt from an interview with a Finnish expert

The authorities can support the creation of clusters and their branding

Clusters are often created around expertise as education, training and research create business in the sector. Clusters create a self-strengthening cycle as business activities in the sector create new demand and supply. Investments also tend to concentrate in accordance with the path dependency: Investments are probably made where they have been made before.

Clusters are important in terms of communications: The perceptions created by them can be used when an area is marketed to domestic and foreign investors. For example, the Medicon Valley near Copenhagen, which is the most important pharmaceutical cluster in the Nordic region, was originally launched by Copenhagen Capacity. Other examples of well-branded clusters are the Brainport technology cluster and Food Valley in the Netherlands.

Medicon Valley in Denmark is an example of a cluster that is well-known around the world

A good practice in Denmark: partnership in pharmaceutical research

Denmark has accumulated good experiences in cooperation projects in the field of clinical pharmaceutical research that involve companies, municipalities and universities (public-private partnership). Increasing the number of such projects was one of the recommendations made by the health care growth team set up by the previous Danish government. The preparations of the growth team’s recommendations involved municipalities, companies and research institutes.

Cooperation projects in clinical pharmaceutical research have attracted foreign investments to Denmark

The cooperation benefits all parties. The public sector benefits from the cooperation because improvements in treatments and public health are achieved. The projects help companies to find new talented researchers, while multinational companies are able to market Denmark as an investment location. Universities receive information on how university education should be developed and they are able to help students to find work.

Finland also has a growth strategy for health care research and innovation, which has been prepared in cooperation with pharmaceutical companies¹⁹. One of the most important aims of the strategy is to increase product development cooperation between research institutes and companies. Business executives of pharmaceutical companies interviewed for the audit considered the strategy important and well-prepared.

4.2 Marketing should have a higher status and marketing skills should be improved

Marketing can help companies to become more profitable and make the national economy more productive

Marketing can help companies to generate new demand, increase the profit margin of their products and improve the profitability of their operations. Marketing has an impact because people do not make rational consumption decisions. Marketing can also increase economic growth²⁰.

An example of consumer-oriented thinking

“The most important thing in business operations is when people meet. If you ask Asian manufacturers of light fittings to describe their products, they would say that their lamps will last for 15,000 hours and are 2,700 kelvins and so on. But a Danish manufacturer of light fittings would say: My lamps will make people happy and healthy.”
– excerpt from an interview with a Danish government official

Every effort should be made to break the vicious circle of marketing in Finland

Many of the interviewees were of the opinion that in Finland marketing has a weaker status than in the other reference countries and that this has created a vicious circle.

Marketing is not among the most popular subjects in Finnish business schools and it is considered a “soft sector”. Marketing experts do not get into strategic or key managerial posts in companies. The top executives of large Finnish companies typically possess a degree in engineering or financial administration and there are few marketing graduates among them.

According to the interviewees, all this is reflected in the fact that Finnish business executives do not have enough marketing skills. This in turn means that when designing products, Finnish companies do not give enough consideration to customers’ wishes. The common view is that Nokia declined because its products were too technologically oriented. The impression created in the interviews was that Finnish business executives rely too much on cutting costs instead of trying to create new demand and added value for their products.

According to one interviewee, marketing does not get funding from the banks or risk capital as easily as the expansion of the production capacity.

Inadequate marketing skills and the failure to offer consumer products mean that Finnish companies are unsuccessful in the consumer market, which means that the Finnish industrial base is narrower than in the other reference countries.

Weak status of marketing is the main problem

Instead of cutting costs, Finnish companies should focus on creating new added value

Finland's industrial base is narrower than in the other reference countries

One consequence of this is that Finnish companies have considerably fewer valuable international brands than other Nordic countries (especially Sweden and Denmark) (Table 9). This is also a problem in country marketing because well-known brands could be used in promoting Finland internationally.

Table 9: The 50 most valuable Nordic brands, by country of origin, in 2016

	Number	Percentage
Sweden	24	48%
Denmark	15	30%
Finland	6	12%
Norway	5	10%
Iceland	0	0%
Total	50	100%

Source: Brand Finance

Sweden has four times as many and Denmark almost three times as many valuable brands as Finland

Finnish business executives do not have enough understanding of marketing basics

“The chief financial officers in Finnish companies don't understand that the price and the cost are two different things.”

– excerpt from an interview with a Finnish expert

Marketing skills are not valued in Finland

“The view is that marketing is a character rather than a matter of skills.”

– excerpt from an interview with a Finnish expert

Finnish companies could attract people with marketing skills from other countries

“Finland has engineers but could Finland attract salespeople from other EU countries? People who are more outward-looking. For example, people from Southern Europe could come to Finland and Finland would provide the technological expertise.”

– excerpt from an interview with a Dutch expert

A company must be good at customer service in order to manage in a tougher competition

“The Oresund Bridge exploded the service culture in Denmark. When the competition gets tougher, service becomes better.”

– excerpt from an interview with a Finnish government official

How should the marketing skills be improved?

Basic education	There should be more emphasis on presentation skills in basic education.
Upper secondary level	There should be more marketing teaching at upper secondary level; there are many tasks in companies where a master's degree is not required.
Universities	There are enough marketing experts graduating from universities but the problem is that many of them have to work in tasks that do not correspond to their training as marketing expertise is not appreciated.
On-the-job learning	As there are few head offices of global or Nordic companies in Finland, there are few opportunities for acquiring international expertise in marketing.
Research	There are too few marketing professors in relation to the importance of the sector.
Product development	In addition to supporting innovations, Tekes should also support their commercialisation and marketing.

Marketing development centre Makes

The establishment of a marketing development centre would be one way of breaking the vicious circle of marketing in Finland. "Makes" could serve as an engine for making marketing more highly appreciated in Finland and for improving Finnish marketing skills. It could bring together top marketing experts, collect information on successful marketing campaigns and serve companies through collaborative projects.

As central government does not possess the same marketing expertise as companies, it would be natural for the private sector to establish the centre, which would then be partially funded by central government. The marketing development centre could also be part of a university or function as an institute jointly owned by several universities.

Finnish companies will ignore online commerce at their peril

The danger is that an increasing proportion of Finnish consumption will move to foreign-owned online shops. Few of these online operators make investments in Finland.

There are no comprehensive statistics on how much Finns buy from foreign online shops and how much Finnish companies sell products online to foreign customers. Table 10 describes online commerce in the reference countries in 2015. The information is based on statistical data collected from different sources.

Finnish consumers have become keen online shoppers: Finns buy less online than Danes or Swedes but considerably more than EU citizens do on average. Finns also make a large number of purchases at foreign online shops. According to a survey made in 2015, as much as 49 per cent of Finnish consumers said that they had made purchases from foreign online shops during the last three months.

There is a danger that a large part of Finnish consumption will move abroad in the next few years

However, Finnish companies lag behind companies in the other reference countries in online commerce. According to the Digital Economy and Society Index of the European Commission, Finland was the only country in the index that remained below EU average, when measured with the proportion of SMEs selling their products online and the proportion of SMEs exporting their products online. The proportion of Finnish SMEs selling products online was 42 per cent lower than in Sweden, the number one country in the index.

Finnish companies sell less online than companies in the other reference countries

Table 10: Statistical information on online commerce in the reference countries in 2015

	Finland	Sweden	Denmark	Netherlands	EU average
Percentage of the population that made online purchases ¹	76%	78%	82%	76%	66%
Percentage of the population that has made purchases from a foreign online shop during the past three months ²	49%	32%	36%	no information available	no information available
Total amount of purchases from foreign online shops ²	EUR 961 million	EUR 1,243 million	EUR 770 million	no information available	no information available
Percentage of SMEs that sold products online ¹	15%	26%	25%	17%	16%
Percentage of SMEs that sold products online to foreign customers ¹	5.8%	9.7%	9.8%	10%	7.5%

Sources:

1) European Commission 2016: *Digital Economy and Society Index*

2) Postnord 2016: *E-Commerce in the Nordics*

According to Postnord statistics from 2015, a total of 17 per cent of all foreign online purchases made by residents of Nordic countries were made from Swedish online shops. Seven per cent were made from Danish online shops and only one per cent from Finnish online shops. This is also a clear indication of the weak performance of Finnish online outlets²¹.

According to the Finnish Commerce Federation, the value of online purchases made by Finnish consumers in 2014 totalled 3.6 billion euros and as much as 44 per cent of them were made from foreign online shops. A total of 78 per cent of all purchases made from foreign online shops were made in companies that do not have any physical outlets in Finland²².

Only a small proportion of all foreign online shops invest in Finland

When retail purchases are increasingly made online, an increasing proportion of Finnish retail trade moves abroad. According to the Finnish Commerce Federation, in 2014 retail online sales grew by seven per cent on a year-on-year basis, while retail sales as a whole grew only one per cent²³. These figures are already two years old and it can be assumed that since then online commerce has grown faster or that the growth rate has remained at least at the same level.

Reasons for the relatively weak performance of Finnish online shops can be sought from marketing. According to one interviewee, Finns are able to build online outlets that are technologically good but they do not know how to market them and customers do not find them. The range of languages offered in Finnish online shops is often too narrow. In many countries, there is a large number of consumers who do not speak any English. More courses on online commerce should be offered at vocational level and in higher education institutions.

Finnish online shops need better marketing skills

A large proportion of consumption is moving to online shops

“Nowadays, one parcel in five delivered by the Swedish post comes from abroad. Five years ago the figure was about zero. In those days, you might have bought a book from Amazon but now there are platforms and many international players, such as Alibaba, Zalando and Wish.”
– excerpt from an interview with a representative of a Swedish business organisation

When the competition gets tougher, establishing a successful online shop requires more competence

“Some people think that you can set up an online shop during lunch-break but this is no longer the case. Nowadays, you must be a real professional when setting up an online business.”
– excerpt from an interview with a representative of a Swedish business organisation

4.3 Open-minded attitudes and the growth of attractive urban centres should be encouraged

Vibrant and good living environments attract talent

In a globalised world, countries try to attract both companies and experts (talent). Such high-productivity workforce is mobile and it can choose its place of residence from a large number of different countries and cities.

Large cities are a major competitiveness factor when countries are attracting talent. This creative class expects that its living environment is interesting and vibrant and that there is a broad range of cultural activities, physical exercise facilities and other leisure activities on offer.

Finland is the smallest of the four reference countries in terms of population and the other countries have cities that are larger than Helsinki. One could think that a policy aimed at expanding and developing the Helsinki region would help to attract foreign experts and investments to Finland.

Compared with many large cities, Helsinki is close to nature, it is safe and it has a strong community spirit. One of the business executives interviewed for the audit noted with satisfaction that the urban culture in Helsinki has become more vibrant in recent years as a result of the restaurant day and other similar community activities.

When efforts are made to attract talent, it is naturally also important that the public basic services are in good shape: Well-organised day care and education, as well as employment opportunities for the spouse are important for individuals with families.

Other reference countries have larger and more attractive cities than Helsinki

Views on the importance of a good living environment

“When you are moving to Denmark, you must also convince your wife and family that it's a good idea to move there. You must convince them that you may have to stay there for five or ten years. Children may have to change school. If you lose your job, it's important to know that there are other job opportunities nearby. The job alone is not enough. You must frame it so that you can do the marketing at home. When a foreigner leaves Denmark, it's rarely because of work as there are other reasons that are more important. I believe that this is the case in all countries.”

- excerpt from an interview with a Danish government official

“After South Africa, Finland felt dark and cold. Nevertheless, I don't want move away yet. My children like the day care centre and they have learned Finnish.”

- excerpt from an interview with a Finnish business executive

Open mind and creativity go hand in hand

A creative innovation-friendly atmosphere stems from diversity and tolerance.

The success of the efforts to attract talent to a country also depend on attitudes towards foreigners. It is important that social ties and networks are established between the native population and immigrants. Any signs of racism may be disastrous for the country's reputation especially if they are reported in the international media.

Negative attitudes towards foreigners may lead to discrimination in the labour market. Finland too suffers from brain drain when foreigners that have studied in Finland cannot find work here.

It is important that social ties and networks are established between the native population and immigrants

Diversity and tolerance promote economic growth

“Amsterdam is a city where people from different backgrounds feel welcome. In such a place, trade, creative sectors and the ICT sector tend to develop more rapidly than in a more conservative atmosphere.”

- excerpt from an interview with a Dutch government official

Economic climate and atmosphere may have an impact on investments

According to the interviews, the current economic climate in Finland can be described as “gloomy” and “there's not enough faith in the economy”.

One Finnish business executive noted that in such a negative atmosphere “you really have to work hard to convince the company's global management why they should invest in Finland”.

According to one Finnish business executive, Finland's reputation in the world has weakened over the past ten years. Before the financial crisis, Finland was in the forefront of technological development and its economy was growing rapidly. However, now Finland is known as a "has been" country.

According to one Finnish government official, central government should play a role in the creation of the "good feeling" in the economy so that it would be a "good idea" to invest in Finland. Government ministers, senior central government officials and the authorities responsible for Finland's country image communications could play a key role in this respect. The role of communications in the atmosphere should not be overlooked though the information conveyed should also be honest.

Examples of cultural factors that may have an impact

The interviewees also mentioned a number of other cultural factors that in their view might have an impact on economic performance and the performance of companies. These references alone do not show that the factors in question would have real impact or that they could be generalised. Nevertheless, below are examples of cultural factors that in the interviewees' opinion might be relevant:

- Unlike American companies, European companies lack the ambition and the will to grow.
- In all four reference countries, hierarchical differences at workplaces are small, compared with many other Western countries.
- In Dutch companies, people want to avoid conflicts and there are few industrial disputes.
- In the Netherlands and Denmark, people are more honest and straightforward than in Finland or Sweden; in the Netherlands and Denmark people are more tolerant of criticism and disagreement.
- Finns tend to be self-deprecating and downplay their skills. For this reason, Finns are not particularly good salespeople.
- Other countries have longer traditions in international trade and their "internationalism is more in-depth in nature".
- In former colonial masters, people still think that they can conquer the world, whereas in former colonies people ask themselves: "What do other people think of us?"
- Finns have a weaker work motivation than people in other countries. In Finland, employees make fewer innovations than in other countries.

The "lost decade" of the Finnish economy has had a negative impact on Finland's international reputation

Culture means the values, views, habits, customs, attitudes, norms and beliefs that are shared by the members of a community and that have an impact on their activities

The Dutch are self-confident

“Unlike Finns, the Dutch are not self-deprecating. When they go somewhere, they are always standing tall. If the Dutch know that they are not good at something, they don't show it. Despite this, they don't shun difficult situations and often come out quite well.”

– excerpt from an interview with a Dutch expert

Swedes have long traditions in international trade and they have good marketing skills

“Swedes have always been a trading nation. They bought tar from Finland as bulk goods and sold it as a branded product to England with a big profit. They simply put their own label on the barrel.”

– excerpt from an interview with a Finnish expert

4.4 The authorities could set a good example in customer service, innovativeness and renewal

Professionalism and reliability are the strengths of Finnish public administration

Business executives appreciate the professionalism and impartiality of Finnish authorities. Low level of corruption and smooth functioning of the justice system are also important strengths of Finland's public administration.

The fact that citizens trust the authorities was also mentioned as a strength in the interviews. The following feature was mentioned as an example of the importance of trust: As citizens trust the authorities they are prepared to use personal identity codes that can identify each of them. This is not self-evident in all countries. Personal identity codes are highly useful in such situations as pharmaceutical research.

Reliability of the authorities, low level of corruption and legal certainty are extremely important factors in an investment environment

Small things can lead to significant improvements

Developing the thinking and operating practices of public administration actors is often a cost-effective way of improving the business operating environment. Many of interviewees pointed out that correcting administrative deficiencies rarely requires additional resources. One of the interviewees even suggested that Finland has too many authorities assisting companies and that there should be more focus on the quality of the activities.

Criticism of operating approaches in public administration and the administrative culture

The following critical observations or development priorities concerning the Finnish public administration were presented by the business executives in the interviews:

- The service situations with the authorities are sometimes unnecessarily complicated and laborious.
- The authorities lack service attitude. The authorities should see themselves more as a service organisation and citizens and companies as their customers.
- From the companies' perspective, the authorities often act slowly: Companies need quick answers to their questions and the authorities should deliver their decisions without delay.
- Public decision-making is not sufficiently predictable: Legislative changes and policy decisions are introduced without warning.
- At the same time, the authorities should act more quickly. When for example there is an opportunity to encourage business investments or attract a foreign company to Finland, such opportunities should be seized without delay.
- Public administration should be more proactive; it should not merely react to events but also actively create new opportunities.
- There is too little dialogue between companies and the authorities. The authorities are not familiar with the way in which companies see things or the factors behind the investment decisions. The authorities are too keen to see companies as adversaries or lobbyists.
- There should be more experimental culture and it should also be possible to use the results. There could also be more joint experiments with companies.
- The thinking is too rules-centred: Attention should be shifted from what is in accordance with the rules to what you are allowed to do.
- Clearly defined regulation is dynamically inflexible. Focus should be shifted to values and long-term targets.
- From the perspective of the companies, there are many different authorities.
- In Finland, there is too much focus on administrative processes rather than on what is practicable from the companies' perspective.
- The authorities do not provide enough services or communicate on their activities in English.

The following observations on the efficiency of the Finnish public administration were also made:

- The development work in public administration is too much focused on reforming administration-internal structures and organisational charts.
- Too much time in public administration is spent on internal reporting instead of the actual tasks, such as helping companies.
- Even though a large number of reports are produced, the proposals made in them are not translated into action.
- There are too many hierarchical levels, organisational structures are too complex and too many of the personnel take part in the work of the management team.

The interviewees gave their opinions on how the companies' perceptions of the authorities could be improved

Many of the interviewees criticised public administration as being too bureaucratic

Views on public administration practices and efficiency

"More predictable the operating environment, the better."

- excerpt from an interview with a Danish business executive

"There are many small things that have a big impact on companies."

- excerpt from an interview with a Finnish business executive

"Many of my colleagues are irritated when I say that we are a service organisation and that we work in a service profession. They think it's demeaning."

- excerpt from an interview with a Finnish government official

"The authorities employ themselves with complex structures."

- excerpt from an interview with a Finnish government official

"The five per cent productivity leap proposed by the Government is nothing. In the business world, a company must grow between four and six per cent every year."

- excerpt from an interview with a Finnish business executive

Public administration can influence the attitudes prevailing in society by setting a good example

By being bold, innovative, service-oriented and agile, by favouring experimental culture, by establishing networks, by having an open mind and by possessing marketing skills, public administration can also encourage Finnish companies to have these positive qualities. When central government actors publicly urge companies to show these qualities, it would be natural for the same actors to develop their own practices in accordance with them.

The aim should be innovative and service-oriented public administration

Development idea: Handing over innovations created in public administration to spin-off companies for development

Many of the public services, inventions created by the authorities and social innovations are products that attract interest in both Finland and abroad. A large number of delegations have visited Finland to familiarise themselves with such inventions as the Finnish comprehensive school, and the Finnish maternity package has also been noted in the world.

The authorities may not carry out business activities or compete with private companies. Therefore, it has been suggested that a path or procedure could be developed in which innovations created in public administration could be handed over to private companies for commercialisation. The authorities could support the establishment of spin-off companies around tangible or intangible innovations originally developed in public administration.



5 How could Finland attract more foreign investments?

Foreign investments are important in many ways: They help to create jobs, expertise, networks and competition.

Attracting foreign investments to Finland should be based on building an investment environment that is attractive to foreign companies. It is important to listen to foreign investors so that we can understand their problems and what they expect. The authorities should actively create new opportunities and not just react to events.

Finland is less well-known than the three other reference countries. According to the audit findings, Finland still needs to make substantial improvements in its authority services. Especially the top executives of large global companies expect to have an opportunity to meet with government ministers and other members of the country's leadership when their companies are considering making investments in the country.

Business executives could be used more frequently as advocates of Finland in the global efforts to attract foreign investments to Finland.

The authorities should maintain long-term contacts with companies that have established operations in Finland so that they would stay in Finland and invest in Finland.

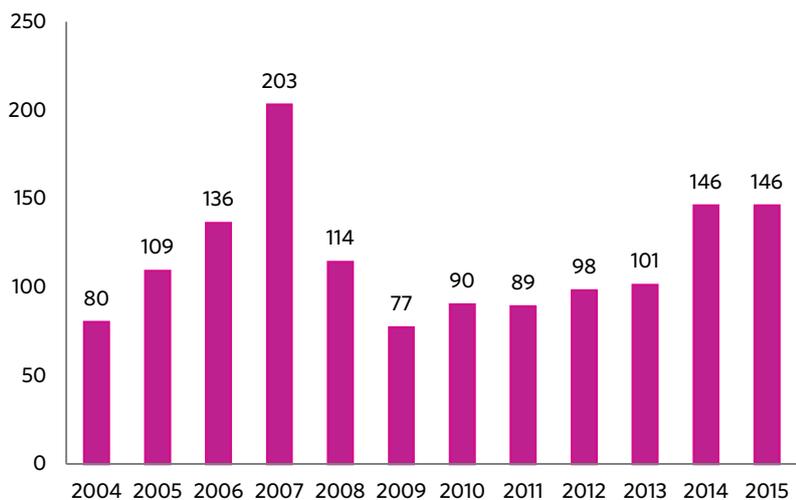
Actors involved in the efforts to attract investments to Finland and resources allocated to the purpose

Invest in Finland is the most important Finnish actor in the efforts to attract foreign investments to Finland. It is part of Finpro and the Team Finland network.

Invest in Finland has 13 full-time staff members and 11 people working in its offices in foreign locations. Some of the people working in the foreign locations promote investments in Finland on a part-time basis. The basic funding for Invest in Finland for 2017 is 4.4 million euros. Investments in Finland are also promoted in separately funded growth programmes.

Municipalities also work to attract investments to Finland. For example, the municipalities in the Helsinki region have a joint development company Great Helsinki Promotion the task of which is to attract investments to the region. The intention is that as part of the regional government reform the municipal responsibility for attracting investment will be transferred to regions.

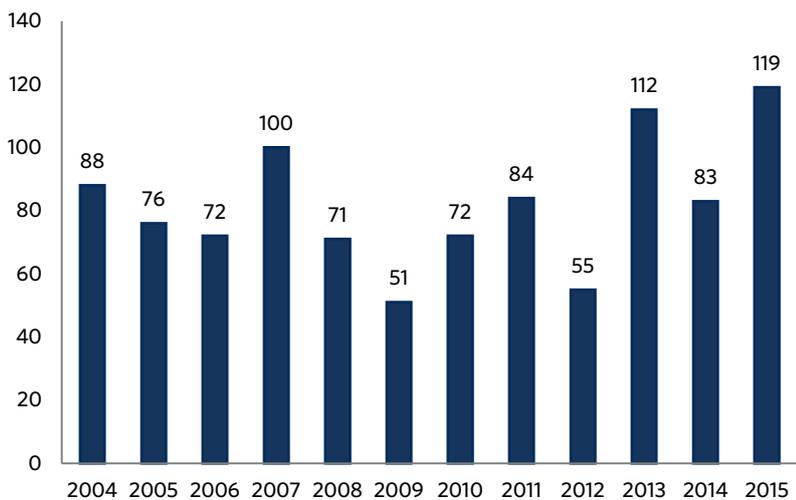
Foreign investments in Finland fell after the financial crisis but since then the trend has been upwards



The amount of new investments has been growing for the past six years

Source: Invest in Finland

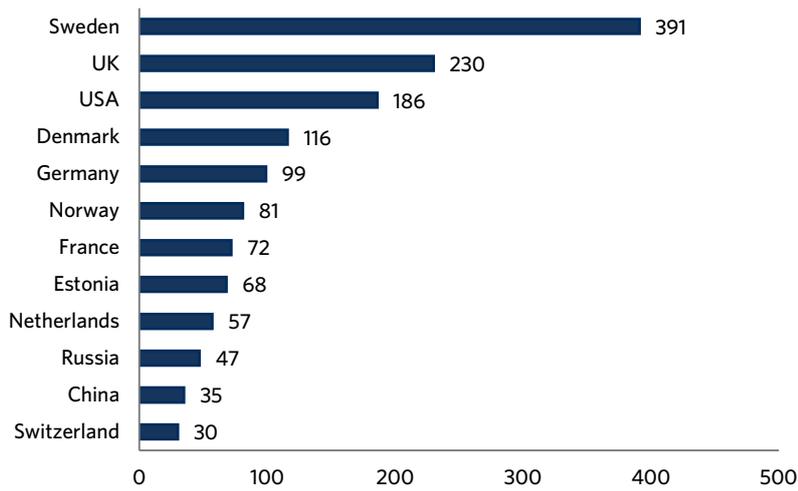
Figure 4: New foreign investments in Finland between 2004 and 2015



The amount of company acquisitions is already higher than before the financial crisis

Source: Invest in Finland

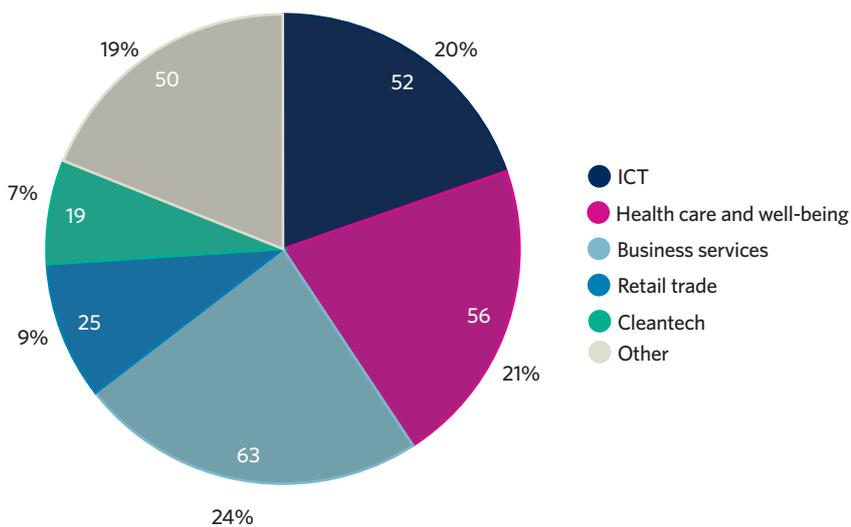
Figure 5: Acquisitions of Finnish companies by foreigners between 2004 and 2015



By far the largest proportion of all foreign investments in Finland are made by Swedish companies

Source: Invest in Finland

Figure 6: New foreign-owned companies in Finland between 2009 and 2015 (in accordance with the ultimate owner country). The chart shows the combined total of new investments and company acquisitions



Most of the investments in Finland are made in business services, health care and the ICT sector

Source: Invest in Finland

Figure 7: New foreign-owned companies in Finland in 2015, as measured by the sector. The chart shows new investments and company acquisitions

5.1 One should ask strategic questions and listen to the customer companies

Building a good investment environment in Finland is the best way to attract foreign investments in Finland

The line chosen by Finland in which Finnish and foreign companies are treated equally can be considered the right approach. This is because the grants and subsidies paid to foreign companies would distort competition. Nowadays, it is also difficult to determine the country of residence of the company owners.

Attracting investments should not only be a matter of marketing the existing investment environment as it should also include the construction of the investment environment into a product that will attract foreign investors. Thus, attracting foreign investments in Finland should not be the sole responsibility of Invest in Finland and municipal development companies.

Below are some of the questions that should be asked when attracting investments:

- What kind of an investment environment should be built in Finland?
- When building the investment environment, how can the wishes and needs of the customers (in this case, the foreign companies making the investments) be considered?
- How can Finland generate new demand for the markets of the foreign investments?
- How can Finland solve the problems of the customers?
- How can Finland make the process of investing in Finland as easy as possible?
- How can Finland offer interesting networks to foreign investors?
- How is the story of Finland (its history and future vision) told in an interesting manner?

It is important to listen to foreign investors and ask them questions so that we can understand their problems and what they expect. The answers also provide information on how the companies already established in Finland could be persuaded to make additional investments in Finland. The use of the expertise possessed by companies is also discussed in Chapter 2.2.

Both Finnish and foreign companies are influenced by the same factors when they are making investments

Attracting investments in Finland should be viewed from the perspective of strategic marketing

Government officials should put questions to companies and use their expertise

It is important to ask questions

“You don't need to know everything but you can put question to the companies: 'What are your needs?' When you are working to attract investments, the most important thing is to ask questions.”

- excerpt from an interview with a Danish government official

“Companies know what is in their best interest. We should go and ask them why you made this decision and should learned from that. Is there anything that we could do better in Sweden? We can learn from these foreign companies and the same things may also be a problem for Swedish companies.”

- excerpt from an interview with a Swedish government official

“Before suggesting any solutions, I would ask the company what in their view are the ten biggest challenges facing Finland and would try to understand the company's perspective. Then I would try the reduce them into the three most serious challenges. Ask them to give their views on what is good in Finland and what isn't until you have a firm view of the issue.”

- excerpt from an interview with a Danish government official

“Central government and municipalities should also ask more often what they could do for companies so that the conditions in Finland would be even better, especially for companies that have already invested in Finland.”

- excerpt from an interview with a Finnish business executive

Good practice: Denmark wants to become a test market

In its efforts to attract investments, Denmark wants to become a place where it is easy to develop and test new innovations. The following factors make it easier for Denmark to serve as a test market: 1) Special competence and product development laboratories. 2) Danish consumers are quick to adopt new technologies. 3) Denmark has a flexible labour market. 4) Denmark has flexible procedures for attracting foreign investments.

5.2 The country image communications directed at companies should be improved and Finland's top government leaders and business executives should be used as advocates for Finland

A country must first be sufficiently interesting after which it must still go through a multi-stage process

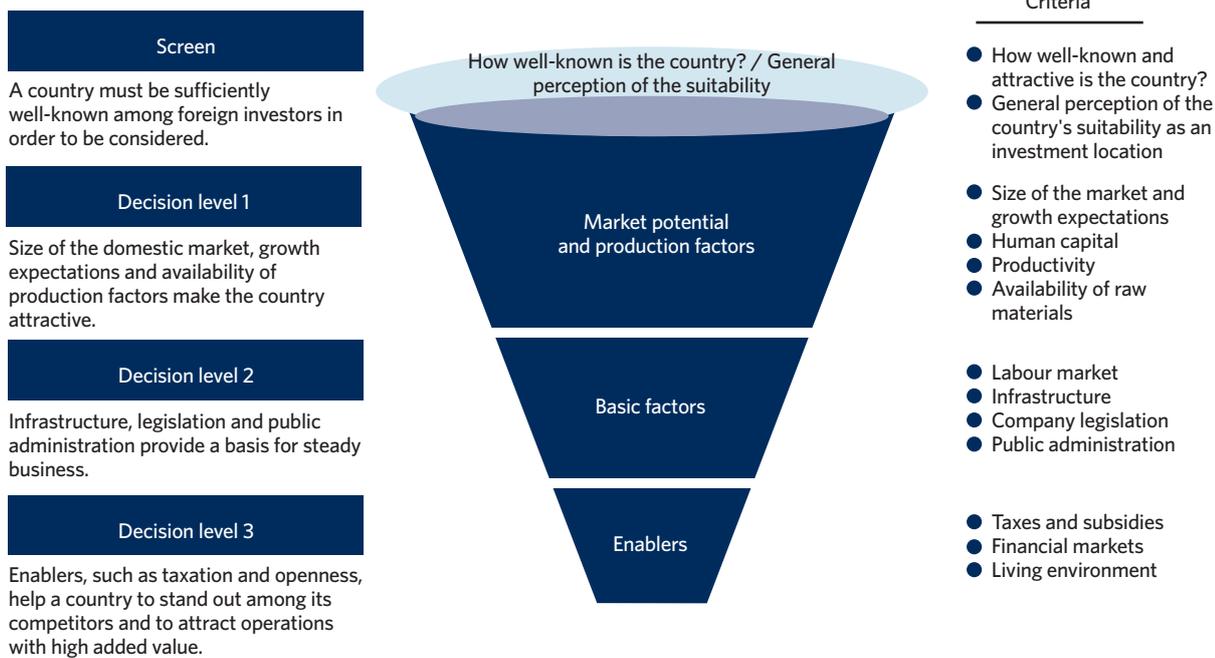
Such considerations as how well-known and interesting a country is play a role when a company decides whether a country will be included in the list of potential investment locations. Initially, there are several countries on the list but it gets shorter as the company applies a range of different criteria to the selection process (Figure 8).

Typically, the most important criteria for the company are demand and growth expectations in the market and the availability of production factors. However, there are differences between the criteria applied by different companies. If the company only sells its products online, the location of the consumers does not necessarily have any impact on the decision.

After that, companies evaluate basic business environment issues, such as the infrastructure and the functioning of the regulation. For countries where the basics are in good shape, such factors as taxation and the pleasantness of the living environment are considered.

When the decision process enters its final stage, the efforts to convince a company to choose a specific location often assume critical importance. One of the business executives interviewed for the audit noted that the differences between the business operating environments in northern and central European countries are often small and for this reason the selection between these countries may largely be on the basis of "soft" values.

The investment environment must be good but the way in which it is marketed is crucial



Paraphrasing: The Boston Consulting Group, Investointeja Suomeen, muistio 15.2.2012 [Boston Consulting Group, Investments in Finland, memorandum 15 February 2012]

Figure 8: The decision on where a company decides to invest is the result of a multi-stage process

The first requirement is that Finland is known internationally

Generally speaking, Finland is a little-known country and there are rarely stories about Finland in the international media. As one of the interviewees put it, for many foreign companies making investment decisions, Finland is “mentally distant”.

According to the interviewees, Finland should invest more in the country image communications and country brand work directed at companies. Today, it is not fully clear who is responsible for Finland’s country image communications at fairs and exhibitions (Finpro or embassies).

It is not fully clear who is responsible for Finland's country image communications directed at companies

The interviewees also listed the following development priorities in the marketing carried out by Invest in Finland:

- Marketing communications should be more ambitious, bolder and more personalised.
- There is too much focus on the factual content of the marketing communications and there is little understanding of the importance of the atmosphere.
- There is too much focus in the marketing on how Finns see themselves and not on how others see us.
- Top-quality salespeople are crucial and Finland needs more of them.
- The marketing is too much directed at business executives responsible for technology-related decisions.

An example of bold marketing communications: Municipalities in the Stockholm region use the trademark-protected slogan “Stockholm - The Capital of Scandinavia”

Finland's top government leadership should commit itself to marketing Finland as an investment location

The impression conveyed by the interviews was that there is still room for improvement in the manner in which Finnish government ministers and other top government leaders take part in the marketing of Finland as an investment location. The government officials interviewed for that audit complained that Finnish government ministers are often “too busy” to meet representatives of foreign companies so that they could advertise Finland as an investment location.

Companies appreciate the chance to meet top government leaders and according to the interviewees, top executives of large global companies expect to have such an opportunity.

Involvement of the top government leadership also makes it easier for subsidiaries already established in Finland to advertise the country as an investment location to the company's global management.

Meeting with a government minister is a sign to the company that the top government leadership attaches great importance to the investment

Views of the importance of being well-known

"Ultimately the most important investment decisions are made in our head office in the United States and if you are looking at the things from their perspective, there are plenty of countries in the market. Attracting attention requires a great deal of effort if you are not one of the really big markets, which get the attention automatically."

- excerpt from an interview with a Danish business executive

Authority services

"When the foreign ministry acts as the host, it also becomes a bit more attractive for the top people in our head office."

- excerpt from an interview with a Danish business executive

More use could be made of business executives in marketing Finland as an investment location

It is often in the interest of the top management of the Finnish subsidiaries of international groups to market Finland as an investment location in the group. A stronger ecosystem in their own sectors is often also in the interest of the other companies operating in Finland.

When meeting with potential investors, the business executives can also communicate the “soft” strengths of the Finnish investment environment that the authorities may not be able to emphasise in their own marketing.

Companies already operating in Finland may also provide the authorities with information on how they could attract investments to Finland in a more effective manner.

Business executives play a key role in the efforts to attract foreign investments to Finland

5.3 Finland should use its embassies and have more cooperation with other Nordic countries

Economic diplomacy is important

Finnish embassies and other Finnish missions in foreign countries could be used more extensively in the efforts to attract investments and promote exports.

Marketing skills and commercial expertise of the personnel working in the embassies and missions should be improved. The purpose of the customer management system, to be introduced by Team Finland in autumn 2017, is to ensure that Finnish missions have better access to information on Finland as an investment location.

According to the interviewees, Dutch embassies have been particularly active in the efforts to attract investments.

Good trade relations are part of foreign and security policy

Too little use has been made of Nordic cooperation

So far, there has been little Nordic cooperation in the efforts to attract foreign investments in the region. There has been some cooperation within the framework of the Nordic Council of Ministers.

Benefits could be achieved through Nordic cooperation because when put together the Nordic countries could be able to present themselves as a larger market area, which would make it easier to attract large companies to the region.

Nordic cooperation would bring benefits in communications

"When I told Chinese visitors at a fair that the Nordic countries are the world's tenth biggest economic area, they started to listen."

- excerpt from an interview with a Danish government official

A large market area attracts large investments

"You can catch big fish in a big ocean."

- excerpt from an interview with a Finnish government official

Good practice in Nordic cooperation: Nordic Innovation House in the Silicon Valley

The Nordic innovation House in the Silicon Valley currently provides premises for about 180 Nordic technology companies. It also provides networks and accelerator programmes.

Positive experiences have been accumulated from the operations of the Innovation House and the interviewees described it as an agile bottom-up

organisation. The interviewees expressed the hope that the operations of the Innovation House would be expanded and that the concept would also be introduced to other countries.

Funding for the Innovation House comes from the Nordic Innovation and the authorities in different Nordic countries (for Finland the funding is provided by Team Finland).

Development idea: Creating a joint Nordic platform

The Nordic countries could create a joint Nordic platform that would serve foreign companies considering investments in the region. The opportunities, services and networks provided by each of the countries would be presented on the platform. A joint platform of the countries involved would be neutral in the eyes of companies. Team Finland could be an active player in the creation of such a joint Nordic platform.

5.4 We need long-term contacts with companies that already have operations in Finland

It is important to ensure that the companies already established in Finland also remain in Finland

Many of the authorities interviewed for the audit emphasised that the authorities should have better contacts with foreign companies that have already made investments in Finland (aftercare). The authorities should maintain regular contacts with companies that have established operations in Finland and ask them how they are doing and what they expect of the authorities. This would make it more likely that companies that have invested in Finland remain in Finland, would make more investments in Finland and would expand their operations in Finland.

Improving the dialogue between companies and the authorities is also discussed in Chapter 2.2 of this report.

Good practice: Customer satisfaction surveys in Sweden

The Stockholm Business Alliance comprising the 53 municipalities in the Stockholm region conducts an annual customer satisfaction survey with companies operating in the region (nöjd-kund-indexundersökning)²³. The companies are asked how satisfied they are with the services provided by the authorities, such as the issuing of building permits, food controls and the issuing of licences to serve alcohol. The companies have a chance to assess the manner in which they are treated, how efficiently the authorities operate, competence levels of the authorities, and access to information.

Finnish authorities could also start monitoring how satisfied companies are with the services provided by the authorities

5.5 Public administration should be more agile and use the opportunities of cooperation

Good practice: Agility and flexibility of the Danish authorities

In the interviews, Denmark came across as a particularly agile country in the efforts to attract investments. The way in which Denmark acts was described as pragmatic and opportunistic.

Danish authorities do not wait too long to make concrete offers and value pledges to potential investors and they take a flexible view of the wishes expressed by the companies.

The actors responsible for attracting investments to Denmark are agile: They react quickly to changes in the operating environment and also terminate functions as necessary.

Municipalities competing for investments sometimes act in a questionable manner

The decision-makers of a municipality know where industrial operations can be established in the municipality and on what conditions and they are able to make concrete proposals to companies considering investments. Competition between municipalities is a positive phenomenon as it encourages municipalities to develop their own operating environments and work harder to attract investments.

Occasionally, however, there have been questionable features in the competition between municipalities. For example, a municipality that has been contacted by a foreign company may not always notify other municipalities that may be able to provide the company with a better investment environment. A customer management system involving municipal development companies and Team Finland organisations will be introduced in autumn 2017 and one of its aims is to eliminate some of these problems. The regional government reform will also provide a better basis for more cooperation between central government and regional actors.

The interviewees pointed out that in the Netherlands, too, there was negative competition between regions in the past but the cooperation is now functioning well. This change has not only been achieved through structural reforms but it is also the result of new thinking as regional units were convinced of the benefits of cooperation.

A good practice in Sweden: Joint efforts to attract IT companies

Business Sweden has concluded an agreement with four Swedish regions with the largest number of IT companies. When Business Sweden contacts foreign IT companies, the municipalities provide information on their services and opportunities. The IT team meets for two days each year, discussing the following issues: What are the most important development trends in the sector? What are the most attractive investment opportunities in Sweden? What do the investors need? What measures will be introduced next year?

Municipalities play an important operative role in the efforts to attract investments

Successful cooperation is not only a matter of structures as it also requires trust and will

Team Finland should act in a more cohesive manner

Many of the interviewees expressed the opinion that in the development of Team Finland, there has been too much focus on internal structures and too little focus on operations.

There is potential for more synergy benefits in the cooperation between different organisations. Team Finland organisations are still largely independent actors and the common view has been lacking.

A large number of different ministries take part in the steering of the organisations, which makes the steering structure of Team Finland highly complex. There have been differences in views concerning the direction of the operations between the ministries responsible for the steering.

The views expressed above are in line with the conclusions made in the assessment of Team Finland published in autumn 2016. According to the assessment, there should be more cohesiveness in the way in which the network organisations operate and this applies to all areas of the work.²⁵

There should be a move from the development of structures to the development of operations

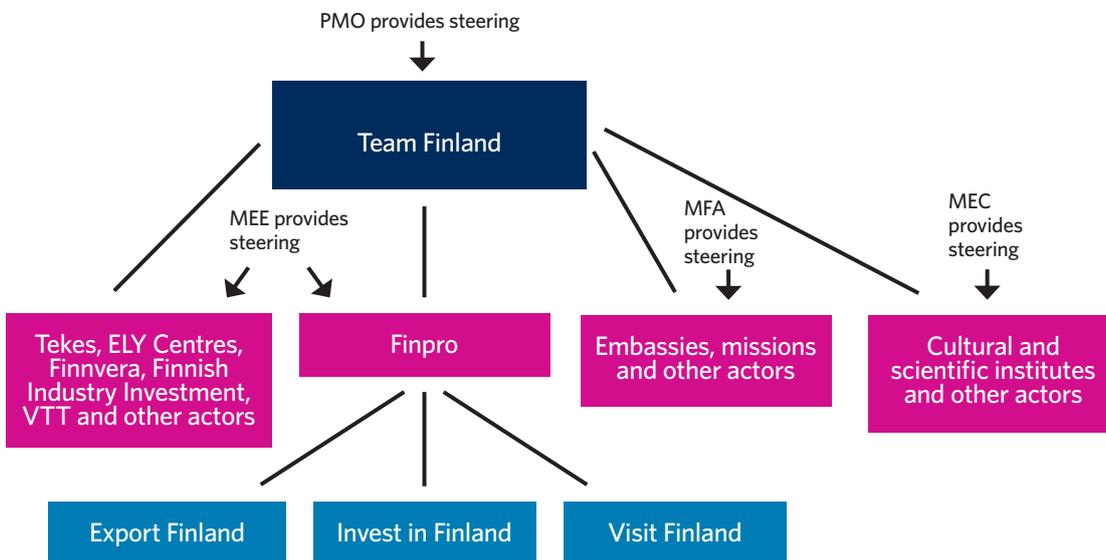


Figure 9: Team Finland consists of a large number of organisations, which are steered by several ministries

A good practice in Finland: Kaato as an example of a non-official approach to the efforts to attract investments

Kaato (kaato.org) is a loose community of about 500 experts that helps foreign technology companies to establish themselves in Finland. Kaato markets Finland to foreign companies and if the company considers Finland as an investment location, the network may provide the company with an expert for a specific period. The expert will seek answers to the questions posed by the company and gives details of networks that might be useful for the company. In many cases, the expert in question has been employed by the company. Finpro supports the work of Kaato and has used its experts in its own work. Kaato was set up by a group of former Nokia employees in 2012 and it is maintained by the association Suomen Tietoteollisuuden Tuki (Support association for Finnish information industries).

The Kaato model could also be expanded to other sectors

This appendix describes how the findings presented in the audit were produced and what are the limitations concerning the findings.

Audit objective and use of the audit findings

The objective of the audit was to produce information and development proposals for central government on how it could encourage business investments.

Audited entity

All business investments in Finland, irrespective of whether they are made by Finnish or foreign-owned companies are examined. Both tangible and intangible investments are included. Public sector investments are outside the scope of audit.

Comments on the draft audit report were requested from the following ministries: Ministry of Education and Culture, Ministry of Economic Affairs and Employment, Prime Minister's Office and the Ministry of Finance. Comments were only received from the Ministry of Education and Culture. The comment and the summary based on it can be viewed on the website of the National Audit Office.

Audit questions, criteria, material and methods

The audit provides answers to the following questions:

1. What are the characteristics of a good investment environment?
2. What are the strengths, weaknesses, threats and opportunities of Finland's investment environment in relation to the other reference countries (Sweden, Denmark and the Netherlands)?
3. How could Finland improve its investment environment?
4. How could Finland attract more foreign investments?

Table 11: The interviews made for the audit and their background groups

	Finland	Sweden	Denmark	Netherlands	Total
Authority / public organisation	10	7	5	3	25
Company	15	-	1	-	16
Business organisation	4	2	-	-	6
Other expert	4	-	-	2	6
Total	33	9	6	5	53

Representatives of the following authorities and public organisations were interviewed for the audit in Finland: Finpro Oy, Helsinki Business Hub Oy, Tekes – the Finnish Funding Agency for Innovation, Invest in Finland, Sitra, Ministry of Social Affairs and Health, Ministry of Economic Affairs and Employment and the Prime Minister’s Office. In Sweden, Denmark and the Netherlands, representatives of the ministries of economic affairs and employment, national and municipal invest in actors, audit agencies and other authorities were interviewed.

The companies whose representatives were interviewed for the audit were from the following four sectors: mining, pharmaceutical industry, ICT sector and retail trade. The interviews conducted with the business executives were extensively used in the audit “Encouraging business investments - Views of four sectors” (audit report 4/2017), which is published simultaneously with this report.

Results of two workshops were also used in the audit. The workshops were held in April and September 2016. A total of about 50 experts took part in the workshops and they included both business executives and government officials. The authors presented their preliminary conclusions at the workshops and collected views of the participants. The workshops also produced new ideas and perspectives.

In the international comparative perspective, the aim is to produce a better understanding of the Finnish investment environment as a whole and identify good practices and approaches in other countries from which Finland could learn. Finland, Sweden, Denmark and the Netherlands were selected as the reference countries because they are very similar, economically, culturally and socially.

Knowledge formation in the audit has been mostly material-based, which means that the material has determined the content of the audit. This means that, because of the interviews conducted outside Finland, the role of cultural and other intangible factors in business investments is also highlighted.

The audit material was analysed as follows: The interview notes were read through carefully several times, interpretations were made on the basis of the interviewees’ answers, links between the statements were sought and the observations were grouped under different headings. Consideration was given to matters that were frequently repeated but at the same time, individual observations may have been considered important in accordance with the qualitative audit approach. Source criticism was applied in the interview analysis, which means that the impacts of the interviewees’ aims and interests on their answers were assessed.

For the audit, the National Audit Office also commissioned a background survey by the consulting firm Ramboll in which the following factors are evaluated: role of business investments in the national economy, different sectors of the investment environment in the reference countries and the process of attracting foreign investments²⁶.

The following parties were consulted in audit design issues during the planning of the audit: Ministry of Economic Affairs and Employment, Prime Minister’s Office and the Ministry of Finance.

Audit process

The audit was carried out between 29 October 2015 and 3 April 2017. The audit interviews were conducted between 5 March 2015 and 10 November 2016. The auditors mainly used statistics and literature published by 31 December 2016 as source material. This means that most of the statistics cover the year 2015.

Auditors

The audit was carried out by Principal Performance Auditor Auri Pakarinen and Principal Performance Auditor Vesa Koivunen. The audit was directed by Director for Performance Audit Leena Juvonen. Esa Tammelin, Deputy Auditor General, was responsible for the quality assurance of the audit report.

- 1 This is the conclusion made in the memorandum commissioned by the Ministry of Finance, see Bengt Holmström, Sixten Korkman and Vesa Vihriälä 2016: Talouspolitiikan suunta [Direction of the economic policy].
- 2 In 2014, Finland's public sector was the largest in the EU in relation to GDP. In Finland the figure was 58.1%, in Denmark 56%, in Sweden 51.8% and in the Netherlands 46.2% (see Eurostat 2016: General government expenditure in the EU). Finland, Sweden and Denmark also take the top places when the size of the public sector in the OECD countries is compared, see OECD 2015: Government at glance, p. 71.
- 3 A similar development-oriented perspective is gaining ground in the audit of central government finances and it is used in parallel with the traditional attestation engagement, see OECD 2016: Supreme audit institutions and good governance - Oversight, insight and foresight.
- 4 Of business investment trends in Finland and the role of investments in the national economy, see Jyrki Ali-Yrkkö, Tero Kuusi and Mika Maliranta 2017: Why have business investments decreased? (in Finnish, with English abstract); Juhana Hukkinen, Lauri Kajanoja, Eero Kerola, Petri Mänty-Fränti and Pertti Pykkänen 2015: Mistä investointien vaikeus johtuu? [Why are investment at low level?]; Hannu Piekola 2015: Talouden kasvun veturit - investoinnit osaamiseen ja aineettomat investoinnit [Engines for economic growth - investing in competence and intangible investments]; Jorma Eloranta 2012: Investments in Finland - proposal for a strategy and action programme for making Finland more attractive as an investment location (in Finnish, with English abstract); Ville Kaitila and Pekka Ylä-Anttila 2012: Investoinnit Suomessa - kehitys ja kansainvälinen vertailu [Investments in Finland - trends and international comparisons]. The Confederation of Finnish Industries also publishes a twice-yearly investment survey made among companies.
- 5 The view that central government should give priority to improving the business environment as a whole over specific measures is in line with the views expressed elsewhere, see Ministry of Finance 2015: Key challenges to Finland's economic policy 2015-2019 (in Finnish, with English abstract); Jyrki Ali-Yrkkö and Petri Rouvinen 2015: Mitä arvoverkostojen globalisoituminen merkitsee politiikalle? [How will policies be affected by the globalisation of value networks?]; Pekka Sinko 2015: Investoinnit vauhtiin - vaikka väkisin [Boosting investments - even with force]. Talouspolitiikka [Economic policy] series of articles published by the Economic Council.
- 6 World Bank 2014: Gross domestic product per employee: World average was 32,000 dollars. The figure for Finland was 82,000, for Sweden 88,000, for Denmark 87,000 and for the Netherlands 85,000 dollars.
- 7 Jorma Eloranta 2012: Investments in Finland - proposal for an investment strategy and action plan for making Finland more attractive for business investments.
- 8 Of intangible investments, see Jyrki Ali-Yrkkö and Mika Pajarinen 2015: Aineettomien investointien rooli taloudessa [Economic role of intangible investments]. In: Ministry of Economic Affairs and Employment: Aineeton arvo - Talouden uusi menestystekijä [Intangible value - a new economic success factor]; Ville Kaitila and Pekka Ylä-Anttila 2012: Investoinnit Suomessa - kehitys ja kansainvälinen vertailu [Investments in Finland - Trends and international comparisons].
- 9 OECD 2016: PISA 2015 results - excellence and equity in education.
- 10 Tax Foundation 2015: International tax competitiveness index.
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- 13 Prime Minister's Office 2015: EU-sääntelyn toimivuuden kartoitus - Havaintoja ongelmista kansallisella tasolla [Survey of the functioning of EU regulation - observations of problems at national level]. Memorandum.
- 14 Eurostat statistics "First instance decisions on asylum applications by type of decision - annual aggregated data", all favourable decisions in 2015.
- 15 Vihriälä, Vesa 2017: Talouspolitiikan suunta ja painotukset [Direction and priorities in economic policy]. In: Research Institute of the Finnish Economy 2017: Muistioita hallitukselle - talouspolitiikan linjaukset keuhällä 2017 [Memoranda to the Government - economic policy issues in in spring 2017].
- 16 Of the problem of public product development grants going abroad, see Jyrki Ali-Yrkkö and Petri Rouvinen 2015: Mitä arvoverkostojen globalisoituminen merkitsee politiikalle? [Impacts of globalised value networks on policies]
- 17 Bengt Holmström, Sixten Korkman and Vesa Vihriälä 2016: Talouspolitiikan suunta [Direction of the economic policy].
- 18 Examples from different sectors in which regulation has prevented reforms in business operations are detailed in a report produced by the Finnish Competition Authority, see Ari Ahonen (ed.) 2011: Viisas sääntely - toimivat markkinat [Wise regulation - workable markets].
- 19 Ministry of Economic Affairs and Employment 2016: Yhteistyötä ja työnjakoa - Terveysalan tutkimus- ja innovaatiotoiminnan kasvustrategia, tielkartta 2016-2018; työ- ja elinkeinoministeriö 2014: Terveysalan tutkimus- ja innovaatiotoiminnan kasvustrategia [Cooperation and division of labour - growth strategy for health care research and innovation , roadmap 2016 - 2018; Ministry of Economic Affairs and Employment 2014: Growth strategy for health care research and innovation].
- 20 According to Deloitte, each euro spent on advertising in Finland would increase the gross domestic product by 6.5 euros, Deloitte 2017: The economic contribution of advertising in Europe.
- 21 Postnord 2016: E-Commerce in the Nordics, p. 38.

- 22 Finnish Commerce Federation 2015: Vähittäiskauppa verkossa 2014 - kuluttajien ostokset ulkomailta [Retail trade online 2014 - consumer purchases from other countries].
- 23 Finnish Commerce Federation 2015: Finnish e-commerce 2014 - Facts about the statistics and the value of online purchases in 2014.
- 24 Stockholm Business Alliance 2015: Servicemätning - en undersökning av kommunernas myndighetsutövning i Stockholmsregionen.
- 25 Ministry of Employment and the Economy 2016: Team Finland -toiminnan vaikuttavuuden ja tehokkuuden kehittäminen.[Improving Team Finland's effectiveness and efficiency]
- 26 Ramboll 2016: Selvitys yritysten investointiympäristöstä ja investointien edistämisestä. [Report on investment environment and encouraging investments].

Photos

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