

FINNISH VERSION



ASHOKA EVERYONE A CHANGEMAKER™

LEGAL GUIDE

An Invaluable
Resource Designed
to **Empower Social
Entrepreneurs**

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INTRODUCTION

Social entrepreneurs are driven by a unique goal: creating positive, lasting change in society. Yet, the journey to making an impact comes with specific challenges that differ from traditional entrepreneurship. This legal guide is designed to support social entrepreneurs and changemakers in Denmark, Finland, and Sweden as they navigate the complex legal landscape of building impactful ventures.

The guide is divided into three country-specific documents, each addressing the unique legal contexts of Denmark, Finland, and Sweden. While tailored to each jurisdiction, the guide covers the shared challenges across all three countries, including organizational structures, financing, agreements, intellectual property, and employment law.

Drawing on insights from experienced social entrepreneurs and Ashoka Fellows, the guide also provides practical advice on legal considerations that can arise in different situations. This includes options for structuring social ventures, innovative financing strategies, managing agreements, managing intellectual property, and hiring employees in ways that align with the organization's mission.

By combining legal knowledge with hands-on experience, this guide aims to help social entrepreneurs build ventures that are legally sound and impactful.

The Guide is a collaboration between Ashoka Nordic, and our legal partners; Krogerus, Kromann Reumert, and Vinge.

WHAT IS ASHOKA?



Ashoka was founded in 1980 on the idea that the most powerful force for good is a social entrepreneur whose system-changing innovations solve deep-rooted social problems. Ashoka has pioneered the field of social entrepreneurship by coining the term “social entrepreneur” and finding these leading innovators across the world. We call them Ashoka Fellows. Ashoka has a proven track record of supporting these Social Entrepreneurs; ‘The Ashoka bump’ is a term to illustrate that **revenues of Ashoka Fellows develop 2.5 times higher** than those of peers after they have been elected Ashoka Fellows. Ashoka is regularly ranked as **one of the top seven most innovative and impactful organizations in the world, transforming the lives of more than 650 million people every year.**

The [Ashoka Fellowship](#) comprises **4,000 Fellows spanning 97 countries, with 27 located in the Nordics**, making it the largest network of social entrepreneurs in the world. Notable fellows include *Jimmy Wales*, the creator and builder of Wikipedia, and *Muhammad Yunus*, the founder of the Grameen Bank, and recipient of the 2006 Nobel Peace Prize for his leadership in microcredit.

Our ability to support Ashoka Fellows and Changemakers in their impact is enabled by partners that help Fellows with funding, strategy or, in this case legal advice, making it a privilege to collaborate with these leading Nordic law firms.

WHAT IS KROGERUS?



Krogerus is one of the leading business law firms in Finland, advising Finnish and international clients in a broad spectrum of transactional, dispute resolution and regulatory matters. The firm is particularly apt at issues that pertain to the energy, finance, mergers and acquisitions, food and beverage, healthcare, real estate, data, technology, and communications sectors. Krogerus is regularly retained in some of the most challenging and high-profile assignments in the market. We have 300 experts and offices in Helsinki, Turku, and Kuopio.

The Krogerus recipe for success stems from our agile ways of working. Being a hundred years younger than many of our competitors gives us a fresh perspective. We want to challenge conventions and rethink business law to better suit modern business requirements. Whatever your situation, need or issue might be, we're here to find the best solution for you. Our answers come in a simple and practical package, and we pride ourselves on our contemporary and straightforward approach to law. We offer a broad range of legal services across the corporate spectrum. Our skills have been tried and tested and we have a proven track record of providing our clients with sophisticated advice. Whether you are looking for help with a complex domestic issue or a demanding international transaction, we are committed to finding the right answers.

PRACTICAL CONSIDERATIONS FOR SOCIAL ENTREPRENEURS

As part of developing this legal guide, we have had the help of an advisory board of Ashoka Fellows. Many insights have arisen as part of the work with the advisory board that is not necessarily legal but more hands-on considerations for Social Entrepreneurs. To keep these separate from the legal questions some of these are captured below. They follow the same order as the legal guide.

The guide starts by addressing a key issue recognized early on; the lack of existing organizational structures that fully align with your objectives. We often have one for-profit part that sells services or products and one non-profit part that might be eligible for grants and donations. In the US, but also in other European countries, new forms start to emerge like B-corps. However, in the Nordics appropriate structures do not yet exist. Instead, we often opt for a limited company owned by a foundation or association. You can find more details about this in Part 1.

Another issue that has emerged is financing, covered in Part 2. Many of our Ashoka Fellows have found that banks are often hesitant to accept them as clients, let alone offer loans, as they frequently struggle to understand the business model. Therefore, it is essential to adopt a more innovative approach when considering financing for the social venture. As this guide is mainly focused on legal issues it does not go into the depth of financing. For more hands-on advice on financing please visit [Ashoka's free course on Changemaker Financing](#) or consult this [finance guide from Coompanion](#).

Similarly, when it comes to insurance, discussed in Part 3, social entrepreneurs may face challenges securing coverage because insurance companies might not fully understand the business risks involved. A potential solution is to obtain insurance through membership in an interest organization.

Agreements are fundamental to running any business, and having a solid understanding of them is crucial for all entrepreneurs. In my previous career as a lawyer, I gained valuable experience in this area. While it is an uncommon background for a social entrepreneur, I have found it to be incredibly useful given the numerous agreements one navigates in this field.

Several aspects of this were discussed during our advisory board meetings. One key point was that, even if you are idealistic, you may encounter people who are not. Therefore, it is crucial to document your agreements in writing before you begin, while both parties are still enthusiastic about working together.

Another aspect is that, as social entrepreneurs, we are almost always the smaller party. This is partly because we lack the infrastructure and conditions to scale that for-profit entrepreneurs have. Additionally, we usually prioritize creating impact beyond our organization rather than focusing solely on growing our own organization at any cost.

Therefore, we usually prefer to keep our agreements shorter than our counterparts who might have legal departments. Additionally, our counterparts might prefer to settle disputes through arbitration rather than in court. Since arbitration can be too expensive for a small organization, it is important to be cautious of this in contracts. This, along with many other aspects of agreements, is discussed in Part 4.



Another key question we identified in the initial stages of the guide was around **intellectual property**, particularly in relation to international expansion. If you are successful in your efforts, it is more likely than not that others will copy your solution without compensating you or even giving you credit. For reference over 90% of Ashoka Fellows have seen their solution replicated by others. This is a true sign of success, as it creates greater impact, and is to be celebrated! Therefore, it is important to consider this when designing your business model to ensure it is not overly dependent on income from licensing. The advisory board agreed it is important to choose your battles. Protecting your trademark is important, but battling imitators is often counterproductive. Instead, consider collaborating with them and turning them into allies, so that you can create a larger system change impact together. Ashoka's course on [Leading Multi-Stakeholder Collaborations](#) can be a great resource in this endeavor.

If you want to maintain control of your concept, it is worth considering licensing your idea to a trusted party in another country. Practical advice on how to do this can be found in [Ashoka's Replication & Transfer course](#). The legal considerations around intellectual property is discussed in Part 5 and ways to expand your business are explored in Part 6.

One thing to keep in mind when speaking about both organizational structures and intellectual property is how to make your social entrepreneurship venture financially sustainable for you as a social entrepreneur. As social entrepreneurs, we are driven more by the desire to create meaningful change than by the pursuit of profit. However, we must also make a living. Like all entrepreneurs, the first few years are often financially challenging, and it may take some time before we can afford to pay ourselves a salary. For-profit entrepreneurs are financially rewarded for this if they are successful but social entrepreneurs are often not. This becomes especially important if you are a serial social entrepreneur. In our advisory board meeting, we discussed how to approach this. One idea was to own the concept, software, or similar assets as an individual and license them to an association or foundation that handles the operations. This way, part of the value flows back to you as the founder and could help finance future ventures.

The final sections of the guide are around **employment** and **data protection**. From a legal perspective these are the same for social entrepreneurs as traditional entrepreneurs. However, because it is two of the most crucial aspects to get right, we have included sections on it.

One experience shared in the advisory board was that employees of social entrepreneurs, particularly in the early stages when compensation is often low, tend to be highly engaged. However, it can show after some time that they are engaged for different reasons than you, which might cause deeper conflicts than in for-profit organizations where people might not be as engaged. Employment law is discussed in more detail in Part 7 and data protection in part 8.

These insights are just the tip of the iceberg, reflecting the wealth of experience the advisory board has gained over decades as social entrepreneurs. There's much more that could be shared, but as this is a legal guide, we now turn the stage over to the lawyers to share their expertise. Enjoy!

Michael Wernstedt, Ashoka Nordic

Stockholm, December 2024





1. CHOOSE BUSINESS TYPE

When you start a business in Finland, it's important to know which business type to choose and why. Below, you find an overview of the different business types available in Finland. These types are regulated differently, with varying requirements on for example registration, starting capital and liability. In most cases, no operating licenses are required to do business in Finland. However, exceptions exist for certain sectors such as insurance, banking, and financial services.

It is not uncommon to combine different types of businesses in Finland. This can for example be done by setting up a foundation or a non-profit organisation that owns a limited company. This setup can be beneficial to leverage the unique characteristics and benefits of each entity type, providing a robust framework for both operational flexibility and mission alignment, as well as utilising the specific tax benefits of each entity.

1.1 Limited company (Fi: osakeyhtiö or Oy)

1.1.1 Why should I choose to start a limited company?

A limited company has its own rights and responsibilities. This entails that your liability as a shareholder is limited to the capital invested in the company (such as the starting capital or invested shareholder contribution). The company's finances and the shareholders' private finances are thus separated. Since a limited company is owned through shares, it offers flexibility as regards to ownership, expansion and potential investments.

However, compared to being a sole trader, managing a limited company involves more administrative tasks. For example, you must file an annual report with the Trade Register (Fi: Kaupparekisteri) of the Finnish Patent and Registration office ("PRH") (Fi: Patentti- ja rekisterihallitus) each year. Additionally, closing down a limited company requires significant effort and can be very time-consuming, as it must be either sold or liquidated.

1.1.2 What is a limited company?

A limited company is a legal entity owned by its shareholder or shareholders. This is the most common form of legal entity used for business purposes in Finland. In a limited company, the shareholders are generally not personally liable for the company's obligations. This means that a limited company is a separate legal entity with its own rights and responsibilities, which limits the shareholder's liability for the company's obligations.

Limited companies can be either private or public. Only public companies may issue shares or other securities to the public and have their shares listed on a stock exchange or a similar regulated marketplace. Additionally, there are specific rules that must be followed when conducting business in a public limited company.

In a limited company, the general meeting is the highest decision-making body. Generally, all shareholders have the right to attend and vote at this meeting. One of the primary responsibilities of the general meeting is to elect the company's board of directors, which manages and supervises the activities of the business.

A private limited company must have at least two individuals registered in the company (at least one board member and one deputy board member) and in a public limited company, at least three individuals must be registered as board members. Additionally, a managing director / CEO (Fi: toimitusjohtaja) may be appointed by the board of directors. The CEO is accountable to the board of directors, which in turn is accountable to the general meeting.

Limited companies in Finland are subject to corporate income tax on their income at the rate of 20 %. The tax basis is the annual accounts, adjusted for items that aren't taxable or tax deductible under Finnish tax legislation.

Limited companies are primarily regulated by the Limited Liability Companies Act (Fi: osakeyhtiölaki).

1.1.3 To start a limited company

A limited company can be founded and owned by one or more individuals or legal entities, with no residency requirements for the founders. You can establish a limited company on your own and be the sole shareholder. To form a limited company, you must generally be no younger than 18 years old, not be declared bankrupt, not be prohibited from carrying out business or have a custodian. However, also a minor – a person who is under 18 years of age – can found a limited liability company in certain situations.

When you decide to start a limited company, the first thing you must do is to draw up and issue a document referred to as the memorandum of association (Fi: perustamissopimus). This document outlines various details pertaining to the limited company, including share pricing, board member information and a preliminary version of the articles of association (Fi: yhtiöjärjestys), which outline essential aspects such as the company name and its intended activities.

As a founder, you may buy shares in the company. Those who acquire (subscribe to) shares in the company, are listed as subscribers in the memorandum of association. All the subscribers sign the memorandum and state the number of shares they acquire. However, there is no requirement that all founders subscribe to shares in the company.

There is no minimum capital requirement for a private limited company, meaning that shares in the company may be subscribed without making any payment to the company. If, however, a subscription price (Fi: merkintähinta) has been determined, verification of the payment must be acquired and submitted to the Trade Register, either through a receipt from your bank or a statement from an auditor. When starting a public limited company, the starting capital must be at least EUR 80,000.



Lastly, you need to apply for registration and pay a handling fee to the Trade Register. The application must be submitted not later than three months after the drawing up of the memorandum of association.

Upon the Trade Register's registration approval, the company is assigned a business identity code (Fi: y-tunnus) for identification purposes. Following registration, which takes some weeks, the Trade Register will provide you with a notice of registration and a Trade Register extract (Fi: kaupparekisteriote), evidencing the company's legal entity status. Please be aware that, after registration of your new limited company, you must register beneficial ownership information with the Trade Register.

Another alternative to start a business by establishing a new limited company is to acquire a pre-existing so-called shelf company (Fi: pöytälaatikkoyhtiö). A shelf company is a pre-registered limited company that remains inactive until purchased, allowing buyers to bypass the process of setting up a new company from scratch.

1.1.4 Why should I choose to run my business as a sole trader?

As a sole trader, you are self-employed, and the administrative and accounting tasks are relatively simple. Establishing this business structure is the simplest option if you possess a Finnish personal identity number.

To run your business as a sole trader, no starting capital is required. Once you've paid income tax to the Finnish Tax Agency, all profits belong to you. However, it's important to note that because you're personally liable for the business, you may need to use your personal assets to settle any business debts if the business encounters difficulties.

1.1.5 What is a sole trader?

A sole trader is an individual who independently runs a business. As a sole trader, you make all the decisions regarding your business, and you alone have the authority to sign on behalf of the business. You also have the option to hire employees to assist in running the business. Acting as a sole trader is a common form of enterprise in Finland and is suitable for smaller businesses.

A sole trader is not a separate legal entity from the person running the business activities. However, your business as a sole trader will have a business identity code.

You bear personal liability for the company's financial matters, including upholding contracts, settling debts, and managing income tax obligations.

A sole trader (individual) is taxed on the taxable net profits of the business income at progressive tax rates, with part of the profits taxed as personal income (Fi: *ansiotulo*) and part as capital gains (Fi: *pääomatulo*). A sole trader pays social security contributions which are paid based on their confirmed annual income.



Sole traders aren't governed by a specific regulation; rather, they are subject to various laws that regulate their activities.

1.1.6 To start running your business as a sole trader

To establish a sole trader, you must register the business with the Finnish Tax Agency (Fi: Verohallinto). This includes registering your company for the Prepayment register, VAT register and, if you wish to hire employees, registering as an employer. There is no requirement to have a starting capital when registering as a sole trader.

Registering as a sole trader also with the Trade Register is typically voluntary, but there are exceptions. For instance, registration with the Trade Register becomes necessary if the trader is required to submit financial statements for registration under the Accounting Act or if the trader has a permanent residence outside the European Economic Area, in which case you need a permit from the Trade Register to operate in Finland. It can be noted that registration with the Trade Register gives protection to the name of the sole trader, why voluntary registration may be considered.

To register as a sole trader, you must be at least 18 years old (or 15 with the permission of your legal guardian) and have a Finnish personal identity number. Additionally, you must not be declared bankrupt, be prohibited from carrying on business or have a custodian.

Before registration, the Trade Register will review various aspects, including the proposed business name of the sole trader. Their processing time typically takes a few weeks. Upon successful registration, the Trade Register will provide you with a certificate of registration.



1.2 Foundation (Fi: säätiö)

1.2.1 Why should I choose to start a foundation?

The key characteristic of a foundation is the management of assets without any ownership for a specific and generally unchangeable, beneficial (Fi: hyödyllinen) purpose. This unique set-up, together with favourable tax regulations, makes foundations especially suitable for some specific purposes, such as charitable, educational, scientific, cultural, or other socially beneficial activities.

A foundation may, under certain conditions, be classed as socially beneficial (Fi: yleishyödyllinen). A socially beneficial foundation is subject to specific regulations which limit the scope of tax liability.

Further, since the specific purpose of the foundation is generally unchangeable, a third party can rely on the fact that the purpose of the foundation isn't likely to change. Therefore, the entity is well suited to act as a vehicle for the collection of charity from third parties.

1.2.1 What is a foundation?

A foundation is established to manage and allocate assets for a specific and generally unchangeable, beneficial purpose. Unlike other business types, foundations don't have owners or shareholders. A foundation has its own rights and responsibilities and the founders of the foundation aren't liable for the obligations of the foundation. Since a foundation doesn't have any owners, the board of directors is the supreme decision-making body of the entity.

A foundation is often the best suited entity for charitable or socially beneficial purposes.

A foundation is as a starting point taxed in the same way as a limited company in Finland, at the corporate income tax rate of 20%. A foundation may, however, be tax exempt (wholly or partly) on certain conditions, if it carries out certain non-profit/charitable activities as stated in the Finnish tax legislation. Such activities include for example sport, culture, environmental care, care of children or young people, education and scientific research.

Foundations are primarily regulated by the Foundations Act (Fi: *säätiölaki*).

1.2.3 To start a foundation

The creation of a foundation requires the existence of an initial capital of at least EUR 50,000 and a written deed of foundation (Fi: *perustamiskirja*) signed by the founders (in addition, provisions on the founding of a foundation may be contained in the will (Fi: *testamentti*) of a person)). The initial capital may be formed by different assets, for example, money, real estate or shares. In addition, the foundation must have an operating plan, a budget and a financial plan for its first three years. The name of a foundation must always include the word "registered foundation" (Fi: "*rekisteröity säätiö*") or an abbreviation thereof ("sr").



The foundation must be registered in the Finnish Register of Foundations within three months of the signing of the instrument of incorporation or the foundation will lapse (or, if the provisions on the founding of the foundation are contained a will, within three months from when the will has become final (Fi: lainvoimainen)). The registration process usually takes some weeks. Following the registration process, the foundation will receive a certificate of registration along with a business identity code to be used as an identifier when communicating with authorities and others.

Foundations are primarily regulated by the Foundations Act (Fi: säätiölaki). Foundations are subject to supervision by the Finnish Patent and Registration Office, which among other things reviews the annual reports of foundations to observe that the capital of each foundation is used for the purposes specified in the respective deed of foundation.



1.3 Non-profit association (Fi: aatteellinen yhdistys)

1.3.1 Why should I choose to start a non-profit association?

Non-profit associations are suited as a vessel for charitable or idea driven causes that focus on social, cultural or other charitable purposes (often as an alternative to a foundation).

Associations are governed by the Associations Act (Fi: yhdistyslaki).

1.3.2 What is a non-profit association?

A non-profit association is an organisation established to pursue a non-profit purpose, often related to social, cultural or recreational activities. Non-profit associations don't distribute profits to their members; instead, any surplus is reinvested into the association's activities to further its goals.

In a non-profit association, the members are generally not personally liable for the non-profit association's obligations. After its registration, a non-profit association is a separate legal entity with its own rights and responsibilities, which limits the members' liability for the non-profit association's obligations.

A non-profit association is tax exempt (wholly or partly) on certain conditions if it carries out non-profit/charitable activities, see above as to a foundation.

Although there are no regulations regarding non-profit associations they are typically operated on a democratic basis with the general meeting of members as the supreme decision-making body, and generally a board of directors is appointed.

1.3.3 To start a non-profit organisation

To start a non-profit association, you need to gather at least three founding members, draw up a charter on the founding of the association including the rules of the association and hold an inaugural meeting to approve the rules and elect the board of directors. The statutes need to define the purpose of the association, outline its name, objectives, governance and member obligations.

A registration notification must then be filed with the Finnish register of associations kept by the Patent and Registration Office. There is no requirement to have a starting capital when registering a non-profit association.

It's optional to register the association with the Finnish Tax Authority. Registration is needed, if the association will conduct taxable activities, such as make sales subject to VAT or employ employees.



1.4 Branch (Fi: sivuliike)

1.4.1 Why should I choose to start a branch?

A branch remains under the control and liability of the foreign-based company, allowing for centralised management and consistent business practices across locations.

Branches can leverage the resources, reputation and support of the foreign-based company, leading to cost savings and operational efficiencies. For instance, branches can capitalise on the foreign-based company's pre-existing systems, procedures and supply chains, mitigating the necessity for substantial new investments. Additionally, establishing a branch can be more economical than founding a new subsidiary or independent entity, as it incurs fewer legal and administrative expenses.

1.4.2 What is a branch?

Business activities conducted by foreign-based companies or individuals in Finland are usually conducted through a Finnish subsidiary (meaning that a foreign-based company owns shares in a Finnish limited company) or by opening a branch. A branch is a foreign company's local office in Finland with its own administration. However, a branch is not in itself a legal entity meaning you don't set up a limited company by registering a branch. This sets a branch apart from a subsidiary, which is a legal entity on its own.

Foreign-based companies that do not have subsidiaries may be obliged to form a branch. Various factors such as the purpose, duration and scope of the business activity determine whether such an obligation is at hand.

A branch has no independent capital and its assets and liabilities are part of the foreign-based company's total assets. A branch held by a foreign-based company is taxed in the same way as a limited company for business conducted in Finland.

1.4.3 To start a Branch

If you intend to establish a branch in Finland, you must register it with the Trade Register. Along with your application, you need to submit certain documents, such as a certificate of registration for the foreign-based company. The registration form must be signed by the representative of the branch, or the person entitled to sign the company name of the branch, or by someone authorised by that person.

Upon registration with the Trade Register, the branch is issued a Finnish business identity code and a certificate of registration in Finnish, even though the branch is not in itself a legal entity. You can initiate your business activities once you've applied for branch registration and paid the registration fee to the Trade Register. The Trade Register's processing time is a few weeks.



Please note that registration with the Trade Register isn't required for companies registered within the European Economic Area (EEA) if they are temporarily conducting business in Finland and are delivering services according to the Services Directive¹. Also note that if the trader is from a country outside the EEA, it will also need a permit from the Trade Register for the establishment of the branch.

If you choose to operate in Finland by establishing a branch, there are requirements to be met for both the branch and the foreign-based company connected to it. For instance, the branch is obligated to maintain accounting records separated from those of the foreign-based company. The branch must submit an annual report for the foreign-based company and, in certain instances, for the branch itself.

1.5 VAT

VAT is charged on the supply of goods and services in Finland in the course of business. The general rate is 25.5%. Some goods or services are exempt from VAT (such as health services and some educational services) or taxed at a lower rate (such as food and books).

Generally, and applicable for all of the aforementioned business types, you may deduct input VAT for purchases and imports that you carry out as part of your business and which are subject to VAT. Consequently, you may not deduct VAT on private purchases (even if they are made using your company's money), and you do not usually have the right to deduct VAT unless you charge VAT when you sell goods or services (meaning that if you sell goods or services that are exempt from VAT, you cannot deduct VAT when you buy goods or services). If you buy something that is to be used in activities both liable to VAT and exempt from VAT, you may however make a deduction that corresponds to use in the activity liable to VAT.

If your company's revenue remains below EUR 15 000, it does not have to register for the VAT Register and collect VAT from its customers. From the beginning of 2025, this revenue limit will be EUR 20 000.



	Limited company	Sole trader	Foundation	Non-profit association	Branch
Name	Osakeyhtiö (oy)	Yksityinen elinkeinonharjoittaja	Säätiö (sr)	Aatteellinen yhdistys	Sivuliike
Legal entity	Yes	No	Yes	Yes	No
Number of owners	One or more individuals or enterprises	Only one person	No owners	Three or more individuals or enterprises can be members. However, no owners	Foreign enterprise
Owner liability	The company has its own rights and responsibilities, which limits the shareholder's liability for the company's obligations	The owner bears personal liability for the company's financial matters, including upholding contracts, settling debts and managing income tax obligations	The foundation has its own rights and responsibilities. The founders have no liability for the foundation's obligations	The association is liable for its own debts, which limits the members liability	The branch is part of the foreign enterprise owning the branch, therefore the foreign enterprise is liable towards the branch
Capital requirement	No requirement for a private company; at least EUR 80,000 for a public company	No	EUR 50,000	No	No
Registration	Trade Register of the Patent and Registration Office	Tax Administration, and optionally the Trade Register of the Patent and Registration Office	Foundations Register of the Patent and Registration Office	Associations Register of the Patent and Registration Office	Trade Register of the Patent and Registration Office
Taxation	The company is taxed on its income (corporate income tax).	A sole trader (individual) is taxed on the taxable net profits of the business income at progressive tax rates, with part of the profits taxed as personal income (Fi: ansiotulo) and part as capital gains (Fi: pääomatulo). A sole trader pays social security contributions which are paid based on their confirmed annual income.	A foundation is as a starting point taxed in the same way as a limited company in Finland. A foundation may, however, be tax exempt (wholly or partly) on certain conditions, if it carries out certain non-profit/charitable activities as stated in the Finnish tax legislation.	The association is taxed in the same way as a foundation.	A branch is taxed in the same way as a limited company.

2. FINANCING



2.1 Forms of financing

Financing is a critical step in the journey of any business, and the same applies to startup social enterprises. Financing a social enterprise can be approached from various angles, each with its own set of advantages and challenges. If you cannot finance the business with your own money, you will need to turn to a financier. The forms and conditions of financing vary but can generally be divided into either debt financing or equity financing. It's also possible to obtain financing via grants or loans from public authorities. These forms of financing can be used independently or in combination to create a balanced financial strategy.

2.2 Debt financing

2.2.1 Bank loan

Debt financing involves borrowing money that must be repaid over time, typically with interest. It's a popular choice for entrepreneurs who wish to retain full ownership of their enterprise. Bank loans are a traditional source of debt financing. Banks and other credit institutions offer various loan products suitable for different business needs, such as term loans, lines of credit and equipment financing. The primary advantage of bank loans is the retention of equity, meaning that you still are in control of your business. Additionally, interest payments are often tax-deductible.

2.3 Equity financing

2.3.1 Venture capital

Equity financing involves exchanging a portion of ownership in the enterprise for capital. This can be an attractive option for startups that need significant capital and can benefit from the expertise of investors. However, this entails that you give up a portion of the business and potentially some control over the decision making.

There are numerous social impact venture capital firms that seek to generate social benefits as well as financial returns through its investments. Venture capital firms provide funding to startups with high growth potential in exchange for equity. They also bring valuable resources such as management expertise and industry connections. Access to large amounts of capital and strategic support can significantly accelerate growth. There is no obligation to repay the funds if the enterprise fails. It should be kept in mind that venture capital firms typically seek to maximise its return on investment and that it therefore is important to ensure that the venture capital firm's intentions and goals with the investment are aligned with what your business wants to achieve.

2.3.2 Angel investors

Angel investors are affluent individuals or friends and family who provide capital for startups, often in the early stages, in exchange for ownership equity or convertible debt. Angel investors may be able to offer more favourable terms than venture capitalists. Similarly to venture capital, angel investors usually want to maximise the return on investment. It is therefore important to ensure that the angel investor's intentions are aligned with what your business wants to achieve.

2.3.3 Crowdfunding

Crowdfunding allows startups to raise small amounts of money from a large number of people, typically via online platforms. It's a way to validate the business concept, engage with customers and raise funds without giving up equity or taking on debt. There are two main ways to apply for crowdfunding. In investment-based crowdfunding, a start-up company gives up a portion of its business in exchange for funding. In donation-based crowdfunding, the funder receives something in return for the amount invested such as a discount on the price of the finished product and priority right to buy it.

2.4 Government grants and incentives

There is a wide range of financial incentives available to assist both Finnish and foreign-owned companies to establish or expand their business in Finland. These incentives include grants, loans and credit guarantees. Since grants don't require repayment, it can be a great way to provide financial support without the business taking on debt or diluting ownership. The state-owned financing company Finnvera and innovation network Business Finland, as well as regional ELY Centres (Fi: ELY-keskukset), give out financial support for a wide range of businesses especially in their early stages. There are also several other sector-specific public authorities and other actors (such as private foundations) which can provide grants and incentives.



3. INSURANCES



A business insurance policy is a type of insurance package that consists of various types of coverage and can vary between different industries and insurance companies. Business insurance can include, among other things:

- Property Insurance, which can cover damages to the company's property.
- Liability Insurance, which can cover compensation claims if someone is injured by your products or services.
- Legal Protection Insurance, which can cover legal costs in case of a dispute.
- Interruption Insurance, which can provide compensation for lost income during operational downtime.

Ensure that you meet the conditions set by the business insurance policy. If you do not meet the minimum requirements, you risk having your compensation reduced or the deductible increased in the event of a claim.

For the senior executives of the company, for example the board of directors and the CEO, it is possible to buy a directors' and officers' liability insurance (also known as D&O insurance). A D&O insurance covers the senior executives against claims made against them as individuals (in their role as senior executives). Typically, D&O insurance can cover defence and litigation costs, as well as personal liability established by a court ruling.

You can obtain insurance policies directly from insurance companies. As the pricing and terms of the policies may differ between insurance providers, it is advisable to request and compare offers from several companies. To ensure that your business, directors and personnel have adequate insurance coverage, it is also possible to reach out to an insurance broker who can assist with finding the correct insurance for your needs.

There are also certain mandatory insurances that must be taken out by companies with employees. Additional information is provided under Section 7 (Employment). Sector-specific legislation may also specify additional mandatory insurance policies, concerning for example businesses whose activities include the risk of negative environmental impacts.

4. AGREEMENTS



4.1 The importance of entering into a written agreement

4.1.1 Freedom of contract

As an initial remark, it can generally be said that freedom of contract applies in Finland in a business-to-business ("B2B") relationship, and thus that two commercial parties are free to agree on the terms and conditions in a contract. It is, however, worth noting that the freedom of contract nevertheless has certain limitations since there are rules under Finnish law that may intervene with the main principle of freedom of contract, and a contract term may under certain specific circumstances be modified or set aside if it is considered to be unreasonable. In agreements concluded between companies and consumers ("B2C"), stricter rules apply in accordance with legislation concerning consumer protection (Fi: kuluttajansuoja). Mandatory rules concerning terms for certain types of agreements may also be included in sector-specific legislation.

4.1.2 How to conclude an agreement

Generally, under Finnish law, oral commercial agreements are binding in the same way as written commercial agreements. When interpreting the contents of an agreement governed by Finnish law, it's the intention of the parties that will prevail. Where agreements are oral, it's often unclear whether terms have been agreed or not. This implies an unclear contractual relationship between the parties, which may expose a company to, for example, changed terms and lack of contractual recourse in case of disputes. Lacking a written agreement, the parties' intention will be interpreted based on, for example, the way in which the business has previously been conducted between the parties and correspondence between the parties. Where no specific terms have been agreed, the agreement may be complemented by provisions set forth in contract law (for example relating to consequences for defects and delay in delivery).

Therefore, written agreements are indispensable in commercial relationships to ensure predictability, transparency and providing evidence of the parties' commitments.

4.1.3 Predictability and transparency

Predictability is a cornerstone of commercial activity, providing businesses the ability to forecast and plan for the future with a reasonable degree of certainty. Written agreements contribute significantly to this predictability by explicitly stating the terms of an agreement, including the scope of work, delivery timelines, payment schedules and other critical details. This allows businesses to allocate resources, manage cash flows and coordinate operations, knowing that the other party is obligated to adhere to the agreed-upon terms.

Written agreements also offer the opportunity to clarify complex terms and conditions that might be open to interpretation if not properly documented. The process of drafting a contract encourages the parties to consider and articulate various scenarios and how they should be handled. This level of detail and transparency helps to prevent disputes by addressing potential issues before they arise.

In the event of changes or adjustments to the agreement, written amendments can be made, which maintain the transparency and continuity of the original contract.

4.1.4 Evidence

Lastly, written agreements serve as tangible evidence of what the parties have agreed upon. In the event of a dispute, the written contract can be presented in the dispute resolution process as proof of the terms of the agreement. A well-drafted contract can help to avoid misunderstandings by providing a reference point for the parties' intentions and expectations at the time of the agreement, and thereby facilitating the dispute resolution.

4.2 Important provisions in a written agreement

Which provisions to be included in an agreement naturally differs depending on the type of contract and the agreement object. Depending on whether the agreement relates to a B2B or a business-to-consumer relationship, there are different requirements in Finnish law which must be taken into consideration. In relation to consumers, there are several mandatory legislations which must be regarded and reflected in the agreement, and there are higher requirements on an agreement being clear and easy to understand. Therefore, it's important to analyse the parties' relationship prior to drafting the agreement.

4.2.1 Contractual parties

It's crucial to clearly identify the legal entities involved. This includes the full legal names of the companies, their corporate addresses, and any other identifying information such as a company registration number. It's also important to specify the authorised representatives who are signing the agreement on behalf of these entities.

4.2.2 Agreement object

The agreement should contain a detailed description of the products or services being provided, distributed, licensed, sold or otherwise. This includes specifications, quantities, quality standards and any other relevant details that define what is being exchanged. For services, the scope of work should be outlined, along with any deliverables, timelines, and milestones.

4.2.3 Use of the agreement object

The agreement should contain a description on how the agreement object may be used. For example, if you conclude a reseller agreement, it should contain provisions on how the reseller may use your trademark and how the goods may be marketed. If you provide a platform, the agreement should contain provisions on how the platform may be used. If you want to distribute your concept, the agreement should contain provisions on how your trademark and concept may be used.



4.2.4 Price and payment

The agreement should detail the pricing structure, including the total price, payment schedule and terms. It should also specify acceptable payment methods, any interest on late payments and conditions for price changes, such as adjustments for inflation or changes in the scope of work.

4.2.5 Division of responsibilities and risks

The agreement should outline the responsibilities of each party, including who is responsible for what aspects of the delivery, implementation or execution of the services or products. It should also address risk allocation, such as who bears the risk of loss or damage at various stages.

4.2.6 Consequences of breach/liability

The agreement should outline the consequences of a breach of contract, including any remedies or penalties. It should also define the liability of each party, including limitations on liability and any indemnification provisions.

4.2.7 Agreement term and termination

The term of the agreement specifies its duration, including any conditions for renewal/prolongation. The termination clause should outline how either party can terminate the agreement, under what circumstances, and what obligations remain upon termination (such as confidentiality or payment terms).

4.2.8 Dispute resolution

Disputes may arise in the contractual relationship, for example if one party doesn't pay in accordance with the agreement or doesn't deliver in accordance with the agreement. The agreement should specify the process for resolving disputes, including which country's law should govern the agreement, whether arbitration or litigation will be used as dispute resolution mechanism, and the location or jurisdiction where disputes will be settled.

Litigation (meaning settlement of a dispute in a Finnish court) is usually more cost effective than arbitration proceedings (meaning that the parties agree to settle the dispute by using a private arbitrator who makes a binding decision). However, court proceedings are often long, and it can take several years before the main hearing takes place, whereas arbitration proceedings generally lead to a faster and smoother process.

In terms of confidentiality, in arbitration proceedings, the parties can agree to keep the proceedings confidential, whereas the proceedings in public courts are not subject to confidentiality unless there are specific exceptions. In fact, judgements from public courts are generally publicly available.





5. INTELLECTUAL PROPERTY

5.1 Introduction

Intellectual property rights are intangible assets that can be very valuable to your business, even as a social entrepreneur. You can spread your intellectual property rights through for example licensing agreements, franchise agreements, cooperation agreements etc. (see section 6 below). It's important to have an IP strategy in place before expanding your business – even if you are a social entrepreneur – as you want to make sure that you can use the intellectual property rights used in your business, that you don't infringe third-party intellectual property rights and in order to be in control over how others use your intellectual property rights.

You should evaluate what intellectual property rights you consider material to your business and what you should do to ensure that these rights are protected.

There are four classic types of intellectual property rights: trademarks, copyright, patents and design rights. All of these rights can be sold or licensed to third parties.

5.2 Licensing

Granting someone a license means that you give someone permission to use your intellectual property rights, for example a trademark license, a software license or a patent license. If you grant someone a license, it means that you still own your intellectual property rights (for example your trademark), but the other party is entitled to use it in the way the license agreement entails. This means that you are still in control of your intellectual property rights, but you can decide who you want to grant a license to and in what way the person granted the license (the licensee) can use your intellectual property rights.

There are several different types of licenses. A license can be exclusive, meaning that only the licensee is allowed to use the license object, or non-exclusive, meaning that you may license your intellectual property rights to different licensees. You can choose to share your intellectual property rights for free, without payment, or you can require that the licensee pays a certain amount to be able to use your intellectual property rights.

It is important to have a license agreement in place where you clarify on what terms the licensee can use your intellectual property rights.

In the license agreement, you can include provisions on, for example, where the intellectual property rights can be used by the licensee (territory), how much royalty the licensee should pay (if any), if you require that the licensee gives credit to you, for how long the licensee should be able to use your intellectual property rights and if you allow the licensee to freely share, use and build upon your intellectual property rights.

5.3 Trademarks

5.3.1 What is a trademark?

A trademark is a mark that distinguishes a company's products from other companies' products. A trademark can consist of, for example, words, personal names, figures, letters, numbers, slogans, holograms or sounds. This is how your customers/partners/society will recognise your business. Especially for social entrepreneurs, it is important to have a strong brand that is associated with goodwill. Registering the trademarks used in your business means that you have an exclusive right, meaning that you can prevent others from using identical or similar trademarks for the same types of products or services that you are offering. Normally, the most important trademarks to register in your business are the brand/word you use to offer your products or services (which can also be your company name) and the logotypes used in your business.

If you notice that someone is using your trademark without your permission we recommend that you seek legal advice on how to stop the illegitimate use.

5.3.2 How to get trademark protection

In order to register a trademark, the trademark needs to have a so-called distinctive character (Fin. Erottamiskyky). This means that the trademark must be able to distinguish the goods or services you are selling from the goods or services from other companies. In short, a trademark cannot be registered if it's descriptive for the goods or services for which it's used. If the trademark only consists of a description, for example of the quality or geographic origin of the product, it will not be sufficiently distinctive to be registered. For example, the trademark "COMPUTER" cannot be registered if you are selling computers, since all actors selling computers must be able to use the word "COMPUTER" to describe the type of goods they are offering.

In addition, a trademark cannot be registered if it's too similar to another trademark. Normally, the first one to file a trademark application is the one who holds the right to hinder someone else from using that trademark. It is therefore recommended to conduct a search in trademark databases before investing too much in your trademark.

When applying for trademark protection, you choose to register your trademark under specific classes of goods and/or services. These classes indicate what goods or services the trademark will have protection for on the market. Generally, you will only be able to use your registered trademark to prevent others from using an identical or similar mark for the goods and services within the classes that your trademark is registered for.



If you are registering your trademark in Finland (through Finnish Patent and Registration Office, "PRH"), you will only have protection in Finland. If you register your trademark in the EU (with the European Union Intellectual Property Office, "EUIPO"), you will have protection throughout the EU. It's also possible to register your trademark via the international route under the Madrid Protocol (the registration is administrated by the World Intellectual Property Organization "WIPO" where you can designate the countries that you want your trademark to be protected in. Ideally, your trademark should be protected in all countries where you conduct your business. Preferably, you should seek trademark protection before expanding your business to other countries.

A Finnish registered trademark is valid for ten years. You can however renew the registration indefinitely, as long as the trademark is used on the market, provided that a fee is paid to the PRH.

Your corporate entity (for example your limited company) should preferably be the applicant of the trademark applications used within your business.



5.4 Copyright

5.4.1 What can be protected by copyright?

Copyright protects literary and artistic works, such as novels, poems, scripts, texts on webpages, film, music, performing arts, photography, sculptures, theatre, paintings, maps, cartoons, works of applied art (furniture, crafts, jewellery etc.), architecture and source code.

In order for a subject-matter to be copyright protected as a work, it must be considered original. Originality means that the work is considered to be the author's/creator's own intellectual creation, and that the author has been able to make free and creative choices when creating the work. Copyright protects the expression of a work. This means that it's only the form of the work itself that is protected. Thus, it's therefore not possible to protect ideas or concepts as such. If you as a social entrepreneur have a certain idea, it is therefore not possible to hinder someone else from having the same idea.

5.4.2 How to get copyright protection

In Finland copyright protection arises through the creation of the work. Any type of created work can get copyright protection if it has surpassed the threshold of originality, which is used to assess whether a particular work can be copyrighted. The threshold of originality is surpassed when the work is considered independent and original enough. If you own the copyright to a work, you can prevent others from producing copies of the work or making it available to the public in different forms, such as publishing it on websites, distributing and selling copies of the work, etc.

Because copyright arises at the time of creation, with no formal requirements or process for registration of the work, it isn't possible to know with certainty whether a work is protected by copyright matter. However, in the event of an infringement, it's for the courts to decide whether a work is protected by copyright. Usually, copyright can be assumed if the work is the result of a creative process without copying someone else's work. Copyright protection lasts for the entire lifetime of the author or creator and for a period of 70 years after the author's year of death. Copyright passes to the author's heirs by inheritance or will.

5.4.3 Transfer of copyright protected works

The author, or creator, can transfer economic rights to a work, such as the right to make copies and the right to make the work available to the public, through agreements. This entails that, if you have developed for example a platform, you can exploit your platform by selling it or licensing it to third parties. If you write an agreement regarding the transfer of a copyright protected work (for example source code), it's important to clearly set out what exactly is assigned. Also, the right to modify and further transfer the copyrights need to be specifically agreed upon.



5.5 Other intellectual property rights

5.5.1 Patents

What is a patent?

If you come up with an invention that solves a technical problem, you can apply for a patent. To obtain a patent for your invention, it must fulfil certain requirements: i) the invention must be new, ii) the invention must have an inventive step (meaning it must be significantly different from everything previously known) and iii) the invention must be capable of being industrially applicable. A patent protects technical functions and cannot protect the appearance of a product (see below regarding the protection of the appearance of a product).

As the novelty requirement is strict, you must keep your invention secret at least until the day you file your patent application. If you wish to disclose your invention to for example potential investors, you should use confidentiality undertakings to guarantee that the invention isn't considered disclosed to the public.

If you have been granted patent protection, you have the exclusive right to exploit your invention for up to 20 years. No one else can make, sell or import the invention without your permission.

How to get patent protection

By applying for a patent through PRH, you can obtain patent protection in Finland. With a European patent application to the European Patent Office, you can apply for patents in the member states of the European Patent Convention (almost 40 countries, including all EU countries). If your application is granted, you can then choose to validate your patent in different countries or apply for unitary protection. You can also file an international PCT application, entailing that, with one single application, you will have novelty searches and preliminary patentability assessments carried out by one single intellectual property office for around 150 countries. Thereafter you must complete your application in the countries where you want protection.

5.5.2 Design rights

What is a design right?

A design registration protects the appearance or form of your product, but not its function.



How to get design protection

A design can be registered if it's new and substantially differs from other previously known designs. If you have disclosed your design before applying for a design registration, you have a 12-month grace period to file an application for registered protection. Similarly, to registering a trademark, you register your design in specific classes.

You can apply for design protection in Finland through PRH. You can also apply for a community design through the EUIPO. This gives protection in all EU countries. There is also an unregistered community design, which can give protection for three years from the date on which the design was made available to the public. However, the scope of protection for such unregistered community design is more limited than for a registered community design. It's also possible to register your design through the World Intellectual Property Office where you can designate the countries in which you wish to protect your design.

A design registration is valid in general for five years from the date of filing. It's possible to renew the registration, and the maximum registration period varies depending on a country where registered. In Finland, it is possible to renew the design four times (for a period of 5 years at a time).

5.5.3 Domain names

A domain name is an internet address, for example www.ashoka.org. If you want to register a domain with the ending ".fi" you must contact the foundation for internet infrastructure (Fin. Traficom). The registration of a domain name doesn't in itself give you an exclusive right to the words used in the domain name but prevents others from using the same address.

5.5.4 Trade secrets

Trade secrets are information concerning the commercial or operating circumstances in an entrepreneur's business which isn't generally known or accessible, which is kept secret by the entrepreneur and the disclosure of which is likely to cause competitive harm to the holder of the trade secret. The information may be either documented (for example drawings or other documents) or undocumented, known to only a few people.

Anyone who obtains, exploits or discloses a trade secret without permission may be prohibited from disclosing or using the information subject to a penalty, or alternatively through being ordered to pay a fine or being sentenced to imprisonment.

It's important to consider what information can constitute trade secrets within your business and take measures to protect such information. It's important to establish internal routines for identifying and protecting trade secrets, to have policies for onboarding and offboarding employees and to use confidentiality agreements with the those (usually employees) who have knowledge of the company's trade secrets.



5.6 Marketing

The concept of marketing is broad in Finnish law and covers most commercial activities. Advertising and other marketing activities are regulated by several acts and there are specific regulations regarding products such as tobacco, pharmaceuticals and alcohol. There is a general prohibition against unfair marketing and against certain specific marketing practices, such as aggressive marketing and misleading marketing. It's particularly important to take precautions when marketing your products using arguments relating to the environment or health (for instance, claiming that your product is environmentally friendly or that your product has a positive effect on the consumer's health). In Finland, as well as in other countries in the EU, marketing from businesses to consumers is regulated separately via the consumer protection legislation, and the consumers are quite strongly protected in Finnish law.





6. WAYS TO CONDUCT AND EXPAND YOUR BUSINESS

6.1 Introduction

There are several different possible ways to conduct and expand your business by increasing your sale of products (including for example platforms and software) or services, as applicable for your business. As part of this process, you may choose to cooperate with third parties as to allow you to scale up your business. For example, you may partner up with a third party for the sale of your products or services, or even only marketing thereof if you prefer to retain sole right to sell the products/services to your customers.

Should you want to expand the sale of a product that contains intellectual property rights by using a third party, you may need to provide such third party a license to use your intellectual property rights, as necessary for such party to perform its obligations under the agreement (see section 5 above on how to protect your intellectual property rights). Such a license may be included in any type of licensing or partnership agreement or in a more complex franchise agreement, should you want to admit a third party to use your intellectual property rights to expand your entire business concept. For further information on what to think about when including a license provision in an agreement, see section 5.2 above.

In addition thereto, there are several other forms of distribution channels which may be used to expand your sale of products (and to some extent also services) to end customers. Which type of intermediary to choose depends on what type of cooperation you would like to have with the intermediary, and how much control of your business and products you wish to retain. Below, we have summarised the most common forms of intermediary/marketing arrangements used in Finland.

6.2 Types of intermediaries/ marketing arrangements

Granting someone a license means that you give someone permission to use your intellectual property rights, for example a trademark license, a software license or a patent license. If you grant someone a license, it means that you still own your intellectual property rights (for example your trademark), but the other party is entitled to use it in the way the license agreement entails. This means that you are still in control of your intellectual property rights, but you can decide who you want to grant a license to and in what way the person granted the license (the licensee) can use your intellectual property rights.

There are several different types of licenses. A license can be exclusive, meaning that only the licensee is allowed to use the license object, or non-exclusive, meaning that you may license your intellectual property rights to different licensees. You can choose to share your intellectual property rights for free, without payment, or you can require that the licensee pays a certain amount to be able to use your intellectual property rights.

It is important to have a license agreement in place where you clarify on what terms the licensee can use your intellectual property rights.

In the license agreement, you can include provisions on, for example, where the intellectual property rights can be used by the licensee (territory), how much royalty the licensee should pay (if any), if you require that the licensee gives credit to you, for how long the licensee should be able to use your intellectual property rights and if you allow the licensee to freely share, use and build upon your intellectual property rights.

6.2.1 Franchising

There is no specific legislation concerning franchising or franchising agreements in Finland. When conducting business by franchising in Finland, all relevant and applicable laws regarding contractual and employment relationships, marketing and consumers, competition, intellectual property etc. must be taken into account. However, The Finnish Franchise Association (Fi: *Suomen Franchising Yhdistys ry., SFY*) plays an active part in a self-regulating process by requiring its members to comply with stipulated ethical rules. The SFY ethical rules are based on the European Code of Ethics for Franchising as written by the European Franchise Federation. The SFY ethical rules provide for example some key definitions regarding franchising and basic principles of franchising (including the obligations of franchisor and franchisee). SFY does not have a franchising agreement template, but the ethical rules include minimum requirements of a franchising agreement.²

In terms of competition law, “vertical” agreements (including for example franchising agreements) can be prohibited under the Finnish Competition Act (Fi. *kilpailulaki*) if they have as their object or effect the prevention, restriction or distortion, to an appreciable extent, of competition in the market. There is a general block exemption for vertical agreements which corresponds to that which exists in EU law, which is also applicable to franchising.

² SFY ethical rules (Only in Finnish, Fi. Suomen Franchising-Yhdistyksen Eettiset Säännöt 1.1.2017 alkaen).



6.2.2 Commercial agency and commission

Commercial agents and commissioners are contracted by a principal to, on a permanent basis, act on behalf of the principal for the sale or purchase of the principal's goods. In respect of commercial agents, this is generally done by mediating orders from end customers to the principal, negotiating on behalf of the principal, or through concluding contracts in the name of the principal. Consequently, it's the principal who sets the price and concludes the contract with the end customer and the commercial agent's main task is to try to get customers to conclude contracts with the principal. Likewise, a commissioner acts on behalf of the principal by doing so in the name of the principal. Thus, neither the commercial agent or the commissioner becomes the owner of the products they sell or mediate to end customers. As remuneration for their work, commercial agents and commissioners are granted commission, often based on a percentage on the generated sales to end customers.

Both commercial agents and commissioners are protected in Finland by mandatory Finnish law.³ The legislation contains mostly similar provisions for the commercial agents and commissioners towards the principal, including different types of protection. Commercial agents are independent entrepreneurs in relation to the principal. Provisions agreed between the principal and the commercial agent, as applicable, in an agreement which would be less beneficial for the commercial agent than what is provided for in the legislation would be deemed void. For example, the mandatory provisions provide a right to receive commission on generated sales and protection in relation to termination of an agency or commission agreement. Commissioners on the other hand are treated as employees of the principal, who is the employer in this situation. Thus, the main provisions on the obligations and rights of the commissioner and the principal are found in Finnish law regarding employment contracts.⁴ Because of the more demanding obligations of the principal and more limited possibilities to amend or terminate the employment contract, commercial agents are usually the more preferred option than commissioners.

In relation to termination notice period of an agency agreement, it's regulated that - unless an agency or commission agreement is entered into for a fixed term - the notice period shall be at least one month during the first contract year and thereafter the notice period shall be prolonged with one additional month for each contract year up to a maximum of six months' notice. When an agency agreement has either expired or been terminated, the commercial agent or commissioner may, under certain circumstances, be entitled to commission in respect of contracts concluded after the termination of the agreement. In addition, in the event of a principal's termination of an agreement, the commercial agent may be entitled to severance compensation of an amount not exceeding remuneration for one year.

Commissioners are entitled to specific compensation for their travelling, postal, telephone and other comparable expenses as well as to a daily allowance when travelling. Such expenses and travel allowance must be paid in advance if requested by the commissioner.

3. Act on Commercial Representatives and Salesmen (Fi: laki kauppaedustajista ja myyntimiehistä) (implementing the EC Commercial Agents Directive)

4. Employment Contracts Act (Fi: työsopimuslaki)

6.2.3 Distribution / reselling

The term distributor or reseller (hereinafter the term distributor is used) haven't been defined in any Finnish legislation. However, it's usually understood to be a person who buys and resells goods within a certain geographical area. A distributor acts in its own name and on its own behalf and thus bears the economic risk of the goods and the reselling thereof. The main difference between a commercial agent or commissioner and a distributor is thus that the distributor becomes the owner of the goods it places on the market. The distributor itself determines the price of the goods and invoices its customers.

There is no specific legislation governing distributorships in Finland. Case law suggests that a distributor is entitled to a reasonable period of notice of termination of the distribution agreement.

The provisions of the Finnish Act on Commercial Representatives and Salesmen may be applied by way of analogy, for example, in cases where the distributor forms part of the supplier's sales organisation and the distributor has extensive obligations towards the supplier. However, there is no clear authority on this. The parties' freedom to negotiate terms is to some extent restricted by competition law rules. In terms of competition law, "vertical" agreements (including for example distribution agreements) can be prohibited under the Finnish Competition Act if they have as their object or effect the prevention, restriction or distortion, to an appreciable extent, of competition in the market. There is a general block exemption for vertical agreements which corresponds to that which exists in EU law.



6.3 What to think about when choosing type of intermediary

Each of the aforementioned arrangements has its own set of advantages and disadvantages, and the best choice depends on the specific circumstances and goals of the business in question. The complexity of these arrangements often requires careful consideration and, in some cases, the development of detailed contracts to protect the interests of all parties involved. Below, we have comprised some of the main elements to consider when choosing the type of intermediary/marketing arrangement for your business.

- **Control / quality:** When using commercial agents or commissioners, principals retain significant control over the terms of sale and the marketing of their products, as commercial agents and commissioners act on their behalf. When using distributors, manufacturers generally have less control over how their products are marketed and sold. By choosing franchising as a marketing arrangement, a franchisor can ensure that the customer experience and quality is consistent across different locations, however, it can be challenging and generally requires monitoring from the franchisor.
- **Commitment / motivation:** Compared to a franchising arrangement, distributors and commercial agents may represent multiple principals or sell products purchased from multiple companies (as applicable) and may not prioritise one principal's or seller's (as applicable) products over another's. Further, both franchisees and distributors are more likely to be highly motivated to succeed than commercial agents and commissioners since they have a direct stake in the business and/or acts on their own behalf.
- **Complexity:** Setting up a franchising system can be complex and requires careful legal and financial planning. Generally, it requires a more detailed agreement to regulate a franchise arrangement than what is required for the other arrangements.
- **Termination of the relationship:** It's generally easier to terminate an agency agreement than to terminate a commission agreement or unwind a distribution or franchising arrangement. However, as mentioned above, commercial agents are protected by specific regulations in Finland, which can limit the principal's ability to terminate agreements without significant notice or compensation.



7. EMPLOYMENT



7.1 Introduction

Finnish employment law governs most aspects of an employment relationship. However, the Finnish labour market is also self-regulated by its parties through collective bargaining agreements entered into between trade unions and employers' associations or employers.

As a basis, Finnish employment legislation applies to all employers in Finland regardless of the corporate form in which the employer conducts business. There are statutory provisions on individual employment rights such as the Finnish Employment Contracts Act (Fi: työsopimuslaki) as well as legislation governing, for example, working hours, annual leave and discrimination. The Co-operation Act applies to co-operation between the employer and employees or their representatives and is applicable when the employer regularly has 20 employees or more.

Employment legislation applies to all employees in the private and public sectors. Most provisions of Finnish employment legislation constitute mandatory rules in the employee's favor and provide a strong level of protection against unjustified termination, summary dismissal or other arbitrary measures by the employer. Any contract or measure which excludes or limits the employee's rights stipulated by mandatory law is invalid and unenforceable.

7.2 Different forms of employment

Under Finnish law, an employer can employ an individual for an *indefinite term* or a *fixed term*.

It's possible to start an employment with a *probationary period* of a maximum of six months, during which the employment relationship can be terminated by either party without following a notice period. In a fixed term employment relationship, the probationary period together with any extensions to it may comprise no more than half of the duration of the employment contract, and in any event may not exceed six months.

A fixed term employment can only be entered into at the employer's initiative if the employer has a justified reason that indicates a temporary need for the employee. The employer can generally employ employees for a fixed term under the following three types of situations:

- (i) Project work,
- (ii) Temporary substitute employment, or
- (iii) Seasonal employment.

A fixed-term employment terminates automatically at the end of the fixed term, and can during the term be terminated only if grounds for immediate termination exist, the parties agree on the termination or the parties have agreed on a possibility to terminate the fixed-term contract with notice.

7.3 Working hours

The Finnish Working Time Act (Fi: Työaikalaki), states that regular working hours are, in general, eight hours per day and 40 hours per week. Any hours worked at the employer's request exceeding 8 hours per day and 40 hours per week must, as a general rule, be compensated as overtime in accordance with statutory provisions. Weekly working hours can be arranged to average out at 40 hours per week over a 52-week period.

Employees are entitled to a weekly rest period of 35 consecutive hours per seven-day period. The weekly rest must coincide with Sundays, if possible. Temporary deviations from this principle may be possible provided that the employee is needed for continuation of the employer's operations and the technical nature, or reasons related to the arrangement of work do not enable granting the employee the full rest period. Work conducted during a weekly rest period must be compensated as soon as possible and in any event within three months by granting the employee corresponding free time during regular working hours.

Further according to the Finnish Working Time Act, employees are entitled to at least 11 consecutive hours rest per 24-hour period (Fi: Viikkolepo) following the start of a shift, that does not coincide with work conducted during stand-by duty (Fi: Varallaolo). Temporary deviations from this principle may be possible provided that special circumstances related to organization and nature of the work exist and provided that the employee is given corresponding compensatory leave.

Generally, the period between 11 pm and 6 am must be included in the 11 consecutive hours rest period and night work can only be conducted in specific types of work listed in the Working Time Act.

The Finnish Working Time Act contains provisions on different working time systems, e.g. flexible working hours, that can be followed if agreed accordingly with employees. Further, collective bargaining agreements often contain provisions on working hours that must be followed, if a collective bargaining agreement is applicable. According to most collective bargaining agreements, the normal maximum regular working hours is 37.5 hours per week.

7.4 Holiday entitlement

Under the Annual Holidays Act of Finland (Fi: Vuosilomalaki), Employees have a statutory right to two weekdays of holiday for each full holiday credit month if the employment relationship, by the end of the holiday credit year (April 1–March 31), has been in force for an uninterrupted period of less than one year. Thereafter, the entitlement is two and a half weekdays of holiday for each full holiday credit month. Therefore, the maximum length of paid holiday annually is in total 30 weekdays (i.e. five weeks as Saturdays are included in the calculation), if an employee works full time for a full holiday credit year. There are varying provisions on entitlement to annual holiday, depending on the employee's working time.



As a general rule, 24 days (four weeks) are to be taken during the summer holiday season (2 May–30 September) following the end of the holiday credit year and six days (one week) after the summer holiday season and before the summer holiday season of the following year.

It is not common for employers to offer annual holiday exceeding the full statutory accrual. However, collective bargaining agreements often contain provisions on entitlement to annual holiday, and some collective bargaining agreements provide for larger holiday accrual after for example 10 or 15 years of service.

Part-time employees working less than 35 hours per month are instead of annual holiday entitled to unpaid leave and holiday compensation.

7.5 Parental leave

Each parent is entitled to 160 days of parental leave per child. Saturdays are counted when calculating family leave days, but Sundays and bank holidays are not. Parents are allowed to transfer up to 63 leave days of their quota to the other parent or other custodian, his/her own spouse or the other parent's spouse.

These days must be used before the child turns the age of two or before two years have elapsed since the adopted child was taken into care and may be used in four separate periods, each of which must last at least 12 days.

Under Finnish law, in addition to parental leave, employees giving birth have a right to 40 days of pregnancy leave starting at the earliest 30 days prior to the expected date and at the latest 14 days prior to the expected date.

In addition, an employee is entitled to take unpaid leave for childcare in up to two periods, where each period is at least one month, until the child is three years old. The childcare leave can only be taken by one parent or guardian at a time.

Employees are entitled to pregnancy and parental allowance from the Social Insurance institution of Finland (Kela) during the leave. The amount of the allowances is calculated based on the employee's annual income and is lower than the employee's salary. If the employee's salary is for example EUR 40,000 per year, the amount of the pregnancy allowance and parental allowance for the first 16 days is EUR 2,731.50 per month and after the first 16 days, the parental allowance is EUR 2,124.50 per month.

There is no statutory obligation to pay salary during pregnancy leave and parental leave, but most collective bargaining agreements include provisions on certain amount of paid pregnancy leave or parental leave. Therefore, it isn't uncommon for employers to voluntarily offer paid parental leaves for some weeks or months. If the employer provides paid pregnancy or parental leave, the employer is entitled to collect the statutory allowances (or part of it) paid by the Social Insurance institution of Finland (Kela).

Please note that on returning to work, parents are generally entitled to resume their employment on the same terms and conditions as before leaving on parental leave.



7.6 Termination of employment

Under Finnish law, termination of the employment contract by the employer requires proper and weighty reasons (Fi: *Asiallinen ja painava syy*). The employee is protected against unfair dismissal from day one of employment and no minimum service requirement is necessary in order to be protected. Proper and weighty reasons can be construed of productional or financial reasons or reasons related to reorganization (redundancy), or personal reasons, for example serious misconduct or disloyalty. During the probationary period, the employment contract can be terminated without specific grounds but the grounds cannot be discriminatory or inappropriate in relation to the purpose of the probationary period.

If an employment is terminated on personal grounds, a prior warning and a chance to correct or amend the performance or conduct is in general required. Summary dismissal (dismissal without a notice period) is only possible in case the employee has grossly neglected their duties towards the employer where it would be unreasonable to require the employer to keep the employee employed during the notice period. Otherwise, a notice period in accordance with the employment contract, the applicable collective bargaining agreement or the Employment Contracts Act must be followed.

If the employer employs more than 20 employees, the employer must initiate and complete change consultations with the employees or their representatives before any final decisions on redundancies or other similar measures or leading to redundancy measures are made.

An employee whose employment has been terminated is entitled to their salary and other employment benefits during the whole notice period. All outstanding salary and compensation for any accrued but unused vacation days shall be included in the final pay.

7.7 Social security contributions

The Finnish statutory social security system includes the following schemes:

- health insurance contribution (the employer's share is 1.16% of the employee's gross salary in 2024);
- pension insurance (in 2024, the employer's contribution is on average 17.34%);
- accident insurance (the exact amount depends on the field of business, in 2024, the average amount of the employer's contribution is 0.57%); and
- unemployment insurance (in 2024, the employer's part is based on the total wage level so that the minimum is 0.272% and the maximum is 1.09%).

The employer is accountable for both the employer's and the employee's part of the contributions and will deduct the contributions from the employee's salary.



7.8 Sick pay

If the employment relationship has lasted for a minimum of one month, an employee is entitled to full pay for the period of disability up to the end of the ninth day (10 days in total, including Saturdays but excluding Sundays and bank holidays) following the date of falling ill, but only up to the point at which the employee's right to national sickness allowance comes into effect.

The Social Insurance Institution of Finland (Fi: *Kansaneläkelaitos*) is responsible for payment of sickness benefit after the first 10 days of sick leave. The state funded sickness allowance is lower than the employee's salary. Thus, it is common that the employer provides certain additional compensation. It is also common for collective bargaining agreements to contain provisions entitling the employee to their full pay for a longer period, generally to the end of the third month following the date of the employee falling ill (depending on the applicable collective bargaining agreement). In such event, the employer is entitled to receive the statutory compensation (sickness allowance) payable by the Social Insurance Institution of Finland (Kela).

7.9 Labour relations

On the Finnish labour market, collective bargaining agreements are the most common instrument for regulating the terms of employment, in addition to legislation. Such agreements can be entered into between a trade union on the one hand, and an employer, or an employer's association, on the other.

The employer is bound by a collective bargaining agreement if the employer is a member of an employers' association that has negotiated a collective bargaining agreement applicable to the employer or is directly a party to a collective bargaining agreement. In addition, an employer who is not bound by a collective bargaining agreement concluded with a nationwide trade union is required to follow a collective bargaining agreement that has been declared as generally applicable for the employer's field of business or the work performed by the employee. There are around 160 collective bargaining agreements that have been declared as generally applicable and around 84 % of employees in the private sector are covered by a collective bargaining agreement. Collective bargaining agreements contain provisions on many aspects of an employment relationship, often granting employees' rights and protection exceeding statutory levels.

When a collective bargaining agreement has been entered into, a so-called peace obligation for the parties immediately takes effect. The peace obligation prohibits any use of industrial action, such as strikes or lockouts. Any breach of the peace obligation will, in general, entail obligation to pay a compensatory fine for the breaching party.



7.10 Work environment

Employers are responsible for the work environment at the workplace. As a general obligation, an employer must take necessary measures to ensure the employees' safety and health at work and take into account aspects related to the work, working conditions and other aspects related to the working environment as well as the employee's personal abilities. Further the employer must, in co-operation with the employees, systematically conduct work environment management, which for example includes risk assessments, action plans and follow-ups to prevent ill health and accidents at work.

The following outline some of the key provisions and responsibilities that all employers must observe under Finnish law:

- **Occupational health care services:** Employers have an obligation to arrange preventive occupational health care coverage for their employees. In addition, employers often offer employees more extensive health care services such as access to medical care at general practitioner level.
- **Occupational health and safety policy:** Employers are required to draft certain plans and policies related to the work environment and occupational health, such as an Occupational Health and Safety Action Plan (Fi: Työsuojelun toimintaohjelma).
- **Physical Work Environment:** The workplace must be designed to prevent risks of accidents and occupational diseases with, for example, proper lighting, noise control, proper ventilation and ergonomics. The structures, materials and equipment of the working place must be safe and healthy for the employees.
- **Psychosocial Work Environment:** Employers are responsible for preventing and reducing the effects of risks related to stress, harassment and other psychosocial risks.
- **Use of Technical Equipment:** Machinery and other technical equipment must be safe to use, fit for their purpose and properly maintained.
- **Personal Protective Equipment (PPE):** Employers must provide necessary PPE that fulfil statutory requirements to employees at no cost.
- **Information and Training:** Employers must ensure that workers receive adequate training and information about potential hazards in the workplace.
- **Co-operation obligation:** An employer is required to maintain and improve safety at the workplace in co-operation with the employees. An employer must give the employees necessary information related to health and safety at the workplace and other factors that have an effect on the working conditions as well as on any assessments, analyses or plans concerning them. The employer must also ensure that such matters are discussed between the employer and the employees or their representatives.
- **Reporting obligations:** Employers must immediately report any serious occupational accidents and incidents to the Occupational Safety and Health Division of the Regional State Administrative Agency, the police and the insurance company.



8. COMPLIANCE WITH DATA PROTECTION LEGISLATION



8.1 General

If your organisation processes personal data, you must comply with applicable data protection legislations (such as the General Data Protection Regulation, hereinafter the “GDPR”), regardless of what business type you have chosen to operate your business.

‘Personal data’ means any information relating to an identified or identifiable individual, including for example names, phone numbers, identification numbers, email addresses, location data, photos, videos and similar of individuals. The personal data may relate to any type of individuals such as, for instance, customers, suppliers and employees. The term ‘processing’ includes any type of activity performed whether or not by automated means on or with individuals’ personal data. It includes, amongst other activities, collecting, recording, organising, using, modifying, storing and disclosing individuals’ personal data.

When processing individuals’ personal data, your organisation must comply with the fundamental principles of the GDPR:

- Any processing of personal data must be lawful, fair and transparent;
- You may only process personal data for specified, explicit and legitimate purposes;
- The processing must be necessary and proportionate in light of the purpose envisaged;
- The personal data of individuals must be accurate and kept up to date, or else, be rectified or erased;
- Your storage of personal data must be limited in time, in light of the purpose for which this data was collected and processed; and
- The processing must be secure, why you for example must adopt appropriate cybersecurity measures to ensure that individuals’ data is adequately protected.

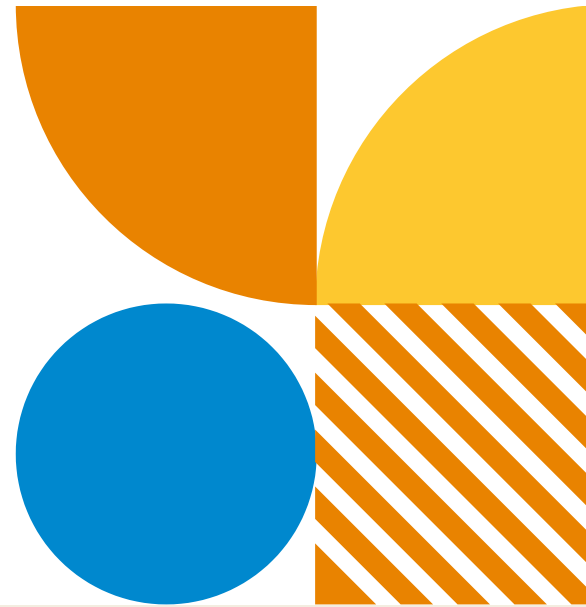
8.2 Supplementary data protection laws

Finland has supplementing national data protection laws in place in addition to GDPR, namely the Data Protection Act (Fi: *tietosuojalaki*) and Act on the Protection of Privacy in Working Life (Fi: *laki yksityisyyden suojasta työelämässä*). The Data Protection Act specifies and supplements the GDPR and its national application, and it covers mainly issues relating to supervisory authorities, legal safeguards and sanctions, and some specific circumstances.

Furthermore, workplace privacy protection is specifically regulated in Finland by the Act on the Protection of Privacy in Working Life, which aims to safeguard both privacy rights and other fundamental protections for employees. This regulation covers e.g., the handling of employees' personal data, workplace surveillance, requirements for processing employees' drug test data, and access to work-related emails. One of the most essential provisions deriving from this Act is that the employer may only process personal data directly necessary for the employee's employment relationship, which are related to the exercise of the rights and obligations of the parties to the employment relationship or to the benefits provided by the employer to the employees, or which result from the specific nature of the work. The requirement of necessity cannot be waived with the consent of the employee.



9. FINAL WORDS



Thank you

It has been a privilege to develop this guide alongside so many outstanding experts in various legal fields. A heartfelt thank you to the many lawyers at Krogerus, Kromann Reumert, and Vinge who have put your time, energy and dedication into sharing your invaluable legal expertise with social entrepreneurs. As social entrepreneurs, we often lack the resources to collaborate with exceptional lawyers like you. Your willingness to share your expertise with the field of social entrepreneurship is a truly valuable contribution, empowering countless social entrepreneurs to grow and develop.

I also want to extend a thank you to the Ashoka Fellows Durukan Dudu, Markos Raivio and Thorkil Sonne who have generously shared your experiences and helped tailor the legal advice towards social entrepreneurs. Finally, I want to thank the team at Ashoka who coordinated this work and made this guide possible. Together we have contributed a guide that really helps social entrepreneurs create the legal foundation to create a greater impact.

Michael Wernstedt, Ashoka Nordic

Stockholm, December 2024

Start of a deeper discussion

As social entrepreneurs, we are accustomed to finding creative solutions to the challenges we encounter. This extends to navigating a legal system that is not tailored to our needs, and we hope that this guide can help you do just that.

At the same time, we also hope this serves as a starting point for a broader societal conversation about how we can build a legal system that better supports social entrepreneurs.

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