

Future Finland:

Towards the Ideal Business Location

FINLAND AS A BUSINESS LOCATION 2020 BAROMETER



BUSINESS
FINLAND

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Executive Summary

Situation today



- Societal stability & functionality
- Quality of life
- Digital infrastructure



- Personal income tax
- Salary flexibility
- Labor costs

Same pain points as 2 years ago in previous study



97% of foreign affiliates measure sustainability

1. Work safety
2. Employer image
3. Gender diversity

7.8/10

Foreign affiliates see Finland's business environment more positively than Finnish companies. They give a score of 7.8/10 for Finland as a business location.



Availability of skilled workforce is one of the main reasons for companies to move their operations to Finland.



43% of foreign affiliates had plans to expand operations or make new investments in Finland in 2018-2020.



55% of foreign affiliates manage international operations from Finland.



Manufacturing is the most important sector for both operations movement to Finland and expansion investments.

Support services keep moving out from Finland.



Finland's biggest competitors for expansion investments:

- Manufacturing: Sweden
- R&D: Germany
- Services: Nordics

Future plans



93% of foreign affiliates believe Finland's business environment will be at least moderately viable in 2030.



44% of foreign affiliates plan to increase the number of employees in Finland between 2020-2021.



30% of foreign affiliates will grow investment in R&D in 2020-2021 in Finland.



Wishlist for Finnish Government

- Lower level of taxation
- More flexible labor market structure
- Investment in international attractiveness

"Finland's viability is an issue that is constantly being discussed; it should remain innovative, but on the other hand a cost-effective place."

"Finland's strengths are the technology industry and innovativeness."

"The basics work in Finland. It has a safe, predictable operating environment. The challenge is the availability of labor."

"At the present, taxation and labor costs are tolerable, but cannot be tightened."

Towards the Ideal Business Location

Finland's future economic success depends on a healthy and welcoming business environment for foreign investment and Finnish multinationals alike. Now more than ever, international companies looking to invest outside of their home market have many options. In this second FDI Barometer compiled by Amcham Finland and Business Finland, we reveal real-time factors that motivate foreign affiliate companies to choose Finland as a location for their business expansion, including drivers and barriers to investing in Finland before and after this pandemic era.

The direct impact of foreign direct investment (FDI) on the Finnish economy is clear; the data shows that FDI is a crucial part of the well-being of our nation. This survey reveals that foreign-owned companies are planning to employ more personnel in the following years and invest in more R&D. In addition to these benefits, FDI also creates a positive indirect impact on the Finnish economy. One job creates at least two additional jobs, and one invested euro generates three additional euros in value.

During Covid-19, it is even more important to support foreign companies in Finland and listen to their needs so we can ensure that they stay and grow.

We can track changing perceptions and trends that have a long-term impact on investment in Finland by comparing responses of foreign affiliates and Finnish multinationals over time. We hope that this report will stimulate discussion on these issues, providing useful material for policymaking and actions that strengthen Finland's overall competitiveness. The Finnish government should strive to make the Finnish business environment as welcoming and viable as possible. Our mutual goal is simple: become the ideal business location for companies from around the world.



Alexandra Pasternak-Jackson

CEO, Amcham Finland

 [@APJinplay](#)

 [pasternakjackson](#)



Antti Aumo

Executive Director, Invest in Finland

 [@anttiaumo](#)

 [anttiaumo](#)

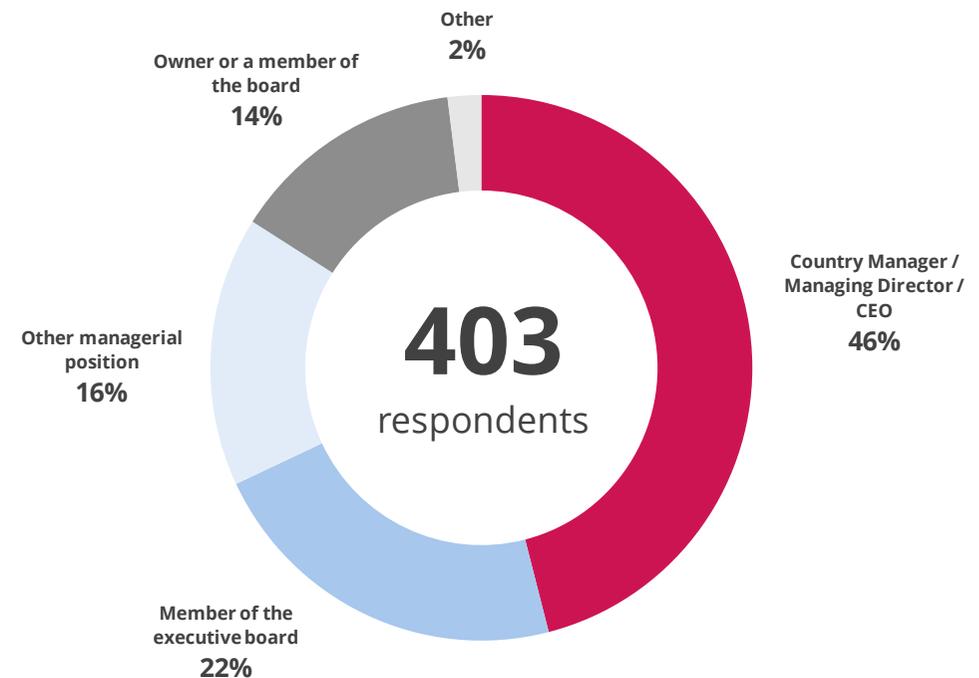
The Voice of Foreign Affiliates in Finland

Amcham and Business Finland partnered up for the second time to ask company executives what they think about Finland as a business location. This unique survey examines the Finnish business environment from the foreign-owned companies' point of view.

In this report, 172 foreign affiliates' responses are compared to those of 231 Finnish international companies. The views of more than 400 companies from different industries operating in Finland paint a detailed picture of the strongholds and development areas of the Finnish business environment for key decision makers.

This survey was conducted between March and September, 2020. We want to sincerely thank all the active executives who shared their views and opinions on Finland as a business location.

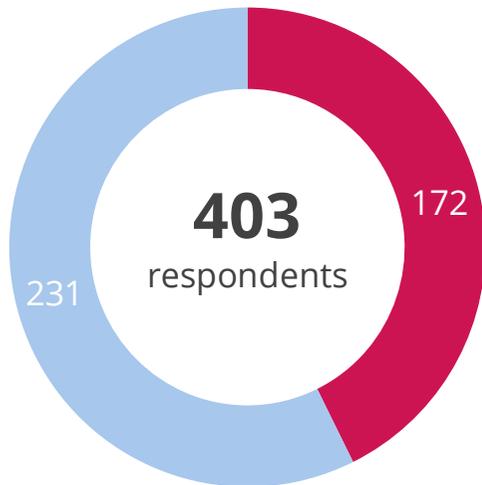
We would also like to give special acknowledgements to Kantar TNS for collecting the data and **Dr. Iiris Saittakari's** team at Aalto University for analyzing the results and providing continuous insight.



Almost all of the respondents represented the top management of the company.

Respondents' Profile

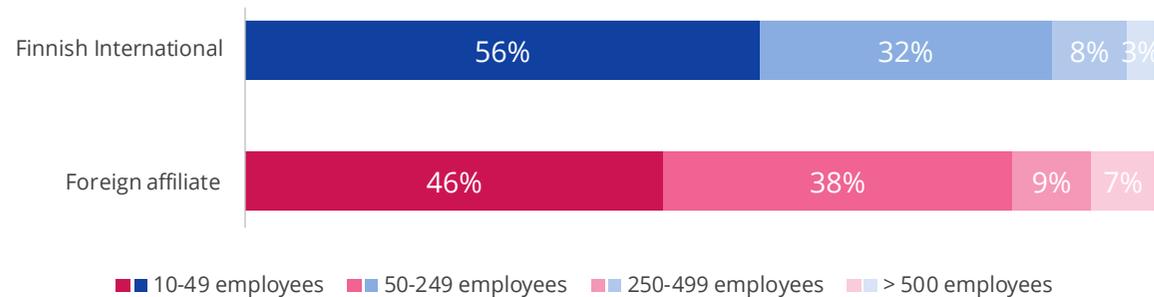
Most of the respondents represented manufacturing, trade and services.



■ Foreign Affiliate ■ Finnish International

Note: The industries represented here are also somewhat representative of the populations. The Finnish companies are more likely to operate in the manufacturing industries, whereas foreign subsidiaries in Finland are more likely to operate in the wholesale and retail industry even if the foreign parent company is in manufacturing.

Respondent size
Number of employees in Finland

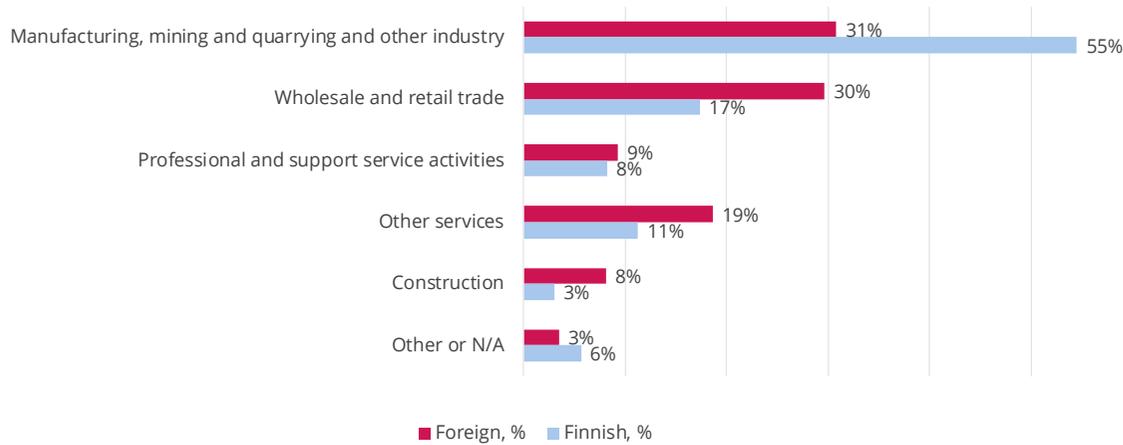


“As a business location, Finland is great, especially for smaller organisations looking for institutional support. There is a supportive tax office and a great investment climate for R&D. On a personal level, the excellent work-life balance, clear air, and beautiful nature more than offset the dark winters. You do need to be mindful to actively seek support and be serious about fitting in; to stand out too much is generally not appreciated.”



Egbert Schram, Group CEO, Hofstede Insights

Respondent industry



All the company sizes were represented. The majority of the respondents represented small and medium-sized companies.

“In a world where economies, societies and cultures integrate through trade, ensuring Finland remains an attractive place for investment is key for the country’s future prosperity. Fostering an environment which encourages business expansion, innovation, and risk-taking should be high on any government agenda.”

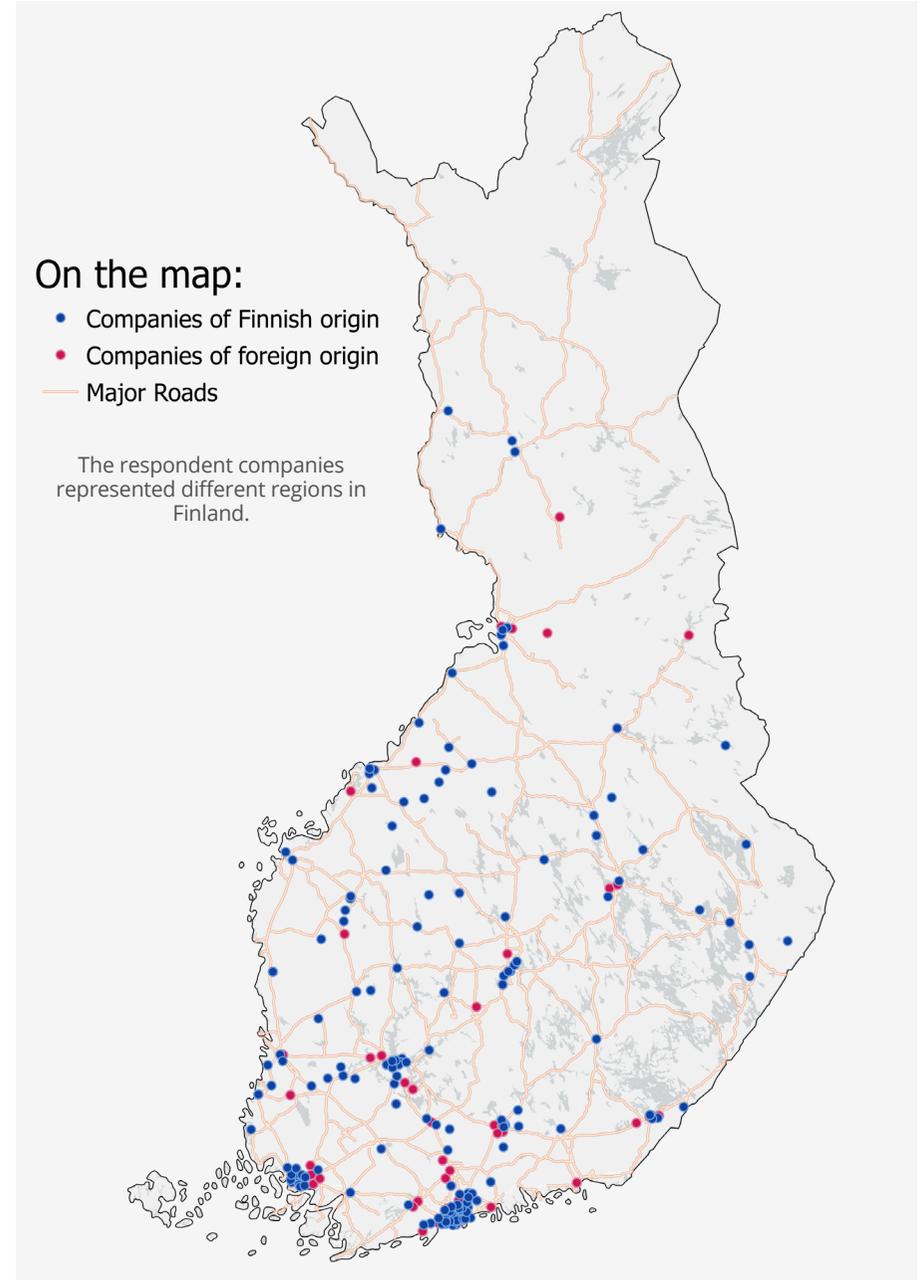
Peter Sjöberg, Chief Operating Officer, Nordic Region & Managing Director, Santander Consumer Finance, Finland



On the map:

- Companies of Finnish origin
- Companies of foreign origin
- Major Roads

The respondent companies represented different regions in Finland.



Finland has a Stable and Functional Economy

We seem to be on the right track towards the ideal business location. The overall score for Finland as a business location improved from 2018 when we asked the same question. On a scale from 0-10, foreign affiliates see Finland's business environment more positively in 2020 (7.8) than in 2018 (7.3).

Foreign affiliates feel more positive (7.8) about the Finnish business environment than Finnish companies (7.3). Foreign affiliates considered societal stability and functionality, quality of life and digital infrastructure as Finland's strengths. These factors are also very important for the Finnish companies.

Personal income tax, salary flexibility and labor costs were seen as challenges in the business environment. Unfortunately, the foreign affiliates still seem to encounter the same challenges as in 2018.

Foreign affiliates give Finland a score of 7.8/10 as a business location.

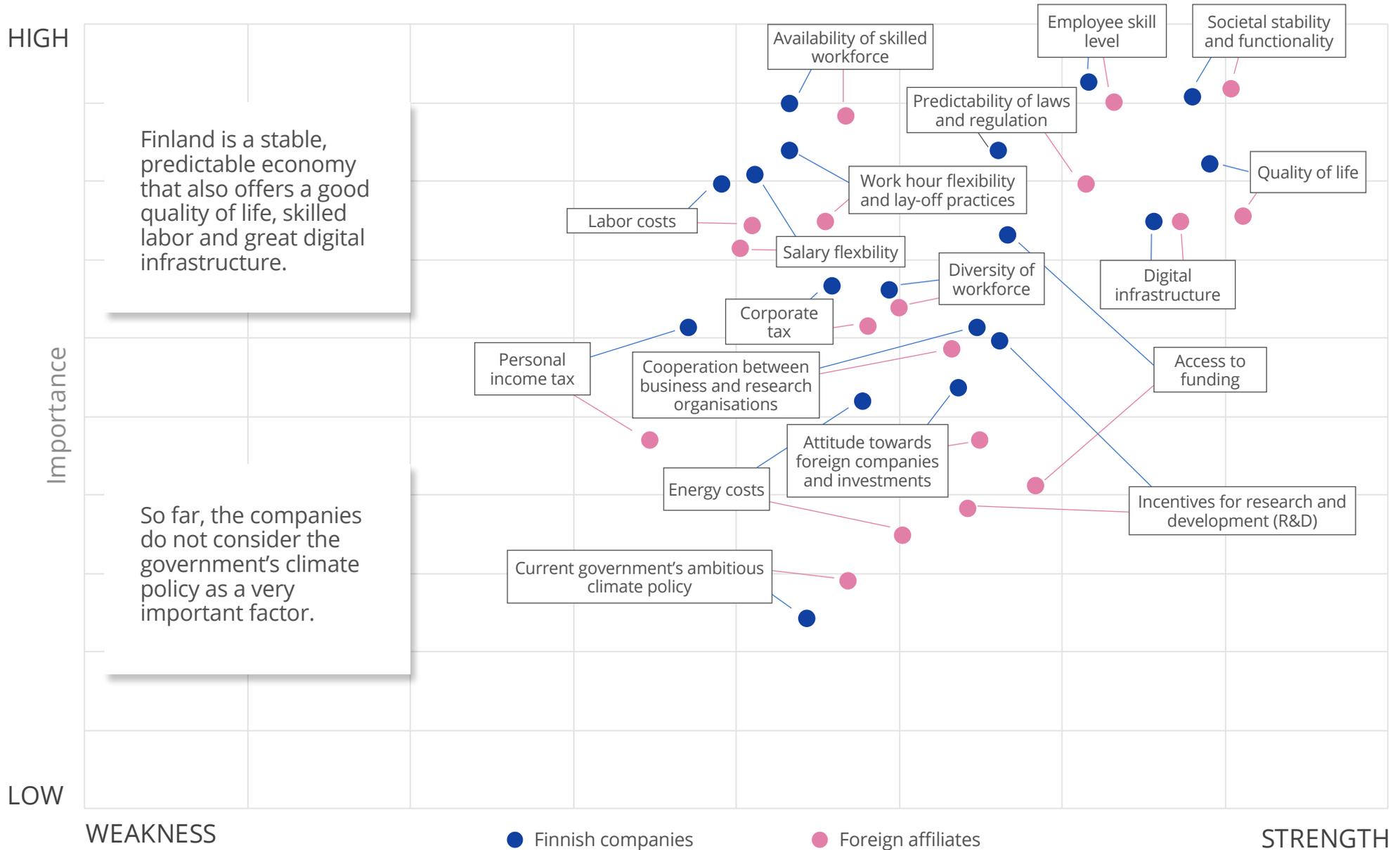
Many countries offer diverse incentive schemes and tax deductions to attract foreign investment. Interestingly, foreign affiliates in Finland do not rate access to funding and R&D incentives as important factors in the business environment.

"For an international bank, Finland has a fantastic operating environment. This is literally the most stable country in the world, with a very predictable and transparent legislative and regulatory environment, and with a government committed to the international community and EU decision-making. As a global financial institution constantly in search for top talent, Citi also benefits from the highly ranked educational system when recruiting in Finland."

Karolina Burmeister, Country Manager, Citi Country Officer and Head of Corporate Banking for Finland at Citi



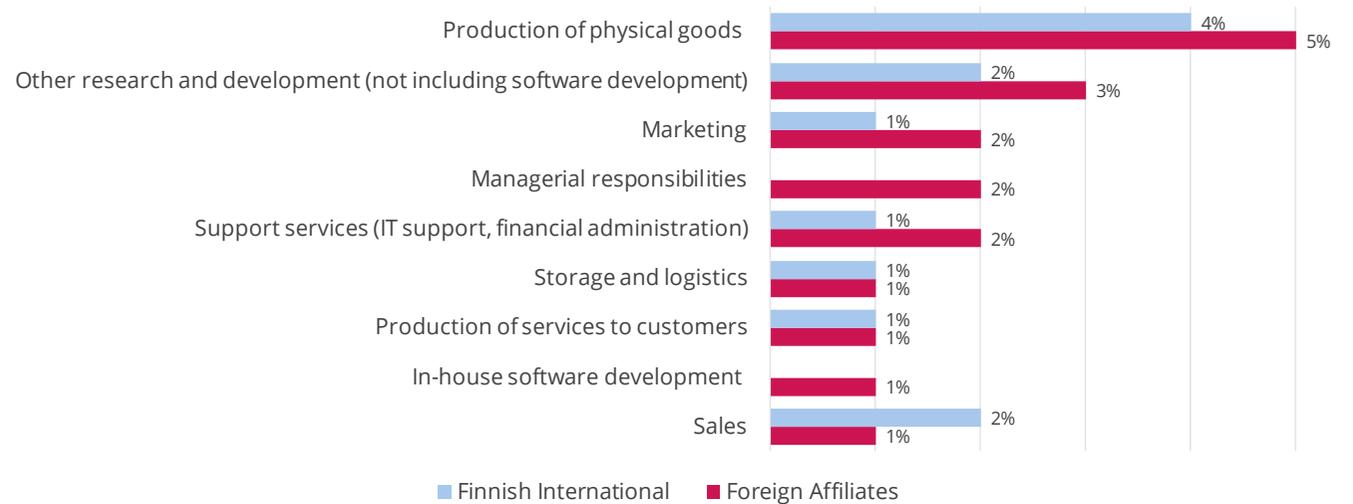
Strengths of Finnish business environment



Manufacturing In, Support Services Out

More foreign companies moved their operations to Finland than Finnish companies. Out of the 403 respondents, 26 foreign and 18 Finnish companies moved at least one operation to Finland between 2018-2020. The main operations that foreign affiliates moved to Finland were production of physical goods, R&D and management. The results reflect a similar tendency as in the 2018 survey.

Operations moved to Finland



Foreign affiliates are more active in moving manufacturing, R&D and management operations to Finland. N = 403

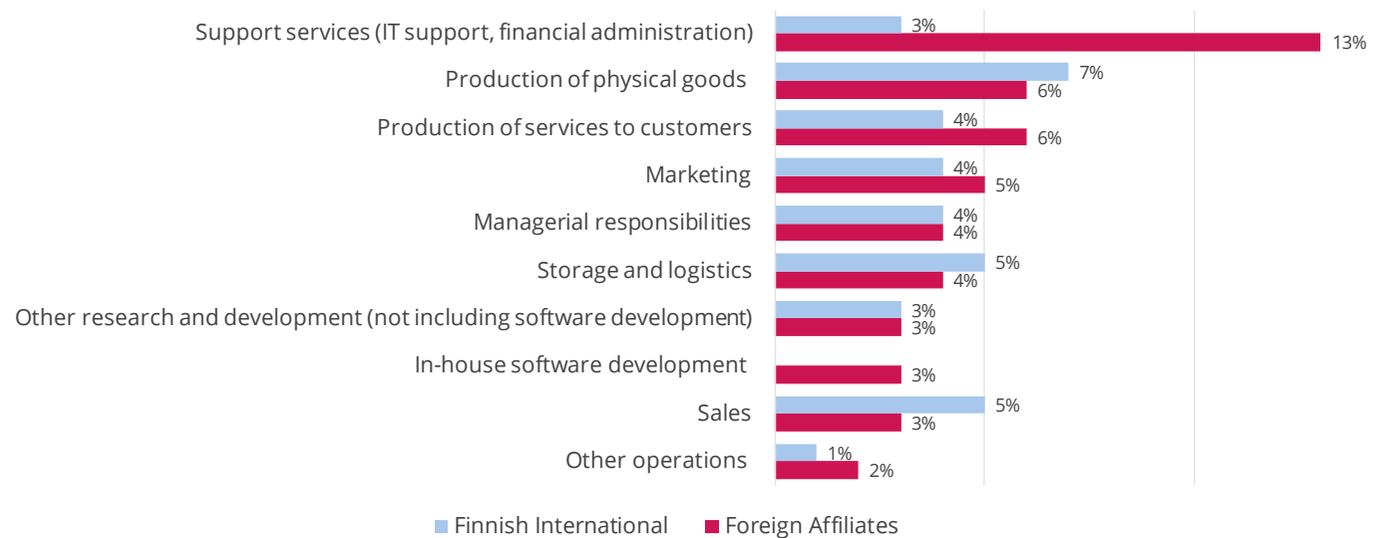
“Finland is still a very good place for us to have R&D and production, even throughout the pandemic. The deep knowledge and skills, high level of education, skilled workforce, health technology, health data and legislation all support our R&D activities, creating a very good business environment for a global life science company like us. Bayer’s recently published 35 million euro investment on top of 80 million euros of annual investments is therefore no coincidence.”

Miriam Holstein, CEO, Bayer Nordic



Foreign affiliates moved more of their operations out of Finland than Finnish companies. Of the collected sample, 40 foreign affiliates and 28 Finnish companies moved at least one operation out of Finland between 2018-2020. As in the 2018 survey, the most common operation to be moved abroad by foreign affiliates was support services (e.g. IT-support, financial management), whereas for Finnish companies it was mainly the production of physical goods.

Operations moved from Finland to abroad



“It is very important that Finland retains its high skill base via education and open immigration policies. Companies need skilled people because new companies are born and scaled through innovations. Not only do companies operating in Finland need to attract investment, but our government must also support investment into innovative approaches that utilize digitalization and technology. This ensures that we can produce value-add products and services for customers at a competitive cost structure in global markets.”

Kaisu Christie, SVP Mortgages, Collateral and Real Estate Business, OP Financial Group



Two Faces of the Labor Force

Factors related to labor cause most of the movement in operations. The top reasons to move operations from Finland were labor costs and labor market inflexibility.

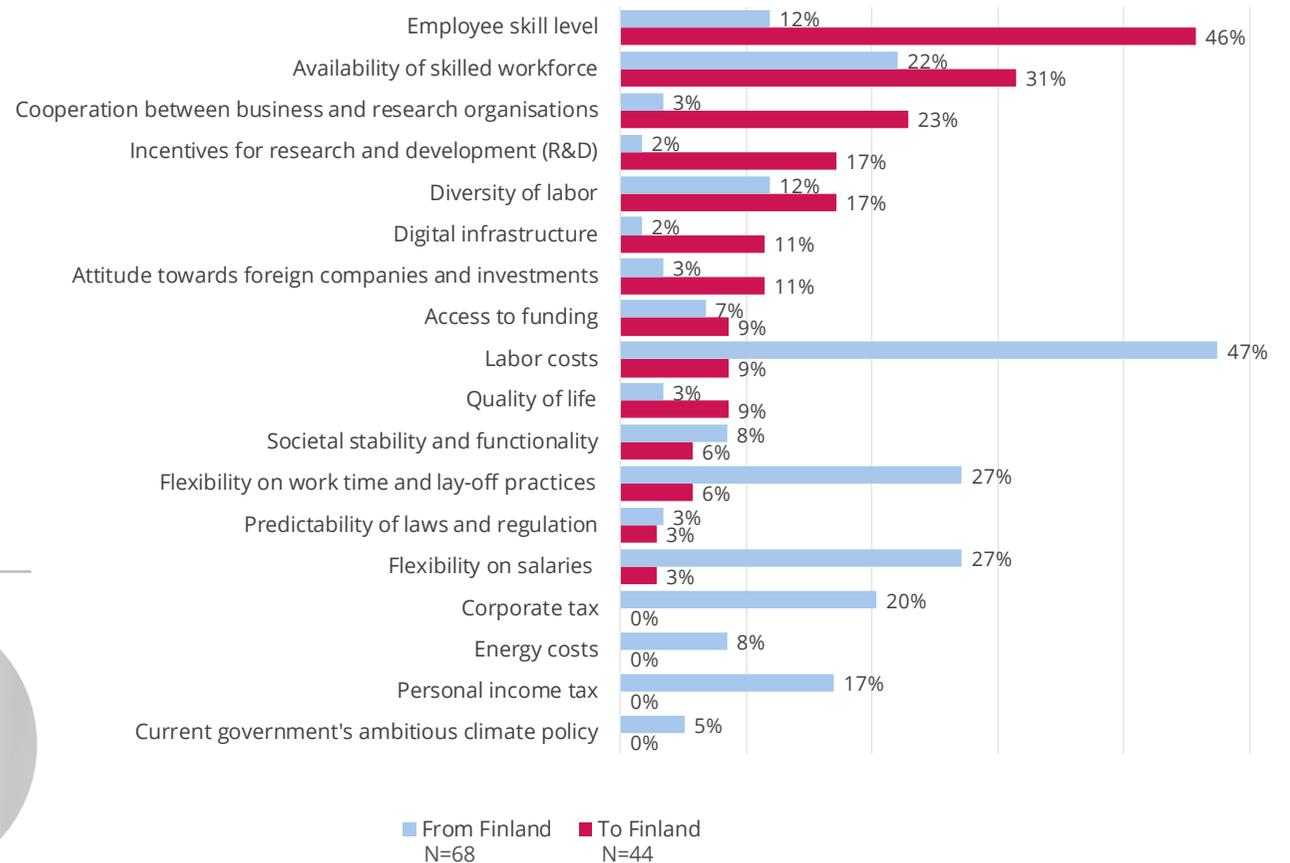
That’s why the flexibility of the labor market is the key factor for keeping operations in Finland.

The top factors attracting the movement of operations to Finland were the availability of a skilled workforce and good cooperation between business and research organizations. These activities should also be highly prioritized in the future.

“Finland’s high level of education gives us great benefits, but it’s not enough anymore. We don’t have enough people in certain areas, such as the IT sector. That is why re-educating our current Finnish workforce and attracting more talents from abroad will be very important.”



Katja Miettinen, Acting Managing Director, Academic Work



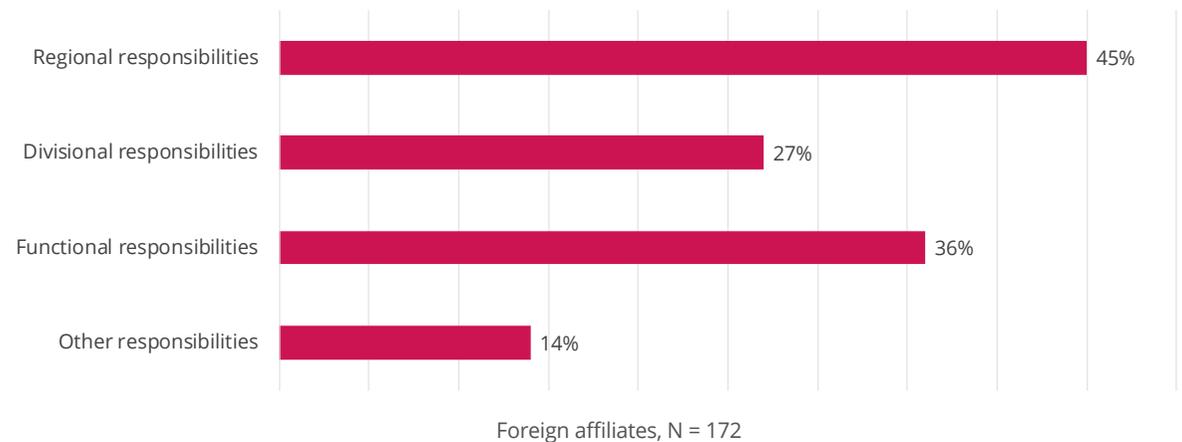
Note! Observations in each direction are small (35 inward and 59 outward). The results are indicative.

Cool and Calm Decisions

Although foreign affiliates establish operations in Finland, in many cases the impact of their operations reach over borders. Headquarters are usually concentrated in locations where the business environment is favorable. Headquarters also attract more companies and create indirect jobs by using the business services around them.

The location of headquarters is important because it is at the center of decision making. A surprisingly high proportion of foreign affiliates reported that their decisions were made from Finland. In total, 55% of the foreign affiliates replied that they have international management responsibilities. This means that decisions on operations are taken in Finland at the regional, divisional or functional level. Most of the foreign affiliates' decision making that was made in Finland related to regional responsibilities (45%).

Does your company operating in Finland have managerial responsibilities for operations outside of Finland?



“The Chinese 5G phone rose to the top of the sales statistics, and now the manufacturer moves its Nordic headquarters from London to Helsinki.”

September 24, 2020, *Talouselämä*

“I believe the Finnish government must invest significantly in developing technology skills in society if we want to attract further R&D investments. We need learning capabilities for everyone in Finland because people will need to be able to adapt to changes and continue innovating, because society, businesses and work are continuously evolving. We also need an attractive environment for skilled talent from other countries.”

Jussi Tolvanen, Managing Director, Microsoft Finland



Deeper Love After First Sight?

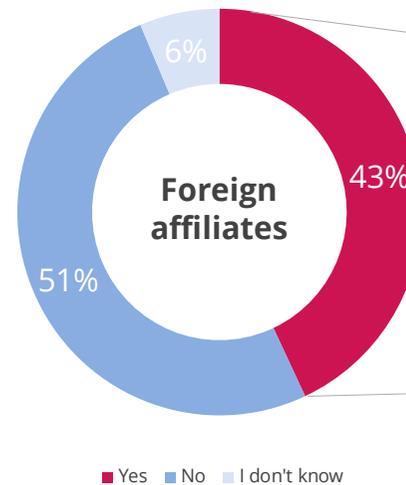
The impact of satisfied foreign companies on the Finnish economy can be larger than we imagine at first sight. The Finnish government should carefully listen to the needs of foreign-owned companies. In the past two years, 43% of foreign affiliates planned to expand operations or make new investments in Finland. These expansion investments create even more euros and jobs in Finland.

The majority of the foreign affiliates' expansion plans were related to the manufacturing and production of services. 14% reported planning further investments in R&D operations.

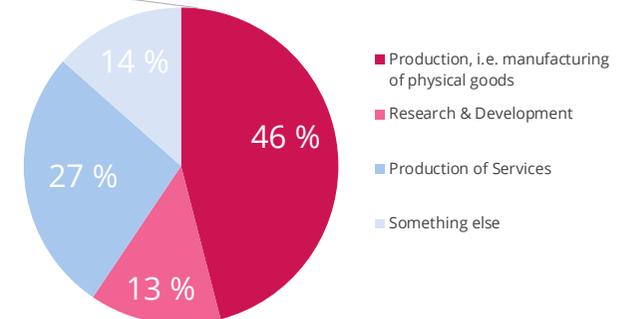
Finland was the clear winner as a destination for expansion investments. Out of 74 expansion plans by foreign affiliates

- 34 landed in Finland and
- 17 ended up in another country
- the rest had not decided yet/are not willing to tell

In the past two years, has your company considered expanding operations or making new investments in Finland?



Expansion and investments considered by foreign affiliates, %



46% of the planned expansions by foreign affiliates landed in Finland, N=172

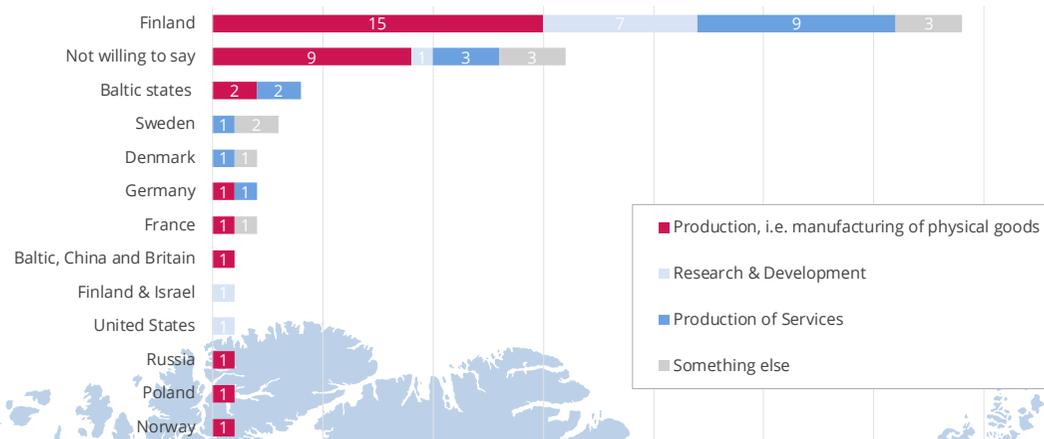
“It is crucial to have a long-term plan. Therefore, a priority should be that political parties jointly agree on a 15-year plan, for example, of how to develop the energy market in Finland. This would make it safer and simpler for companies to invest and build infrastructure; these types of investments are made for much longer time periods than four years, the typical maximum period of predictability in Finland. This solution would increase the attractiveness of the Finnish market compared to its competitors.”

Elina Kivioja, CEO, Vattenfall Finland Oy



Country where expansion investment landed in

Foreign Affiliates



16 of the respondents (22%) were not willing to reveal the country they chose. There are 4 expansions in which location has not yet been decided. There is no clear preference in the competition outside Finland, as the expansions are spread across so many different locations.



Top reasons for companies to choose Finland:

- Proximity to existing company operations
- Proximity to customers
- Employee skill level
- Availability of skilled workforce
- Societal stability and functionality



Top reasons for companies to choose other country than Finland:

- Proximity to existing company operations
- Labor costs, operations/fulfilling tasks
- Proximity to customers
- Availability of skilled workforce
- Proximity to suppliers
- Flexibility on salaries
- Corporate tax

Attractive Alternatives: Sweden, Denmark, Baltics and Germany

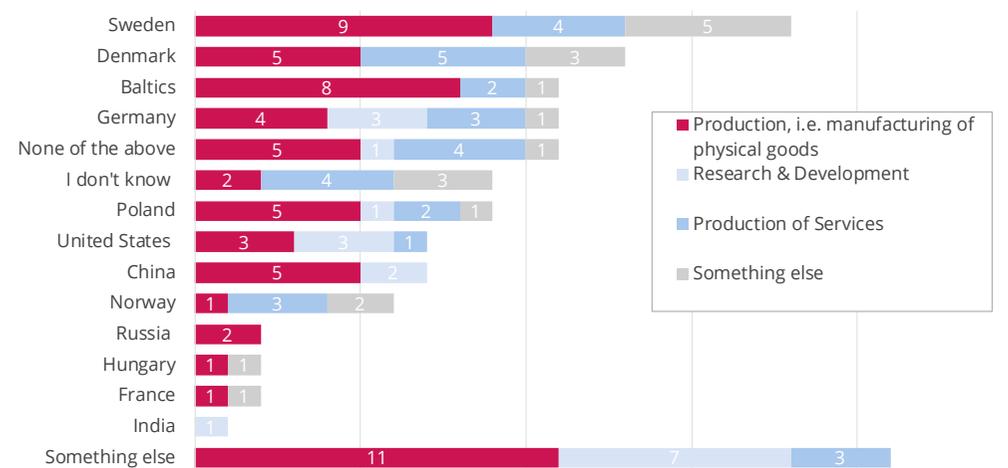
Foreign affiliates see Sweden, Denmark, Baltics and Germany as the most attractive alternatives for expansion investment.

Sweden, Baltics, Poland and China were considered as the most attractive alternatives for manufacturing location.

Other Nordic countries are attractive locations for possible expansions of service operations.

Some companies are considering Germany and USA as alternative locations for their R&D operations. None of the respondents considered Sweden as a potential R&D location.

Alternative expansion investment destinations for Finland
Foreign Affiliates



Germany is an interesting alternative for Finland in all four activities. N=74

“FDI is not only about the framework and opportunities, but it’s also about the mindset and Finland’s brand. The current mindset is public-focused rather than business-focused. I hope to see Finnish politicians showing by example, showing that we are interested in gaining FDI because it’s about helping people understand the value of investing in Finland. Politicians should talk and listen very actively with business people to understand what their topical issues are and how to solve them.”

Casper Herler, Managing Partner, Borenius



Sustainability is the New Black

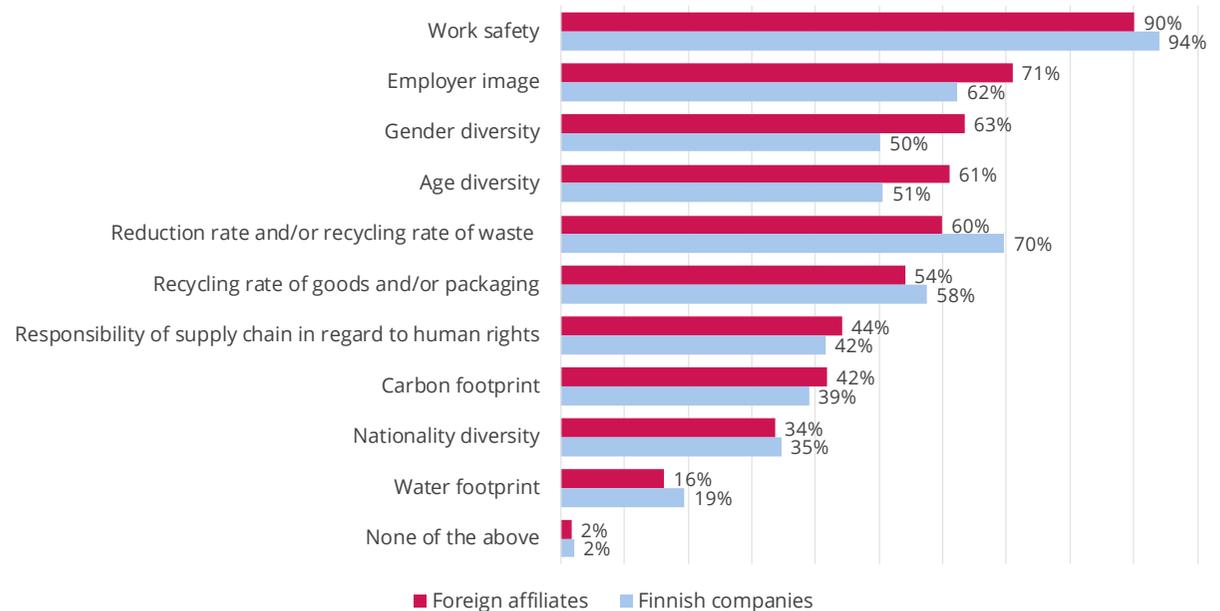
The survey revealed that foreign affiliates are active in using different sustainability measures. These measures cover economic, societal and environmental sustainability.

Almost half of the foreign affiliates measured more than five different dimensions of sustainability. Only 2% did not use any sustainability measures.

The three most used sustainability measures for foreign affiliates were work safety, employer image and gender diversity. The latter two were a more common measure in foreign affiliate companies than in Finnish companies. Finnish companies were more active in measuring waste reduction and recycling rates than their foreign peers.

In the open comments it was commonly stated that foreign companies are committed to doing business in Finland ethically and according to rules and regulations.

Sustainability measures



Foreign affiliates like to measure work safety, employer image and gender diversity. N=403

“We act sustainably in all matters. We pay attention to the environment and have social responsibility for employees.”

“Sustainability has a foundation in the company’s strategy, and the implementation of the set goals is monitored.”

Positive Vibes of the Future

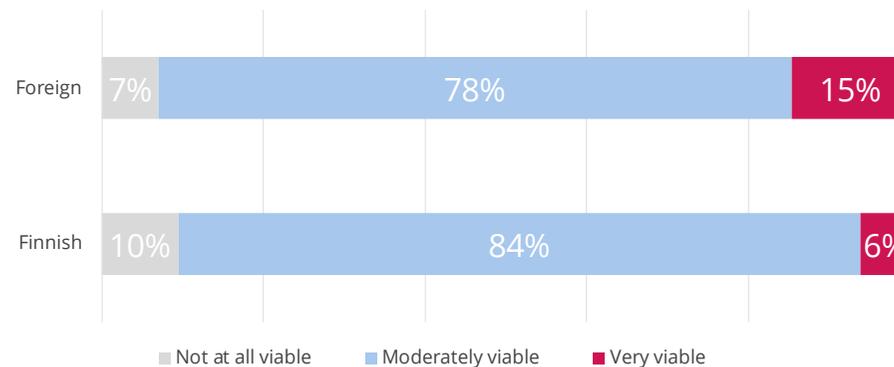
Foreign affiliates see Finland’s business environment as more viable in 2030 than Finnish companies. 93% of the foreign affiliates expect the business environment to be at least moderately viable in 2030.

Finland’s future operational environment is a controversial topic. Foreign affiliates see it as the biggest opportunity but, at the same time, as the biggest challenge for Finland’s viability in 2030. However, the operational environment was seen in a more optimistic light after the start of the Covid-19 pandemic.

There is a clear indication that foreign affiliates see labor skills as one of the most positive factors for their future in Finland. The role of labor skills was emphasized even more after the start of the Covid-19 pandemic.

On the other hand, labor availability is a challenge for foreign affiliates. Even though the respondents feel that there is more labor available after the start of the Covid-19 pandemic, Finland has to make an effort to ensure the availability of labor in the future.

How viable do you see the business environment in Finland in 2030?



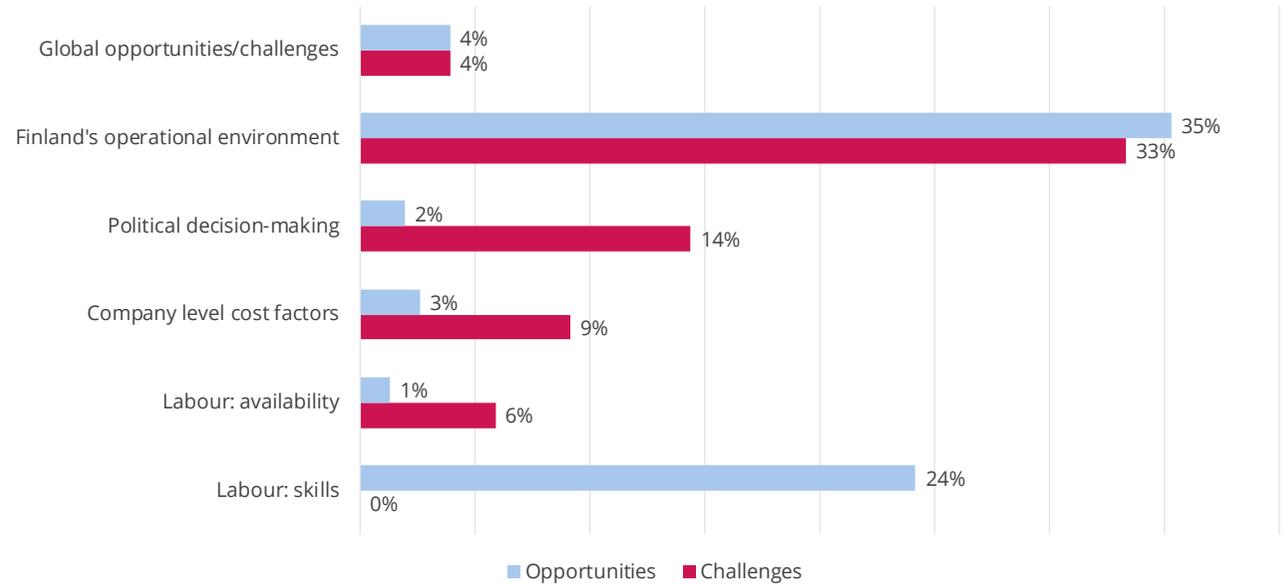
93% of foreign affiliates expect Finland's business environment to be at least moderately viable in 2030.

“We have the know-how; if only the cost level remains moderate. Finland is a reliable player internationally.”

Political decision-making and company level cost factors were considered more as challenges than opportunities, even though foreign affiliates are slightly more optimistic about them than their Finnish counterparts.

Factors affecting Finland's viability

Foreign affiliates



Finland's operational environment is an opportunity as well as a challenge. Labor skills are a big opportunity for Finland.

"There are many opportunities that emerge from our time and environment (e.g. environmental values, related technological developments, health data and its utilization) if they can only be seized and supported by ambitious policy guidance such as legislation and incentives."

"Finland is a stable country, part of the EU and highly skilled workforce can be found, especially for industries utilizing new technology."

Wishlist for the Finnish Government

Altogether, 142 companies sent greetings for the Finnish Government. The three most common wishes were

- Lower level of taxation
- More flexible labor market structure
- Investment in international attractiveness

The wish for a lower level of taxation included reductions at both the corporate and personal level.

Investment in international attractiveness describes how Finland is viewed from abroad. It included messages related to the competitive level of taxation, smaller additional costs for employees, flexible labor market, smooth work permit processes and better incentives for investment.

The wishlist has changed since the last edition of the Barometer. In 2018, it concentrated mainly on labor issues (salary flexibility, contractual flexibility and labor costs), whereas now the companies seem to be more interested in the bigger picture of Finland as an operating environment.

Messages to the Finnish Government



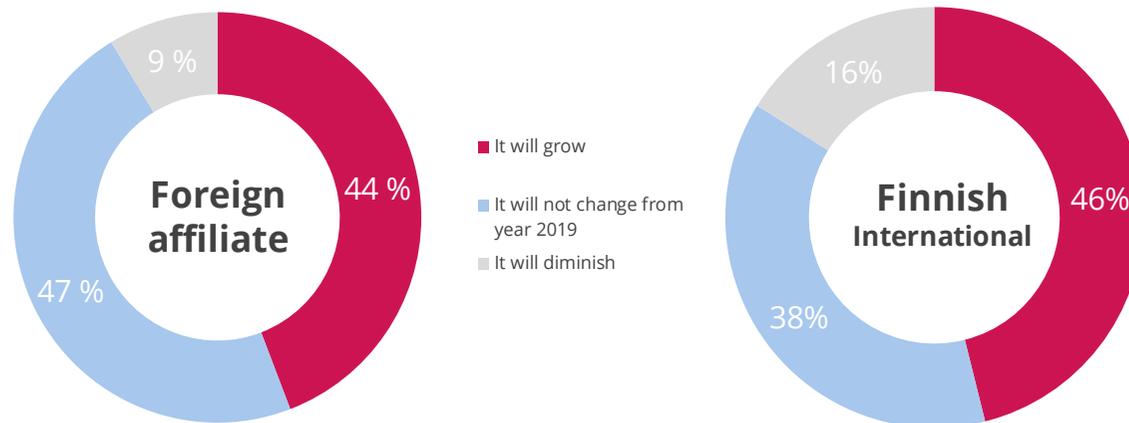
“Predictability must be maintained and competitor countries should be monitored in Europe.”

“Finland is a good location. Let’s keep the taxation reasonable.”

More Employees and R&D!

Foreign affiliates keep on contributing to the wealth of the Finnish economy. 44% of foreign affiliates planned to increase their number of employees in Finland between 2020-2021. More Finnish companies are planning to reduce their workforce than foreign affiliates in Finland.

In which way do you think your employee count in Finland will change in 2020-2021?



91% of the workforce of the foreign companies will remain unchanged or grow. N = 403

"The predictability of the business environment, cost competitiveness and innovation policy must be in line with competition."

"The labor market should be made more flexible."

"The additional costs of salaries should be decreased. Education is still important."

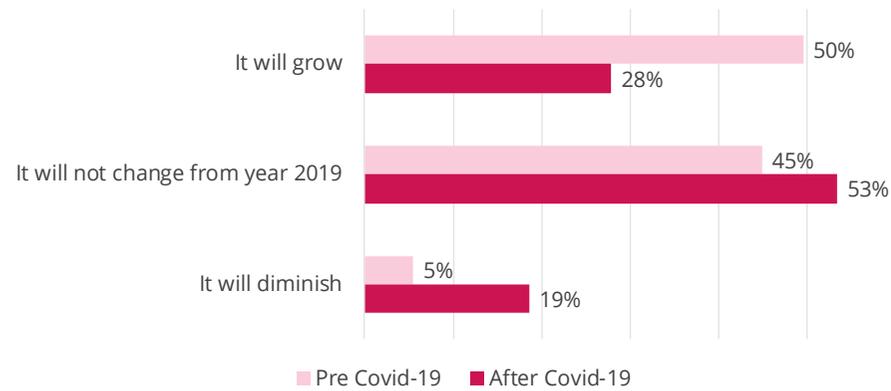
"Investment grants should be available also for subsidiaries of large companies."

However, there are differences in the near-term plans when looking at the responses before and after the Covid-19 pandemic. Before Covid-19, there were ambitious plans to employ more staff in Finland in both foreign-owned and Finnish companies. Close to 50% of the interviewed companies planned to hire more staff.

After the start of Covid-19, foreign affiliates are more cautious in terms of hiring more employees. Still, 28% of them were planning to do so, whereas the plans of the Finnish companies did not change significantly. On the other hand, more Finnish companies are planning to reduce their staff (22%) in comparison to the foreign affiliates (19%).

“Companies plan in 10-year periods, so political decision-making should be predictable for more than four years. Politicians should get to know better how companies operate.”

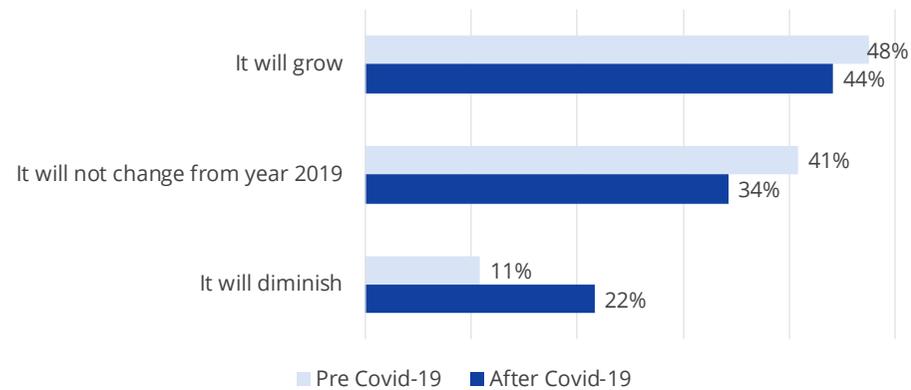
Foreign affiliate



Pre N=129
After N= 43*

*Note the low number of the answers of foreign affiliates after Covid-19

Finnish International

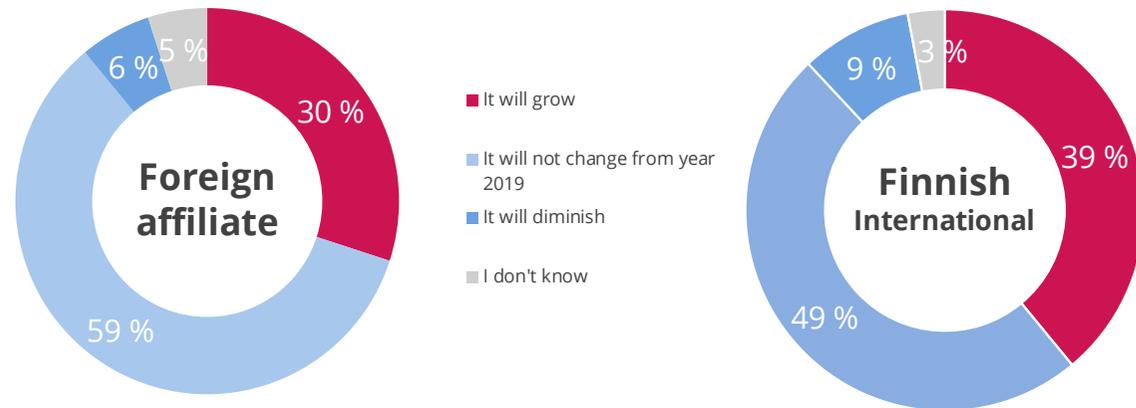


Pre N=120
After N=111

Foreign affiliates are more cautious in hiring new personnel after the Covid-19 crisis but they also plan to reduce less staff than their Finnish peers.

Foreign affiliates also enrich the R&D ecosystems in Finland. The respondent foreign affiliates invested more euros in R&D than their Finnish peers. The foreign companies invested an average of 1,8 million euros and the Finnish companies an average of 760 000 euros in R&D in 2019.

How will your research and development investment in Finland change in 2020-2021?



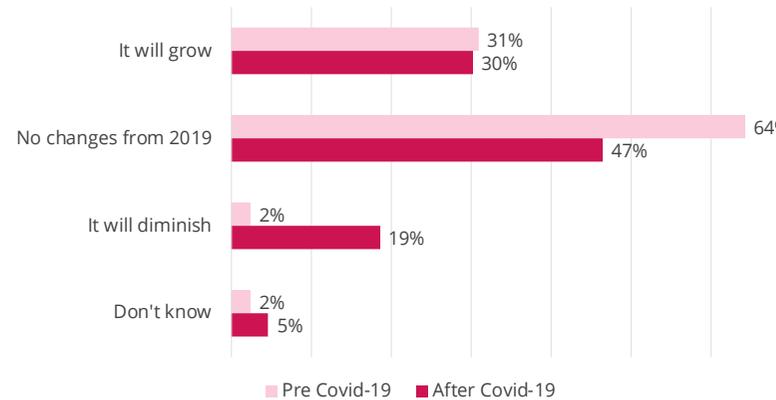
89% of the foreign affiliates will grow or invest the same amount in R&D. N = 403

“There is reputational damage caused by government speeches about short working weeks. The lack of labor market flexibility hinders the growth of international investment. Increase in immigration is needed to have more available skilled experts. Employing spouses is often a challenge. It affects the opportunities for recruiting experts from abroad.”

Finnish companies plan to grow their R&D a bit more in 2020-2021 than the foreign affiliates. On the other hand, more Finnish companies also plan to diminish their investment in R&D compared to foreign affiliates.

Covid-19 did not significantly decrease the R&D growth plans of companies. For foreign affiliates, 31% planned to grow R&D in 2020-2021 before the crisis and 30% after the crisis. After the start of the crisis, the number of companies planning to diminish R&D increased.

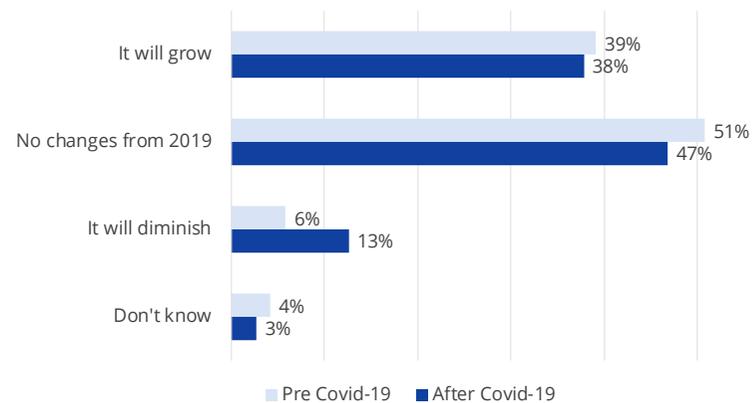
Foreign Affiliate



Pre N=129
After N= 43*

*Note the low number of the answers of foreign affiliates after Covid-19

Finnish International



Pre N=120
After N=111

“Ensuring cost competitiveness is essential.”

“The availability of labor is crucial; it is not easy to find labor in the construction industry.”

AMCHAM FINLAND

Amcham Finland is an international business community for inbound companies accessing the Finnish market and outbound companies going to America.

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BUSINESS FINLAND

Business Finland is an accelerator of global growth. We create new growth by helping businesses go global and by supporting and funding innovations. Our top experts and the latest research data enable companies to seize market opportunities and turn them into success stories.

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