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THE IMPACT OF COVID-19 ON FINNISH SMES

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International Business
Bachelor's Thesis
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Date of Approval: 9 April 2021

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ABSTRACT OF
BACHELOR'S THESIS

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Title of thesis: The Impact of COVID-19 on Finnish SMEs

Date: 9 April 2021

Degree: Bachelor of Science in Economics and Business Administration

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Objectives

The main objectives of this study were to analyze the impacts of COVID-19 on Finnish SMEs, by identifying the state of SMEs prior to COVID-19 and comparing the results to data gathered after the effects of COVID-19 had taken place. The results were also compared to the financial crisis of 2008, in order to get a better idea of how COVID-19 compares to other global crises. Furthermore, the study looked into how SMEs can perform better during a global crisis, in order minimize the negative effects of a crisis.

Summary

A literature review was conducted to analyze the results of previously published studies regarding the effects of COVID-19 on economies and enterprises. A conceptual framework was created based on the cause-and-effect styled structure of the study, which explains how different factors affected the topic. The research of this study was conducted using secondary research, by analyzing previous studies and available data, in order to answer the research objectives set.

Conclusions

The impact of COVID-19 on SMEs is quite significant, as SME employment rates and net sales have decreased, and the number of SMEs in total have decreased as SME openings have decreased and closures have increased. However, comparing the results of COVID-19 to the financial crisis of 2008, it is clear that the financial crisis had a larger and more severe impact on the SMEs of Finland.

Key words: smes, Finland, crises, financial crises, impact

Language: English

Grade:

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1. INTRODUCTION

1.1 Background

Global pandemics and financial crisis are some of the main causes of economic change in the world (Amadeo, 2021). The virus known as COVID-19 has been the main topic of discussion of 2020 as it has affected the world from various angles. One of the main areas affected in the pandemic are the different economies and businesses of the world. It has been predicted that due to COVID-19, global merchandise trade will decrease by 5.6% in 2020 when compared to 2019 (UNCTAD, 2020a). A recent report by UNCTAD (2020b), states that due to the COVID-19 pandemic, over 130 million people are living in extreme poverty. The pandemic has also been the cause of over 1 million deaths worldwide so far (ibid.). This highlights the importance of further research on COVID-19, as current research may help in future pandemics. The effects on the different economies of the world vary, as governments impose regulations and strategies which they see as the most effective for their country. The purpose of this study is to examine the impact of the pandemic, on SMEs operating in Finland.

1.2 Research Problem

Small and medium-sized enterprises are the cornerstone of the Finnish economy. Due to the regulations set by the government and the nature of the pandemic, small and medium-sized enterprises are the businesses which are harmed the most. (Tadjeddine et al., n.d.) Therefore, it is crucial to understand how the virus has affected the economy of Finland, and its SMEs. Analyzing the impact of the pandemic, and the reasons behind the current state of the economy, will allow the Finnish government to be better prepared in case a similar problem arises in the future. Based on this, the topic of this study is ‘How has COVID-19 effected the economic position of SMEs in Finland?’

1.3 Research Questions

This study will look into the following questions:

1. How were small and medium-sized enterprises affected in Finland?

2. Compared to other global pandemics, how severe is the impact of COVID-19 on Finnish SMEs?

3. How can SMEs minimize the negative effects of a global crisis in order to ensure survival?

1.4 Research Objectives

The objectives of this study are the following:

- To understand how COVID-19 as a global pandemic affected SMEs in Finland.
- To identify the factors which led to the current state of the economy and SMEs in Finland.
- To identify factors which allow for SME success in a global pandemic.
- To identify the best methods of minimizing the negative impact of a global pandemic on SMEs.

1.5 Definitions

The Emergency Power Act, as stated in the official document is:

The purpose of this Act is to secure the livelihood of the population and the national economy, to maintain legal order and constitutional and human rights, and to safeguard the territorial integrity and independence of Finland in emergency conditions. (1991)

Small Business Act is an initiative deployed by the European Commission with the aim to create SME policies which will assist SMEs with competitiveness and overall growth. The Act was introduced in 2008, as SMEs are seen extremely important in the European economy (Dilger, 2016).

The definition of small and medium-sized enterprises varies from country to country, however for this thesis paper SMEs will be defined and discussed according to the European Commission definition as it is most relevant to Finland. Businesses are classified as SMEs based on the current number of employees, turnover, or total balance sheet value. The European Commission (n.d.) states small and medium-sized business must have less than 250 employees, total turnover of less than or equal to 50€ million or a total balance sheet value of less than or equal to 43€ million. This definition will include the smallest enterprises known as micro enterprises, which are classified as enterprises with 10 or less employees, less than 2 million total turnover, or a balance sheet total of less than 2 million.

2. LITERATURE REVIEW

2.1 Introduction

The purpose of this literature review is to address what the existing literature on SME's implies about the impact of the COVID-19 pandemic on small and medium-sized enterprises or SMEs in Finland. As is known, the COVID-19 virus is a global pandemic which emerged from Wuhan, China in December 2019 and quickly spread around the world, turning into a global pandemic (WHO, 2020). Actions taken by companies during a global pandemic determine how the economy of a country will look like in the future, therefore it is crucial to understand what happened during COVID-19. The pandemic has affected economies worldwide and businesses of all sizes, however this literature review will focus mainly on SMEs, as they represent 93 percent of the Finnish enterprise stock (Official Statistics of Finland, 2017). This

literature review will look at the causes and overall impacts of COVID-19 with an in-depth focus on SMEs.

2.2 Small and Medium-sized Enterprises

2.2.1 Role of Small and Medium-sized Enterprises

In 2018 the Finnish economy consisted of 286,042 companies (excluding agriculture, forestry, and fishing) of which 285,387 are classified as SMEs, however 93 percent of these SMEs are micro enterprises, meaning their headcount is less than 10 (Yrittäjät, 2018). Overall, the majority of the Finnish economy is based on SMEs. It could be argued that due to the Finnish company structure, SMEs are extremely important to the Finnish economy. The importance of SMEs can be further seen in the total turnover of companies, as SMEs represent 58,1 percent of the total turnover of companies in 2018 (ibid).

SMEs are of great importance not only to Finland, but also to Europe as a whole. According to the SBA Fact Sheet (2019), 99,8% of enterprises in Europe are SMEs and they employ over 66% of the total population of Europe. In general, SMEs are a key factor in adding value to the economy of Europe. As SMEs are essential to Europe, SMEs have received much needed support from the European Commission.

2.2.2 SME strategy for Europe

The European Commission has published a document entitled ‘An SME Strategy for a sustainable and digital Europe’ (2020), which thoroughly describes the strategy set in action, with the aim to assist SMEs grow and to create an attractive environment in which to start a small business. The strategy is based on actions which support the three main pillars the strategy is built on: Capacity-building and support for the transition to sustainability and digitalization; reducing regulatory burden and improving market access; and improving access to financing.

According to Rahman et al. (2015) digitalization, in terms of networking and technological innovation, can be considered some of the main variables in SME

survival. This can be directly linked to the first pillar in the strategy employed by the European Commission, with the purpose of supporting SMEs transition to a more digitalized way of operating. In times of a global pandemic, where human contact needs to be limited, the importance of digital operations is highlighted. Therefore, it is reasonable to assume that future pandemics will be dealt with more effectively, as the European Commission aspires for all SMEs to transition into a more digital busines model in the future. Overall, the European Commission SME strategy is supported by Rahman et al, as both believe the key to SME survival and growth is digitalization and innovation.

Bankowska et al. (2020) argue that the due to the financial crisis of 2008, SMEs have been dealing with blockages when accessing finance. They further claim that access to finance was one of the key factors affecting business activity negatively in the majority of SMEs. This can be linked to the current pandemic, and assume that a global pandemic such as COVID-19, could have similar effects, especially when global economic effects of the pandemic are considered. Bankowska et al. further explain how the effects of the financial crisis of 2008 were still present during the start of COVID-19. Thus, it is reasonable to argue that access to finance has further declined due to COVID-19 due to the difficult economic environment governments are dealing with. This is supported by Bankowska et al. (2020b), as she claims the expected amount of external and internal funds for SMEs decreased as the pandemic began. As SMEs are more financially constrained than large companies (Bankowska et al, 2020), it is important to enable SMEs access to external funding. In conclusion, access to finance has been discussed as one of the key elements of SME survival during a global pandemic, as it allows financially constrained companies to live through the pandemic. Furthermore, the European Commission has deemed it as one of the main pillars in their strategy to support the SME economy of Europe.

Finally, the last pillar of the strategy implemented by the European Commission aims to increase market access to SMEs. As stated, 99,8% of European enterprises are SMEs, which effectively build the single market. The single market is responsible for international trade within the EU, therefore crucial for all European governments. During COVID-19, where government set regulations restrict regular purchase

behaviors, the importance of international trade is further highlighted, as consumers require easy access to international markets if essential goods are not available locally. However, according to Kituyi (2020), it is important to keep an eye on governmental responses to COVID-19, in order to prevent an ‘’insurgence of protectionist measures’’. Kituyi (2020) highlights, how important it is for the global economy to recover using international trade and sustainable growth, instead of simply promoting local economies using governmental restrictions on free trade. This reinforces the final pillar of the SME strategy set by the European Commission, where the idea is to support SMEs by increasing market access and free trade. While this is not something SMEs can control themselves in itself, it is certainly a large-scale strategy in ensuring a healthy environment for SME growth. In the end, the ‘SME Strategy for a sustainable and digital Europe’ highlights the most important strategies SMEs should apply, when dealing with a global pandemic.

2.3 COVID-19

2.3.1 Origin of COVID-19

The World Health Organization (2020) states that the first reported cases originated from Wuhan, China in December 2019. The origin and reason of the virus is linked to a food market in the area of Wuhan. Even though Wuhan was the first to report the virus to the authorities it cannot be said for certain that this is where the virus began.

The news about the virus were given to the public at the beginning of January 2020, and by the end of January it had spread across the world to countries like the United States who declared the pandemic a public health emergency at the end of January 2020.

2.3.2 Impacts of COVID-19 in Finland

Although originally China was the epicenter of the pandemic, it is currently difficult to determine the epicenter as the virus has spread globally. According to Baldwin and Weder di Mauro (2020), international trade is ‘’the leading mechanism through which

the virus damages domestic economies and spreads internationally''. This is because the virus heavily affects the demand and supply of various markets, which is the basis of international trade and crucial to all countries, thus leading to significant decrease in trade overall and harming domestic economies (ibid). However, the damages caused by the virus are dependent on the country and the regulations set by the government to minimize the negative impacts. Hanlon (2020) states that throughout the pandemic, Finland's efforts to combat the virus have been considered a success. According to Hanlon (2020) Finland managed to keep its infection rates 5 times lower than the average European country. However, even with the low infection rates, according to Niinimäki (2020), over two thirds of SMEs in Finland have been negatively impacted by the pandemic.

The Government of Finland (2020b) declared a state of emergency in a press release, as a response to COVID-19 on March 17th, 2020, with this the Emergency Powers Act was implemented. With the declared state of emergency, a set of restrictions were set upon businesses in Finland to prevent the spreading of the virus. While preventing the spread of the virus was important, the restrictions set by the government heavily affected the business and social sides of Finland.

Due to the restrictions to combat COVID-19, most of the public services and businesses were forced to close temporarily, however in some cases this led to bankruptcy and permanent closure of business. This was most present in restaurants and cafes, as they had no source of income while closed (Helsinki Times, 2021). However, restaurants and cafes were not the only ones affected. In a press release by the government, they stated:

> All national and municipal museums, theatres, the National Opera, cultural venues, libraries, mobile libraries, services for customers and researchers at the National Archives, hobby and leisure centres, swimming pools and other sports facilities, youth centres, clubs, organisations' meeting rooms, day care services for the elderly, rehabilitative work facilities and workshops will be closed. Private and third-sector operators and religious communities are advised to do the same. (Finnish Government, 2020b)

According to Tiirinki et al. (2020) the closing of schools and other public services has had a negative effect on the health and wellbeing of Finnish nationals. It could be

reasoned, that due to such heavy regulations on public services such as hobby opportunities and leisure centers, the social health of Finnish nationals has also diminished. Overall, COVID-19 has had a negative impact on Finnish health and wellbeing, while also harming the Finnish economies by forced regulations which reduce business in general or even prevent companies from operating.

2.4 Economic situation of SMEs in Finland

2.4.1 SMEs before COVID-19

The economy of Finland is heavily reliant on SMEs because they occupy such a large part of the Finnish economy. The total turnover of Finnish companies was €434 billion, of which 58,1% came from SMEs (Yrittäjät, 2018). Prior to COVID-19, SMEs in Finland accounted for 65.2% of employment and 59.6% of added value. Table 1 shows a more detailed distribution of employment rates and added value in terms of the size of the company. Value added is defined as value brought per employee in monetary terms (European Commission, 2019).

Size of Company	Number of Employed People (in %)	Value Added (Billion €)
Micro	23,9	19,7
Small	22,4	20,7
Medium	18,9	23,1
SMEs in Total	65,2	63,5
Large	34,8	43,1
Total	100	106,7

Table 1: Employment and Value Added for different sized companies in Finland (Yrittäjät, 2018)

Even with such high value rates, SMEs added value were forecasted to keep growing steadily with a moderate rate. Therefore, it could be argued that before the effects of COVID-19 on the Finnish economy, SMEs in Finland were performing well.

Finland had implemented numerous SME policies in 2019 which were in check with the SBA principles introduced in 2008. According to the European Commission (2019), Finland is outperforming the European averages in five areas related to

SMEs as well as the employment rates and value added. The areas in question are entrepreneurship, 'second chance', 'responsive administration', access to finance and skills, and innovation. 'Second chance' is a created measure, defined as businesses that have gone bankrupt but have received a second chance. Companies which receive a 'second chance' are provided with governmental support, for example by grating the company discharge from their business debts (European Union, 2019). 'Responsive administration' is a measure that looks at the responsiveness of the public administration to the needs of SMEs.

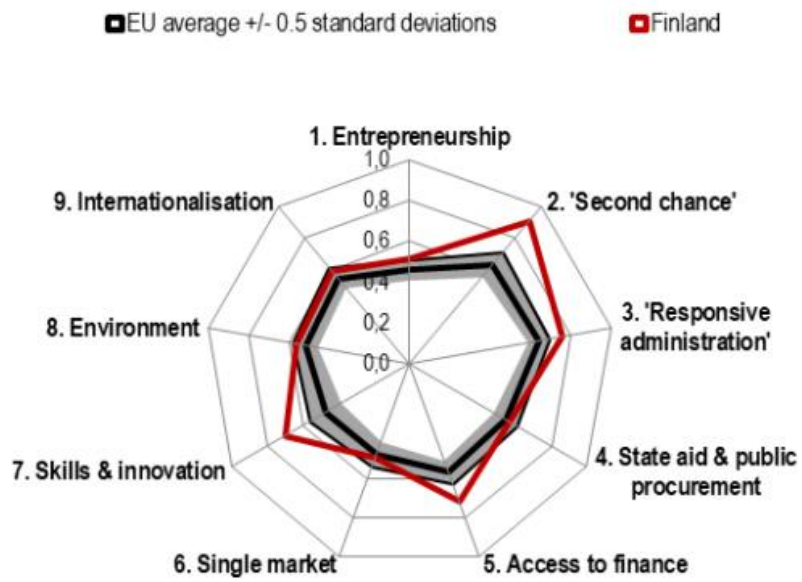

Figure 1: SBA profile of Finland (European Commission, 2019)

Figure 1 demonstrates an overview of Finland's performance regarding the SBA principles. Finland is clearly ahead of the European averages in 4 areas, however, looking at figure 1, there are 4 areas in which Finland is not ahead, which are: environment, internationalization, single market, and state aid and public procurement. Although, Finland is not ahead, they are still in line with the European averages which can still be considered acceptable. So, overall the diagram demonstrates how Finland is overall outperforming European averages, thus it can be argued that SMEs in Finland were outperforming other European countries before the impact of COVID-19.

2.4.2 SMEs after COVID-19

Although the importance of SMEs in Finland can be seen as the cornerstone of Finnish economy, it can therefore also be an area of great risk to Finland. With SMEs being of such great importance to Finland, a global crisis which directly prevents SMEs from operating, can have drastic effects.

The global pandemic has resulted in expected turnover growth and investment to diminish (Finnish government, 2020a). According to a recent survey, at the end of 2020 32% of SMEs expect the economic conditions decline as opposed to 17% at the beginning of the year 2020 (ibid). This shows that SMEs believe in the negative economic impacts of COVID-19 after more information on the pandemic has surfaced.

According to Statistics Finland (2020), enterprise startups were 7 percent lower in the July-to-September period of 2020 than the corresponding 2019 period. The decrease in enterprise openings could be directly linked to the global pandemic, and the effects that it caused like governmental restrictions on businesses. Moreover, Gruszcynski (2020) argues in a recent article that a decline in international trade is expected, due to COVID-19 and its impact. This is a potential reason to the decline in enterprise openings, as the future of international trade is uncertain.

	Enterprise openings (No.)	Enterprise closures (No.)
2019Q2	8,557	4,902
2019Q3	10,026	4,024
2020Q2	8,478	5,531
2020Q3	9,320	.

Table 2: Enterprise openings and closures, 2019-2020 (data adapted from Official Statistics Finland, 2021)

Table 2 shows the absolute values of openings and closures, where you can see enterprise openings, fall from 10,026 to 9,320 in quarter 3 of 2019-2020, indicating a clear decrease in enterprise startups. An increase in enterprise closures is also indicated in table 2, where closures increased from 4,920 to 5,531 from quarter 2 of 2019-2020.

Enterprise closures in Finland during the April-to-June period of 2020 is 13 percent higher than in the corresponding 2019 period (Statistics Finland, 2021). This could be due to the reduction in the customer base of numerous Finnish SMEs. Findikaattori (2021b) states that Finnish exports have declined 13,7 percent from January to November 2020 while imports have declined 10,4 percent. These are significant numbers and show the negative impact on international trade in Finland. The increased enterprise closures could be linked to reduced international trade, as it means the customer base for SMEs diminished. The customer base during COVID-19 was further decreased as the Finnish government (2020) restricted the movements of citizens and forced lockdowns on citizens above the age of 70. Movement restrictions on the elderly is especially significant in Finland, as over 20 percent of Finnish citizens are over the age of 65 (Official Statistics of Finland, 2020). In the end, it is reasonable to suggest that due to COVID-19, the economic conditions of SMEs in Finland have diminished.

2.4.3 Comparing to Economic Crisis of 2008

The economic crisis of 2008 was a global decline in economic activity which resulted in the collapse of financial markets and banks (www.history.com, 2017). COVID-19 is the predecessor of the Great Recession in terms of global crisis, and a comparison of the two will provide a wider overlook of the effects of COVID-19.

According to Suni and Vihriälä (2016), the GDP of Finland decline by 8,5 percent in 2009. Comparing this to 4,3 percent forecasted decrease in 2020, purely looking at GDP values, the crisis of 2008 was more severe, this is shown in figure 2, which presents GDP of Finland from 2005 to 2019.

Figure 2: GDP of Finland (in hundreds of billions), 2005-2019 (Data source: The World Bank)

However, GDP values do not accurately represent the economic effects of the crisis on SMEs as there are other factors which need to be considered. The imports of Finland declined by 31 percent by the end of the financial crisis in 2009 whereas exports declined by 32 percent (Customs, 2010). These values are significantly higher than the ones in 2020 which were caused by the COVID-19 pandemic. Therefore, it can be argued that the 2008 financial crisis affected international trade in Finland more drastically than the COVID-19 pandemic.

In terms of enterprise closures, COVID-19 has been more severe than the financial crisis of 2008. As stated by Official Statistics of Finland (2010), enterprise closures increased by 4 percent in 2009 whereas in 2020 it was up to 13 percent. On the other hand, enterprise openings declined by 10 percent in 2009 whereas in 2020 it was only 7 percent. There is a clear difference in enterprises when comparing 2009 and 2020. The higher closures of 2020 could be explained by the safety restrictions set by governments, forcing business to shut down. Whereas the higher reduction in enterprise openings of 2009 compared to 2020 could be due to the economic position of Finland at that time. Prior to the financial crisis of 2008 Finland had suffered from World War 2 and the Depression of 1990 (Gulan, et al. 2014) It is reasonable to suggest that due to the previous crisis which affected Finland, the

economic position did not support opening enterprises as much as it did in 2020. Overall, as the COVID-19 pandemic is still ongoing, it is difficult to compare the results accurately, as the future effects of COVID-19 are unknown.

2.5 Survival strategies of SMEs in global crisis

Small and medium-sized businesses are usually the ones affected the most in global crisis, as they lack the funds and resources to survive through the crisis (Asguary et al. 2020). In terms of survival, SMEs need to pay more attention to strategies and decision making than large companies. As SMEs play such an important role in the global economy, understanding how SMEs can survive or even thrive during and after recessions is crucial.

Kambil (2008) cited in Sharma observed that enterprises who focused on revenue growth and market share succeeded during a recession compared to their competitors. Whereas Favaro et al. (2009) presented five keyways in which companies could gain market share and ensure reasonable margins. The first is to focus on customers who are loyal to the product, rather than existing companies. This is reasonable as it allows companies to compete with the quality of their goods rather than existing relationships. Secondly, Favaro et al. (200) further explains how it is important to make the goods offered, more accessible to the customers. As it is reasonable to assume, consumers will be interested in goods which are easily obtainable during a recession, especially in a pandemic like COVID-19, where general goods are scarce. Thirdly, reducing costs by removing offerings which customers will not be interested in, as this will remove unnecessary costs to SMEs. The fourth point is to place physical stores according to similarities and differences in needs, creating a convenient and easy marketplace for customers. Finally, he suggests reshaping the business processes to better fit the crisis at hand will result in a better financial position, as adapting to the crisis at hand is key in survival. However, Sharma (2009) states that price competition is dangerous as it comes with side effects such as perception of quality of goods and services, thus SMEs must evaluate the situation and compete with price and quality.

While numerous strategies have been talked about as the best way to survive during a crisis, companies must be able to adapt to the situation and apply multiple strategies depending on the crisis. However, the use of technology has been emphasized as one of the most important tools for surviving a global crisis. Sharma (2011) discusses the importance of ICT (Information and Communications Technology) during a crisis. She argues that ICT is a cost effect way to fight recession, as it provides a cheap alternative to networking and information gathering, and to reach customers. The importance of technology is further supported by Abderraouf and Nadira (2018) as they argue technology is the key component in crisis management due to how widely technology is being used in the world. Internet was effectively used by 59 percent of the world's population in October 2020 (Johnson, 2021). Therefore, it can be argued that the use of technology is the best way to reach new and existing customers during a crisis. The use of technology can be seen during COVID-19, as companies adapting to the current business environment are thriving. According to Sherman (2020) technology companies such as Zoom are thriving as they use technology to provide a product which customers need. Technology provides companies variety and reach in terms of business models and customer bases. While it has been argued that SMEs are most vulnerable during a global crisis, according to Kitching et al. (2009) argue that the direction of SMEs during a crisis is dictated by the company. A global crisis may in some cases allow companies to boom and start thriving due to a different business environment.

Although Kitching et al. (2009) state that a global crisis does not directly correlate with SMEs declining growth, they also explain how change and adaptation are required for SMEs to thrive. Being able to change during a crisis is what effectively allows companies to survive or even thrive.

2.6 Summary

This literature review has presented knowledge from other authors on the most relevant parts of my topics. Information has been provided on small and medium-sized enterprises as a whole and more specifically their role in the Finnish economy. The literature review also has in depth review of COVID-19, starting with the origins

of the virus and continuing into the different possible impacts of COVID-19 on Finland. Finally, the literature review presents information on a similar global crisis to COVID-19: The Economic Crisis of 2008. Comparing the COVID-19 pandemic with a similar crisis, the Economic crisis of 2008, allows for a more in-depth analysis of the effects of COVID-19 as it allows the findings to be compared to the past. In the end, giving a broader understanding of the overall impact on SMEs.

The research presented in the literature review suggests that although COVID-19 has caused harm to SMEs in Finland, the economic crisis of 2008 can be considered a more severe crisis with more impactful effects on SMEs. The study shows that during COVID-19, SMEs were mostly harmed by regulations and restrictions set by governmental bodies. The restrictions greatly limiting business in general, as SMEs from different areas were either forcibly closed or had to work under factors which limits customer interaction.

On the other hand, the economic crisis of 2008 harmed SMEs from a different perspective. Due to the collapse of financial markets and world banks, countries were struggling financially. In 2009 SMEs were not under restrictions which limited business, they were limited by the finances available. It could be argued that financial limitations are more severe than temporary trade restrictions. As the trade restrictions during COVID-19 are temporary, whereas the financial limitations of the 2008 crisis were existed until the markets restored to normal and countries could start to recover. The research also shows that recovery from a financial crisis is more severe in terms how long the impact lasts. The impacts of COVID-19 were most present for 6 months, after which the markets were opened, and businesses started to recover. The economic crisis of 2008 lasted for years to end, and it took longer for businesses to recover. However, it is difficult to assess the effects of COVID-19 as the pandemic is ongoing and the events of the future are uncertain. In the end, the research provides evidence as to how SMEs have been affected by COVID-19 while providing a comparison of the effects on a similar global crisis.

2.6 Conceptual Framework

This conceptual framework is based on the structure of the literature review on the topic. This was built as a method of comparing and analyzing different global crisis in order to evaluate their economic impact on SMEs. The framework can be customized depending on the situation in question. This framework also gives a broad overview of the structure of the literature in question.

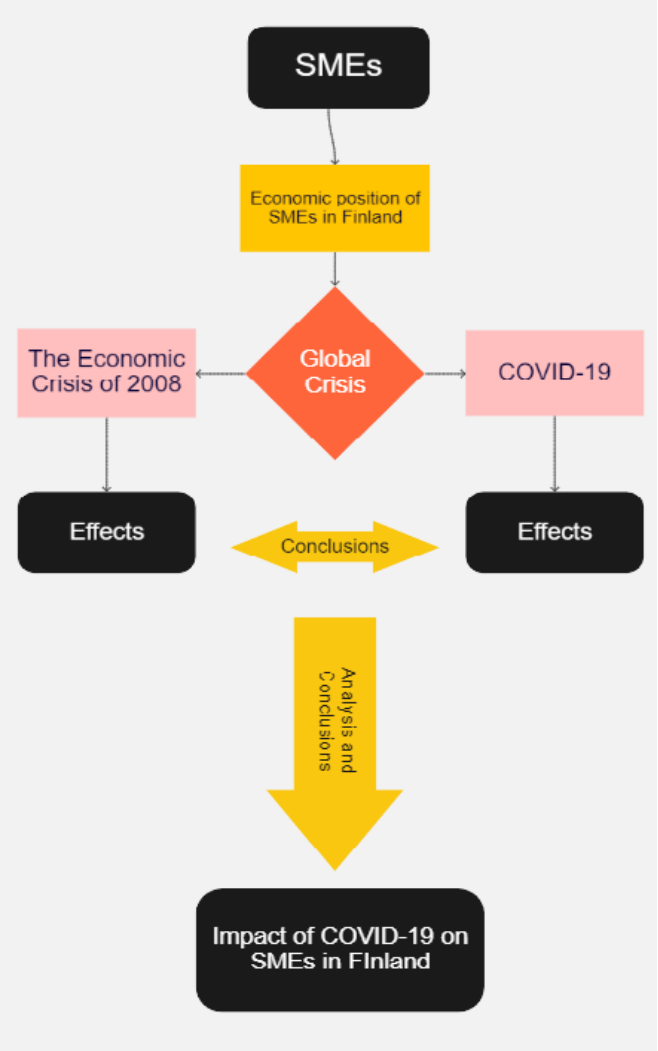

Figure 3: Conceptual framework

3 METHODOLOGY

This study is created mainly using secondary research. This is done by analyzing previously published studies and empirical data, in order to answer the research questions of this study. This section will discuss the reasons why secondary research was the main form of research, and how it is applicable to the topic of the study in question.

3.1 Secondary research – qualitative

As the study looks into the economic effects of the COVID-19 pandemic on Finnish SMEs, the use of secondary research was chosen as the primary way of collecting information. The use of secondary research allowed the study to provide a broad outline of the COVID-19 pandemic, as well as discuss the relevant theories focusing on SMEs and economic changes. The research regarding the topic was acquired from published research papers discussing topics relevant to this study, published online articles and government press releases.

3.2 Secondary research – quantitative

A large part of this study is analyzing collected data which is relevant to the study in question. As the study aims to analyze the economic impact of COVID-19 on SMEs, majority of the data provided will be economic figures such as changes in employment rates, revenues, operation costs, and other figures which are important and related to the operation of SMEs. Using quantitative data in this research is vital, as it can be used to clearly demonstrate changes in the economy and show how these changes in turn affect SMEs. Majority of the data provided was collected from official governmental bodies or organizations, making the data reliable.

3.3 Limitations to methodology

This study and the methodology used to research the topic was prone to certain limitations. A majority of the limitations are due to the timing of the study and the nature of the topic in question. The COVID-19 pandemic is still ongoing at the time of this study, making it difficult to find reliable data. The data is constantly changing and most of the available data are estimated figures, leading to the analysis being based on uncertain information. Finding relevant research studies also proved to be quite difficult, as the topic is new and has not been fully investigated. Due to the nature of the study, using primary research proved to be difficult to conduct, as the research focused mainly on countrywide information and existing theories. Due to this, primary research was not used, as it would have been inefficient and the process of acquiring country wide data was unreasonable.

4. FINDINGS

4.1 Findings from quantitative data collection – COVID-19

The use of economic figures is an important part of this study, as analyzing available data allows for a comprehensive understanding of the changes which have occurred, as well as allows the data to be presented in a manner which clearly shows findings. This study looks at several economic figures which are considered important to enterprises, and analyzes the effect the COVID-19 pandemic has had on these figures.

4.1.1 Employment rates

Figure 4: Employment rate of Finland, ages 15-64 (www.findikaattori.fi, 2021a)

Employment rates can be used to demonstrate how SMEs are reacting to COVID-19 in terms of personnel changes. According to recent data, as shown in Figure 4, the unemployment rate in Finland has gone up by 1,6% from the start of 2020 to the start of 2021 (www.Findikaattori.fi, 2021a). It can also be seen from the graph that Finland's employment rate trend was growing steadily since 2015, however since the start of COVID-19 in 2019, a sudden decrease of 2,5% in employment rates can be seen. As low unemployment rate is usually considered a positive sign for the economy, it is clear that COVID-19 has harmed the economy of Finland, as numerous SMEs were forced to lay off workers.

4.1.2 SME closures and openings after COVID-19

Enterprise start-ups and closures can be an efficient way of measuring how SMEs are doing in the current state of the economy. The data provided in the literature review in table 1 shows how after COVID-19, the enterprise start-up rates in Finland went down by 7% while enterprise closure rates went up by 13%. Considering these figures and the employment rate changes, it could be argued that the employment rate in Finland decreased as SMEs were forced to close and less SMEs were able to

open, leading to less jobs being available. Figure 5 clearly demonstrates the decrease in openings and increase in closures after COVID-19 in Q3 of 2019.

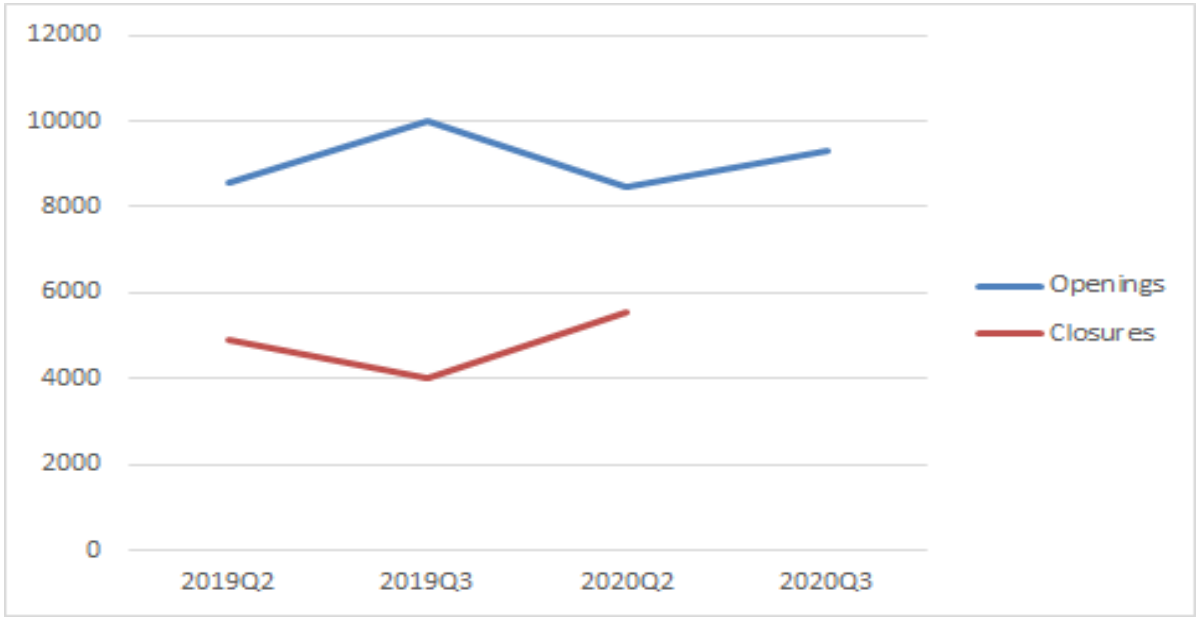

Figure 5: Enterprise Openings and Closures 2019Q2-2020Q3 (data adapted from Official Statistics Finland, 2021)

4.1.3 Changes in net sales

A recent survey by Myllyla (2020) on Finnish SMEs state that around 50% of the respondents estimated their net sales to have decreased. Furthermore, 13% claim that their net sales have decreased by over 40% due to COVID-19. Based on the data of this survey alone it is clear that COVID-19 has decreased the sales of Finnish SMEs. The results of Myllyla (2020) are supported by the Official Statistics of Finland, as figure 6 shows a clear decrease in turnover of wholesale and retail trade from 2019 onwards.

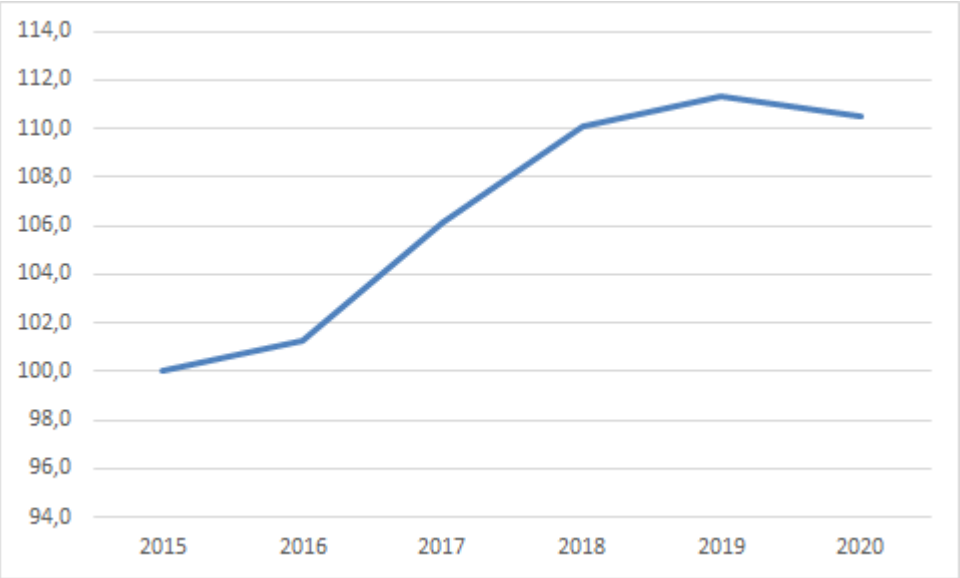

Figure 6: Original index series, Turnover of Wholesale and Retail Trade 2015-2020 (Statistics of Finland, Turnover of Trade)

Despite the decrease in net sales, according to the Myllyla study (2020) Finnish SMEs have been 'more resilient' than expected, managing to keep positive profits despite decreasing sales by reducing operation costs. Despite Finnish SMEs adapting well to the pandemic, bankruptcy is threatening around 3% of SMEs, with the hospitality and catering sector having 9% of SMEs facing bankruptcy (Myllyla, 2020). The data provided shows how effects of COVID-19 are heavily based on the sector in which enterprises operate in, with hospitality and catering being the most affected. This can be linked to the safety restrictions set by the government, which prevent social interactions and regular operations of catering companies.

4.2 Data comparison to Financial Crisis of 2008

The research conducted in this study also looks at the financial crisis of 2008 in comparison to COVID-19, in order to get a better idea of the severity of the pandemic. As the financial crisis of 2008 is in the past, the topic itself has generally more data available, with sufficient research conducted on the aftermath of the crisis. Researching the financial crisis gives important knowledge on global crises in general, allowing the study to look at the current COVID-19 pandemic in a more analytical manner. In terms of crises, the two are very different, with COVID-19 being

a pandemic, whereas the financial crisis of 2008 was due to the collapse of financial markets and banks. However, the two crises have very similar effects on the economy and SMEs.

4.2.1 Employment rates

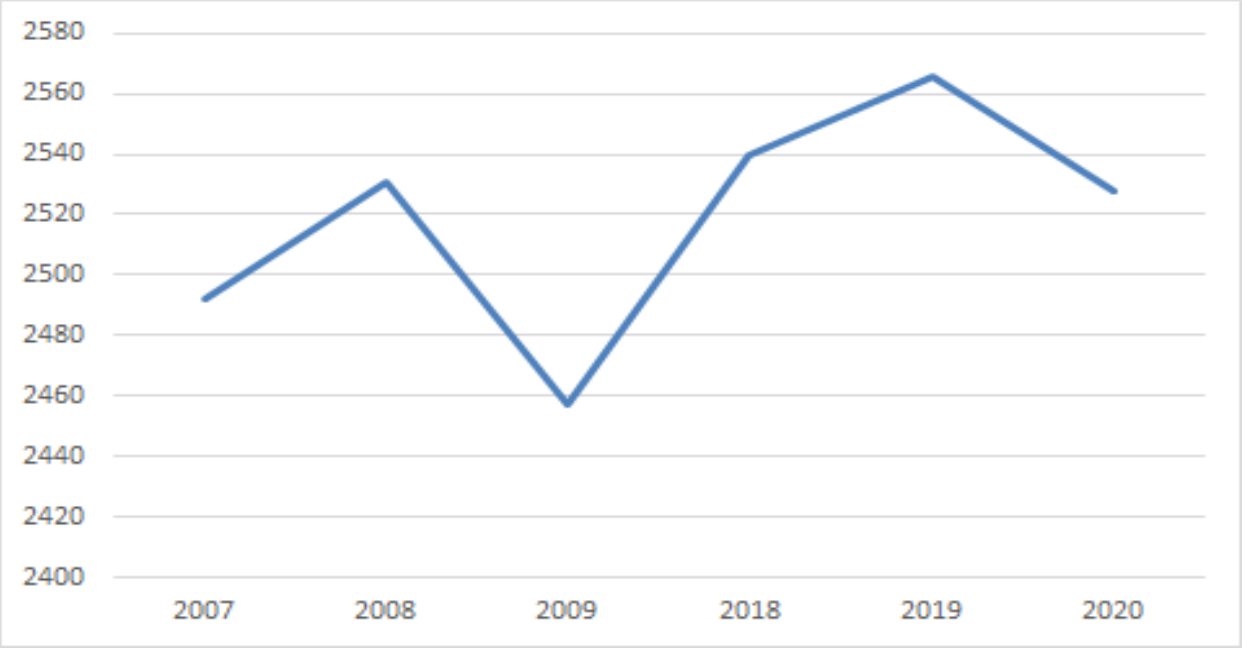

Figure 7: Employed population in thousands aged 15-74 (Official Statistics of Finland: Labor Force Survey, 2021)

Looking at figure 7, the employment rate of Finland fell around 3% after the financial crisis, which is around the same as the 2,5% after COVID-19 from 2019-2020. So, in terms of employment rates, it can be argued that the two crises had similar effects on SME layoffs, although the financial crisis had a slightly more significant decrease. Due to the lack of data available, it is uncertain if the financial crisis is the only cause of the layoffs. However, considering the severity of the crisis it is reasonable to assume the crisis was the main reason for the decrease in employment rates.

It is also important to look at Nokia during the crisis, since it was one of the largest companies in Finland and was heavily affected by the financial crisis of 2008. The changes in Nokia are considered in the statistics of the country, but do not contribute to SME statistics. According to Suni and Vihriälä (2016) Nokia's employment rate and GDP contribution both crashed after the financial crisis started in 2008. The effects of

the crisis on Nokia can be seen in figure 8. The effects of COVID-19 on Nokia Finland compared to the effects of the financial crisis of 2008 are difficult to compare, as the company has changed drastically since then, with the most significant change being Nokia Mobile being acquired by Microsoft.

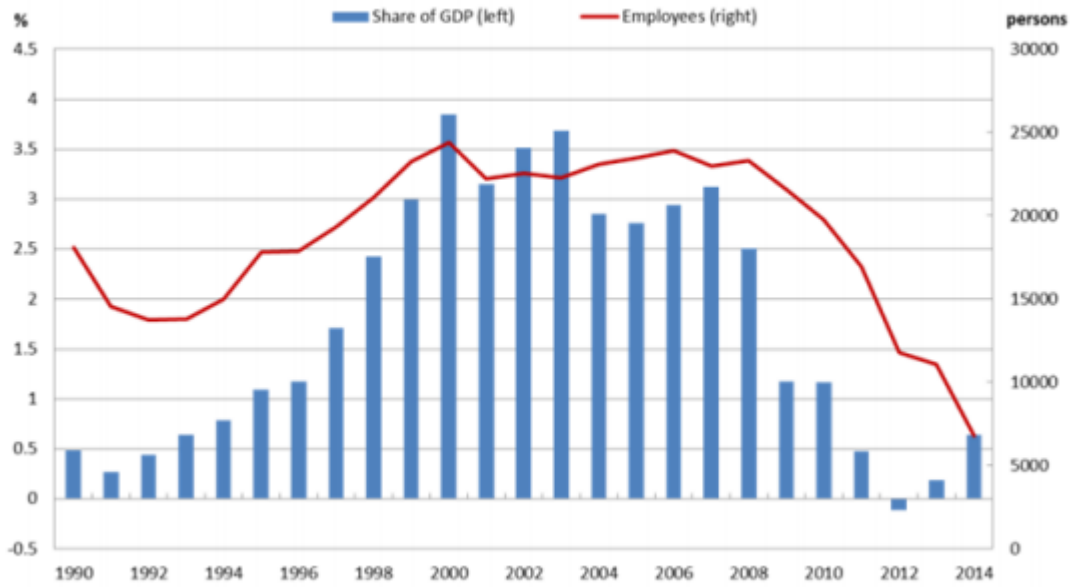

Figure 8: Nokia Share of GDP and Employees, years 1990 – 2014 (Suni and Vihriälä, 2016)

4.2.2 SME closures and openings

Looking into SME start-ups and closures of 2008 when the financial crisis started, it can be concluded that the financial crisis of 2008 was significantly more severe than COVID-19. Data from 2008 states that SME closures was 28% higher than the corresponding time period of 2007. When comparing this to the effects of COVID-19, the financial crisis resulted in a 15% higher number of closures than that of COVID-19. This could be due to the sectors affected in both crises. During COVID-19, SMEs affected were mostly ones which were restricted from operations by the government, like hospitality and catering. Whereas during the financial crisis, Suni and Vhiriälä (2016) demonstrate how the effects were evenly spread out throughout different industries, thus it could be assumed that the financial crisis had effects on SMEs on a broader level. However, in terms of SME openings, the two crises were similar with the financial crisis causing a decrease of 6,3% compared to the 7% of COVID-19.

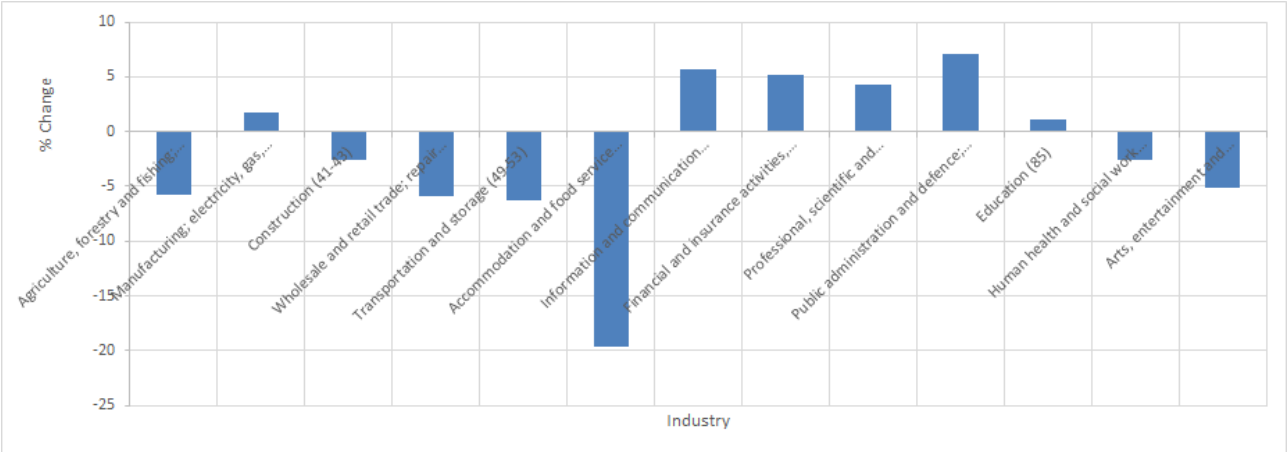

Figure 9: Percentage change in employed people, by industry, 2019-2020 (Official Statistics of Finland: Labor Force Survey, 2021)

Figure 9 demonstrates which industries were most effected in terms of employed people after COVID-19. The data argues that accommodation and food service industries werw the most effected, with nearly a 20% decrease in employed people. This significant decrease can be linked to the government restrictions, as they prevented SMEs in this industry from operating under normal conditions or in some cases operating overall. Thus, the SMEs were forced to lay off workers in order to cut costs.

The industries which were affected the most after accommodation and food services are: transportation and storage, wholesale and retail trade, and agriculture, forestry, and fishing. The large decreases in these industries may be due to the government restrictions and overall changes in the business environment. The employment in these industries did not however change as drastically as accommodation and food service, since SMEs in these industries were still able to operate, although in different conditions.

Although employment decreased in numerous industries, there were also industries like information and communications, public administration and defense, and financial and insurance activities that had their employment increase. These industries are not limited by their physical location, as industries such as information and communications can be done remotely. Therefore their operations did not necessarily change as significantly as for the other industries.

Analyzing the data suggests that industries which are limited by their physical location, like accommodation and food services, were harmed significantly, whereas industries that are not tied to a certain location and can work remotely had an increase in employment. The increase or decrease in employment can be linked to SME closures and openings, as an increase or decrease in employment can be due to enterprises being formed or closed.

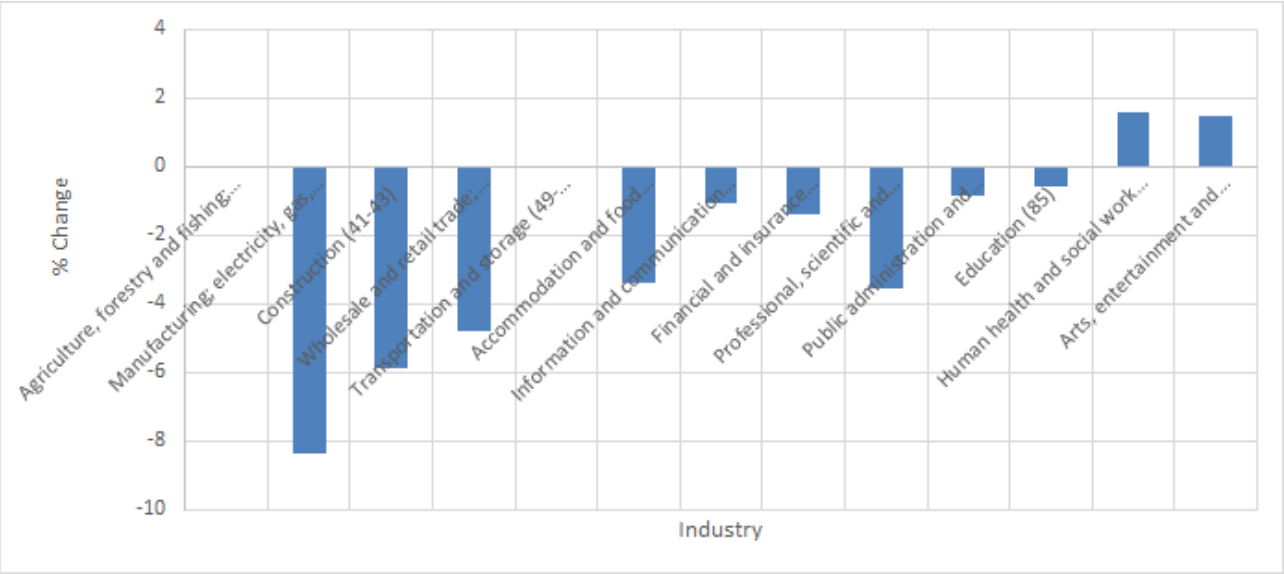

Figure 10: Percentage change in employed people, by industry, 2008-2009 (Official Statistics of Finland: Labor Force Survey, 2021)

Comparing the data of figure 9 to figure 10, it can be seen that the financial crisis of 2008 had an effect on employment on a larger scale compared to COVID-19, as figure 10 shows 9 industries with a decrease in employment, whereas COVID-19 only had 7 with smaller decreases. This shows that the financial crisis of 2008 affected Finland's SME employment more overall, whereas COVID-19 affected certain industries more heavily. Although, in terms of SME openings and closures, the two crises were similar. Looking at employment by industry suggests that the financial crisis of 2008 was more compared to COVID-19.

4.2.3 Net sales

The financial crisis of 2008 also caused a decrease in turnover for SMEs. This is demonstrated in figure 11, which shows a decrease of 16 points in the index of turnover from 2008 to 2009, when the effects of the financial crisis were the most significant. Comparing this to COVID-19, the data argues that the financial crisis of 2008 had a more significant impact on sales than COVID-19. This may be due to the fact that the financial crisis of 2008 affected a wider range of industries compared to COVID-19, thus more SMEs may have been impacted negatively.

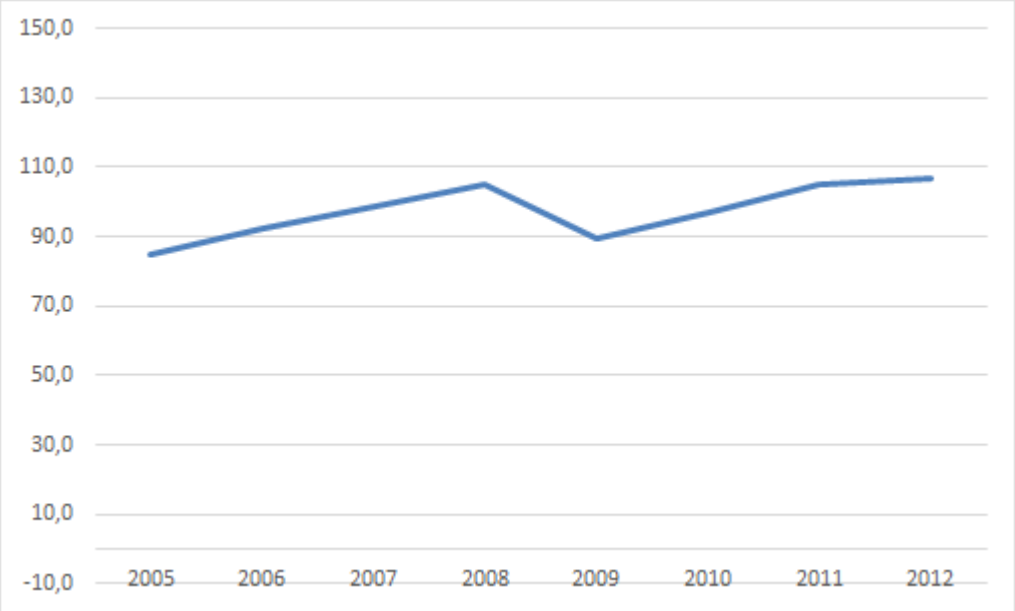

Figure 11: Original index series, Turnover of Wholesale and Retail Trade, 2005-2012 (Statistics of Finland, Turnover of Trade)

4.2.4 Conclusion to quantitative data findings

Overall, analyzing the quantitative data allows us to draw conclusions about the economic situation of SMEs in Finland after the effects of COVID-19 and the financial crisis of 2008. In terms of employment rate, the two crises were very similar with both creating a decrease of around 3% in the employment rate. In terms of SME openings and closures, the financial crisis was significantly more severe as it caused 28% of SMEs to close, whereas COVID-19 was behind with 13% of SME closures. Although,

there was a significant difference in closures, start-up openings were quite similar with both crises decreasing openings by around 7%. Data concerning net sales was lacking for both crises, however for COVID-19, a recent survey stated that 50% of respondents had a decrease in net sales.

4.3 Survival of SMEs during a global crisis

The qualitative research conducted in this study was mainly an investigation of previously published studies, in order to understand how SMEs operate during a global crisis, and how SMEs can better survive through a global crisis.

The research concluded with findings discussing the most efficient strategies in terms of survival and minimizing financial damage throughout a global crisis. A plan set forward by the European Commission describes ways in which SMEs will be assisted in the future. The European Commission believes that SMEs need help in transitioning into a more sustainable business, improve digitalization, increase access to financing, and finally increase market access to SMEs. The research conducted in this study regarding SME survival strategies support the plan and general ideas of the European Commission's plan in aiding SMEs.

SMEs in other countries have also been forced to adapt to the new environment brought by COVID-19. Gurchiek (2020) explains how businesses in the United States have adapted to the changes by introducing new approaches to businesses in order to survive. Companies have introduced contactless deliveries which prevent the virus from spreading, enabling the use of the service in question. Companies have also introduced new safety measures to combat COVID-19, while keeping businesses afloat. Gurchiek (2020) also explains how companies have been ''asking employees to learn new skills'' (jos on quote niin pitää laitta page number) in order to accommodate new changes made to business models. All of these methods are examples of adapting to changes, which has been discussed as one of the keyways to ensure survival in a crisis.

Technology and innovation were also considered as some of the most important aspects in surviving a crisis. Technological improvements allow SMEs to better adapt to changes, thus creating a more flexible business model. ICT and digitalization were also deemed as important. ICT was argued to be an alternative method to networking, as it effectively lowers operational costs, while providing better access to customers and networking in general. Digitalization of business models was argued as essential, as it allows SMEs to have a more seamless process of operations and better communications with relevant partners. Digitalization in general will allow companies to be more responsive to changes and provide better service to customers.

To conclude, global crises are unpredictable and can create a harsh economic environment for companies. SMEs which are considered the most vulnerable due to their ability to withstand financial strain caused by harsh economic climates require strategies which allow the company to adapt to the customer's needs.

5. CONCLUSION AND DISCUSSION

The purpose of this study has been to explore the effects of COVID-19 on SMEs operating in Finland and to provide suggestions as to how SMEs can combat a global crisis such as COVID-19 in order to prevent bankruptcy. This section will first highlight the main findings regarding the research question presented. Secondly, it will discuss the implications of the study in terms of international business. Finally, suggestions for further research about this topic will be presented and discussed.

5.1 Main findings

Small and medium-sized enterprises in Finland were generally negatively affected by the ongoing pandemic known as COVID-19 or Coronavirus. The pandemic caused the government to implement restrictions on citizens and businesses in Finland. These restrictions and the general decline in the economy of Finland caused SMEs to decrease in growth. The study looked at 3 main figures when analyzing the current

state of SMEs: employment rate, SME openings and closures, and finally net sales. The research conducted shows that the employment rates of Finnish SMEs decreased since the start of the pandemic. This could be to reduce operational costs of businesses or simply to reduce unnecessary workforce due to a decrease in customers. Comparing to the financial crisis of 2008, the two crises had similar effects on employment rates, with COVID-19 resulting in a 2,5% decrease in employment rate, and the financial crisis resulted in a 3% decrease in employment rate.

Next, the study looked at SME openings and closures, in order to determine whether COVID-19 caused businesses to close or prevented new ones from opening. The study shows that COVID-19 heavily affected business closures, as SME closures increased by 13% since the start of COVID-19 in 2019. Business openings also reduced by 6%, showing that COVID-19 heavily affected the number of operating SMEs in Finland. Comparing this to the financial crisis of 2008, COVID-19 was less severe. The study shows that the financial crisis of 2008 increased SME closures in Finland by 28%, which is significantly more than that of COVID-19. In terms of SME openings, the two crises were quite similar, as the financial crisis also led to a decrease of 6% in SME openings.

Finally, the study looked at changes in net sales of SMEs in order to determine how the pandemic affected sales in general. According to the research, COVID-19 caused a slight decrease in net sales, demonstrated in figure 6, which shows a decrease of 1 point in the turnover index. The financial crisis of 2008 on the other hand caused a decrease of 16 points in the turnover index, demonstrating a much more significant decrease in total turnover. Therefore, in terms of net sales the financial crisis of 2008 definitely had a more significant impact on the sales of SMEs. In the end, looking at the data available, the financial crisis seems to have had a more significant impact on SMEs compared to the ongoing COVID-19 pandemic.

The study also looked at strategies which would help SMEs survive global crises in the future. Research regarding this concluded that strategies such as technological innovation and digitalization which allow quick adaptation to environmental changes are most effective in terms of survival.

5.2 Implications to international business

This study has several implications in the area of international business, especially regarding small and medium-sized enterprises. Firstly, this study gives an idea of how a global pandemic will affect the Finnish economy in general, but also how small companies will be affected. This will allow SMEs to focus resources on relevant business areas in order to minimize negative effects. The study clearly demonstrates differences between industries, which gives insight into which industries are affected the most and provides the option to conduct further research into different industries, with the objective of identifying the reasons and solutions to industry differences. This will allow governments and SMEs to acknowledge possible industry-based weaknesses, in order the strengthen enterprises for future crises.

Secondly, this study demonstrates a relationship between a financial crisis and a global health crisis. This provides insight as to how different types of crises affect different businesses. This study demonstrates the differences a financial crisis has on different industries compared with a global pandemic. This is important, as in the future it will be easier to identify industries with greatest weaknesses depending on the type of crisis. Finally, this study provides a general idea of how SMEs should shape their business models in order to perform well in a global crisis.

5.3 Suggestions for further research

Studies regarding the effects of COVID-19 on business are still sparse, as the topic is new and the crisis is still on-going. The effects of COVID-19 could also be studied regarding other business areas such as logistics and marketing, to give a better overview of internal changes in SMEs due to COVID-19. Further research could also be conducted on specific industries, in order to determine why certain industries performed better or worse than others. This would have important implications, as it would allow industries to change on an individual basis, making each industry less prone to effects of different crises. Research on data regarding COVID-19 changes could be further studied, as currently data is lacking making research difficult to

conduct. Overall, the area has various directions which can be studied once the pandemic has ended, which will provide further knowledge about the pandemic and how it has affected economic environment of the world.

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