ECONOMIC ADJUSTMENTS OF SMALL AND MEDIUM ENTERPRISES IN THE CONTEXT OF THE COVID-19 PANDEMIC: A CASE STUDY OF THE MUNICIPALITY OF KRIVA PALANKA

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ABSTRACT:

This paper examines the impact of crisis conditions on the development, resilience, and performance of small and medium enterprises (SMEs) in the Municipality of Palanka, with specific emphasis on the challenges triggered by the COVID-19 pandemic and subsequent socioeconomic disruptions. SMEs represent the backbone of the local economy and a major driver of employment, innovation, and community stability; however, their limited financial capacity, organizational structure, and vulnerability to external shocks expose them to significant risks during crises. Grounded in contemporary theoretical insights and empirical research, this study aims to identify how SMEs in Palanka adapted their operations, which coping mechanisms proved effective, and what forms of institutional support were most relevant.

Using a mixed-method approach, the study integrates findings from international literature (Adian et al., 2020; Fairlie, 2020; Kuckertz et al., 2020), national regulatory frameworks, and primary data collected through questionnaires with local entrepreneurs. The results indicate that SMEs in Palanka experienced sharp declines in liquidity, reduced demand, supply chain interruptions, and organizational restructuring pressures. Despite these challenges, a substantial number of enterprises demonstrated adaptability through accelerated digitalization, product/service diversification, improved cost management, and workforce reorganization.

Findings also show that government measures were perceived as moderately helpful but insufficiently accessible or timely for many enterprises. Local-level institutions played a crucial role in information dissemination and administrative support but lacked the capacity for strategic, long-term interventions. The study concludes that sustainable SME development in crisis conditions requires a systemic model combining financial instruments, advisory support, digital capacity building, and stronger coordination between local and national policy makers. The insights provided can serve as evidence-based recommendations for strengthening the resilience and competitiveness of SMEs in the Municipality of Palanka and similar local contexts.

Keywords: *SMEs, crisis management, local economic development, COVID-19, resilience, entrepreneurship, Palanka*

Introduction

Small and medium enterprises (SMEs) represent a fundamental pillar of contemporary economic systems, particularly in developing and transition economies such as the Republic of North Macedonia. Their contribution to employment, innovation, local economic development, and community stability is extensively recognized in global literature (Bakhtiari et al., 2020; Hisrich et al., 2013). In the Municipality of Palanka, SMEs constitute the dominant segment of the private sector and are essential for generating income, sustaining local competitiveness, and ensuring socioeconomic resilience. However, despite their developmental role, SMEs are inherently vulnerable to external shocks due to limited financial reserves, reduced access to credit, operational dependence on local markets, and often insufficient managerial and organizational capacities (Masiak et al., 2019).

The onset of the COVID-19 pandemic created unprecedented disruptions, intensifying already existing structural challenges. International studies report significant declines in liquidity, productivity, and demand among SMEs (Fairlie, 2020; Banerjee et al., 2020), while many struggled with supply chain interruptions, workforce availability, and rapid shifts in consumer behavior (Arriola et al., 2022). Similar tendencies were observed in North Macedonia, where SMEs faced operational restrictions, reduced revenues, and the urgent need for digital adaptation (Mojsoska-Blazhevski, 2021). These developments were particularly evident in smaller municipalities such as Palanka, where economic structures are less diversified and enterprises are more sensitive to market fluctuations.

In this context, understanding how SMEs in Palanka responded to crisis conditions becomes crucial for designing targeted support measures and enhancing local resilience. The present study explores the key challenges SMEs encountered, the strategies they adopted to maintain operations, and the perceived effectiveness of institutional and governmental assistance. Furthermore, the research aims to highlight the structural determinants influencing SME performance in crisis conditions, including financial constraints, human resource capacities, digital readiness, and entrepreneurial orientation.

The practical relevance of this study lies in its potential to inform local policy development, strengthen institutional mechanisms, and support a more resilient SME sector capable of withstanding future uncertainties. With crises becoming more frequent—whether economic, health-related, or geopolitical—the ability of SMEs to adapt and transform represents a priority for sustainable local development.

Theoretical framework and literature review

The theoretical foundations for understanding the performance and resilience of small and medium enterprises (SMEs) in crisis conditions draw from several interconnected fields: entrepreneurship theory, innovation studies, organizational resilience, and crisis management. Classical entrepreneurship literature emphasizes the role of opportunity recognition, resource mobilization, and innovation as core determinants of business success (Drucker, 1985; Timmons, 1990). In transition economies, these elements are further shaped by institutional uncertainties, underdeveloped capital markets, and fluctuating regulatory environments (Radas & Božić, 2009; Rammer et al., 2009). SMEs typically rely on flexible structures and informal networks, which enable agility but simultaneously expose them to financial and operational vulnerabilities (Hudson Smith et al., 2001).

SMEs in Crisis Conditions

Global research highlights that SMEs suffer disproportionately during crises due to liquidity shortages, reduced market diversification, and dependence on local supply chains (Bartik et al., 2020; Adian et al., 2020). The COVID-19 pandemic magnified these challenges on an unprecedented scale. Studies show large declines in SME revenue and workforce availability, driven by lockdowns, mobility restrictions, and behavioral changes in consumers (Fairlie, 2020; Banerjee et al., 2020). European SMEs reported disruptions in supply chains, increasing operating costs, and intensified uncertainty (Juergensen et al., 2020). Similar patterns were identified across the Western Balkans, where SMEs struggled with delayed payments, collapsing demand, and rising financial pressure (Praščević, 2020).

Institutional Support and Policy Response

The rapid introduction of government support packages was a defining feature of crisis management during the pandemic. International organizations emphasize that support measures should be timely, targeted, and easily accessible (Cirera et al., 2021). However, evidence indicates that many SMEs experienced administrative barriers, delays, and insufficient clarity regarding eligibility criteria (Bakhtiari et al., 2020). In North Macedonia, the most common support instruments included wage subsidies, soft loans, and tax deferrals (Mojsoska-Blazhevski, 2021). While useful in preventing immediate closures, these measures were often temporary and did not address long-term structural weaknesses such as digital gaps, limited innovation capacity, and outdated infrastructure (Блажеска Мојсовска, 2021).

Innovation, Digitalization, and Adaptability

Innovation plays a critical role in enabling firms to survive and grow under conditions of uncertainty (Almeida, 2004; Hisrich et al., 2013). The pandemic accelerated digital transformation, forcing SMEs to adopt online marketing, remote collaboration tools, electronic payments, and new delivery models (Franken et al., 2021; Wang et al., 2021). Research shows that enterprises with pre-existing digital capacities were significantly more resilient than those entering the crisis without such tools (Kuckertz et al., 2020). Creativity and entrepreneurial flexibility emerged as key drivers of successful adaptation, especially in sectors reliant on face-to-face interactions such as hospitality, tourism, and retail (Thukral, 2021).

Human Capital and Organizational Culture

Human resource challenges intensified during the pandemic, as SMEs faced labor shortages, health risks, and increased psychological stress among employees (Brooks et al., 2020). Organizations with strong team cohesion and supportive leadership demonstrated higher resilience and faster recovery (Marques, 2008; Basefsky & Sweeney, 2006). Studies show that transparent communication, participatory decision-making, and trust-based work environments helped maintain employee motivation and productivity during prolonged uncertainty (Savić & Dobrijevic, 2022).

Relevance to the Municipality of Palanka

The theoretical insights align with the socioeconomic characteristics of SMEs in the Municipality of Palanka, where enterprises operate within a geographically limited market, depend heavily on local demand, and frequently face shortages of skilled labor. Structural constraints such as outdated urban planning, weak infrastructure, and limited access to financial instruments further intensify vulnerabilities. These factors make Palanka an illustrative case for examining the interplay between crisis conditions, structural limitations, and entrepreneurial adaptability.

Methodology

The research applied a qualitative, exploratory design aimed at understanding the specific challenges, adaptive strategies, and development prospects of small and medium enterprises in the Municipality of Kriva Palanka during the COVID-19 pandemic. Given the limited availability of detailed local-level datasets and the need to capture nuanced experiences of entrepreneurs, a case-study method was selected as the primary analytical approach. This methodological choice follows established recommendations for analyzing complex organizational phenomena in uncertain environments (Podolny & Hansen, 2020; Drucker, 1985), as well as international guidance indicating that qualitative firm-level evidence is essential for assessing crisis impacts on SMEs (Cirera et al., 2021; Arriola et al., 2022).

Research Design

The study was structured around the in-depth examination of **five SMEs** operating in different sectors of the local economy: retail (two firms), agro-processing (one firm), light manufacturing (one firm), and hospitality/tourism services (one firm). These firms were selected using purposive sampling with the goal of representing the dominant industries in the municipality, different ownership structures, and variations in firm size. This approach allowed for the identification of cross-cutting patterns while still preserving sector-specific characteristics.

Data Collection

Data were collected between March and June through semi-structured interviews with owners and managers, complemented by document review, financial records (where provided), and direct observation of business operations. Interview protocols focused on several thematic categories:

(1) financial conditions and liquidity;
(2) workforce availability and organizational structure;
(3) supply chain disruptions;
(4) digital adaptation and innovation capacity;
(5) institutional support at municipal and national level; and
(6) long-term strategic changes introduced due to the pandemic.

The use of semi-structured interviews enabled flexibility to probe deeper into sensitive issues such as personal stress, decision-making under uncertainty, and informal coping mechanisms—elements noted as critical for understanding SME resilience in the literature (Brooks et al., 2020; Savić & Dobrijevic, 2022).

Analytical Procedures

The collected data were coded thematically following an inductive approach. Initial codes were generated based on the interview transcripts and aligned with categories derived from the literature (e.g., liquidity, innovation, digitalization). Through iterative coding, the themes were refined into higher-order analytical constructs such as: **crisis responsiveness**, **organizational flexibility**, **resource resilience**, and **institutional dependency**. Cross-case synthesis was then used to identify similarities and differences between the five enterprises, enabling a more robust and generalizable interpretation of the findings, in line with methodological recommendations for multi-case qualitative research (Yin, 2018; Masiak et al., 2019).

Validity and Reliability

To enhance validity, triangulation was applied by comparing interview data with financial statements, internal documents, and public reports where available. Member checking was conducted with three of the participating firms, allowing respondents to review and confirm the accuracy of the interpretations. Reliability was strengthened through the use of a unified interview protocol and detailed documentation of the coding procedures. Although qualitative research does not aim for statistical generalizability, the study provides analytic generalizations consistent with observed patterns in international SME research (Juergensen et al., 2020; Adian et al., 2020).

Ethical Considerations

All participants provided informed consent prior to data collection. Identifiers such as personal names, firm names, and financial details were anonymized to protect confidentiality. The study followed principles of research ethics related to privacy, voluntary participation, and responsible data management.

Results and discussion

This section presents the findings from the in-depth case studies of five SMEs in the Municipality of Kriva Palanka and interprets these results in light of the relevant literature on SME resilience during crises.

Financial Performance and Liquidity Challenges

The analysis revealed that all participating SMEs experienced a significant reduction in revenues during the COVID-19 pandemic, with declines ranging from **25% to 60%** compared to pre-pandemic levels. Retail and hospitality businesses were particularly affected due to government-imposed restrictions on mobility and gatherings. Firms that had previously relied heavily on cash transactions reported acute liquidity problems, leading some to defer supplier payments or reduce inventory.

These findings align with previous research indicating that liquidity constraints are a primary challenge for SMEs in crisis periods (Beck & Demirguc-Kunt, 2006; Cirera et al., 2021). However, firms that maintained emergency cash reserves or had access to microcredit facilities managed to continue operations without resorting to layoffs, demonstrating a degree of financial resilience.

Workforce and Organizational Adaptation

The study found considerable variation in workforce management strategies. Two retail firms implemented part-time shifts and temporary layoffs, while the agro-processing firm maintained full employment by reorganizing production schedules and implementing rotating shifts. Notably, firms with stronger internal communication channels and more flexible organizational structures adapted more effectively.

This outcome supports the conceptual framework of organizational flexibility as a determinant of resilience (Lengnick-Hall et al., 2011). SMEs with hierarchical decision-making processes were slower to adjust, suggesting that decision-making agility is critical for coping with external shocks.

Digitalization and Innovation

A striking result was the rapid adoption of digital tools among three of the five SMEs. Retail firms leveraged social media platforms and mobile messaging for sales and customer engagement, while the hospitality firm introduced online booking and contactless payment systems. Although adoption varied in sophistication, all cases demonstrated a direct link between digital innovation and the ability to maintain operations.

These results corroborate the findings of Juergensen et al. (2020), who emphasize that digitalization significantly mitigates the negative impacts of crises on SMEs. Moreover, the data suggest that firms that invested in digital tools before the pandemic were better positioned to scale up these solutions, highlighting the importance of proactive technological adaptation.

Supply Chain Disruptions

Supply chain challenges were prominent across all sectors. Delays in deliveries and increased costs of raw materials affected both production and service delivery. SMEs that diversified suppliers, including sourcing from local markets, showed greater resilience than those dependent on single, centralized suppliers.

This observation aligns with studies on crisis-driven supply chain vulnerability (Ivanov, 2020). It underscores the need for SMEs to integrate supply chain risk management into their strategic planning, even in small local economies.

Institutional Support and Policy Implications

Although national support measures such as financial aid programs and tax deferrals were available, awareness and access varied among SMEs. Only two firms successfully accessed government assistance. Municipal support, including guidance on COVID-19 safety protocols, was recognized as valuable but limited in scope.

The results highlight the critical role of both local and national institutions in facilitating SME resilience. Consistent with Arriola et al. (2022), these findings suggest that targeted, accessible support mechanisms are essential for small firms facing systemic crises.

Strategic Lessons and Long-Term Adaptation

A key insight from the interviews was the development of long-term strategic adaptations. Several firms reported plans to continue integrating digital tools, diversify supply chains, and develop contingency financial reserves. This demonstrates not only reactive but also proactive resilience, aligning with the adaptive capacity framework discussed in the literature (Hamel & Välikangas, 2003; Savić & Dobrijevic, 2022).

Overall, the results indicate that SME survival during crises depends on a combination of ***financial preparedness, organizational flexibility, digital adoption, supply chain diversification, and supportive institutional frameworks.***

Conclusion and recommendations

Conclusion

This study investigated the resilience of small and medium-sized enterprises (SMEs) in the Municipality of Kriva Palanka during the COVID-19 pandemic, with a focus on financial performance, workforce management, digital adoption, supply chain disruptions, and institutional support. The findings indicate that SME survival and adaptability were largely determined by a combination of internal resources and external support mechanisms.

Specifically:

1. **Financial Preparedness:** SMEs with pre-existing cash reserves or access to microcredit were better able to withstand revenue declines, while firms dependent solely on day-to-day cash flows faced severe liquidity challenges.
2. **Organizational Flexibility:** Firms with adaptable management structures and effective internal communication were able to reallocate resources, reorganize work schedules, and maintain operational continuity.
3. **Digital Adoption:** Rapid integration of digital tools, including online sales, social media marketing, and contactless payments, emerged as a critical factor for business continuity.
4. **Supply Chain Diversification:** SMEs that maintained multiple supplier channels, especially local alternatives, were less vulnerable to disruptions.
5. **Institutional Support:** Government and municipal support played a role in mitigating negative impacts, but inconsistent access and limited awareness constrained its effectiveness.

The evidence underscores that resilience is not solely reactive but also proactive: SMEs that implemented strategic adaptations during the crisis are more likely to maintain competitiveness in the long term.

Recommendations

Based on the study findings, the following recommendations are proposed for SMEs, local authorities, and policymakers:

For SMEs:

- **Enhance Financial Resilience:** Establish contingency reserves and explore alternative funding sources, including microfinance and grants, to mitigate future shocks.

- **Invest in Digital Capabilities:** Prioritize digital platforms for marketing, sales, and operations to ensure flexibility and market reach.
- **Diversify Supply Chains:** Reduce dependency on single suppliers by developing multiple sourcing channels, including local options.
- **Develop Organizational Agility:** Encourage flexible decision-making and internal communication to enable rapid responses during crises.

For Local Authorities and Policymakers:

- **Increase Accessibility of Support Programs:** Improve awareness, simplify application processes, and tailor financial aid programs to the specific needs of SMEs.
- **Provide Training and Capacity Building:** Facilitate workshops on digital tools, crisis management, and supply chain optimization for small enterprises.
- **Encourage Networking and Collaboration:** Promote local SME networks to share best practices, pool resources, and strengthen community resilience.

Future Research Directions

While this study provides valuable insights into SME resilience in Kriva Palanka, further research is recommended to expand the scope and depth of understanding:

1. **Comparative Studies:** Examine resilience strategies of SMEs in other municipalities or regions to identify broader patterns and contextual differences.
2. **Longitudinal Analysis:** Track the long-term impact of COVID-19 adaptations on SME performance and growth.
3. **Sector-Specific Investigations:** Explore the unique challenges and strategies within particular industries, such as hospitality, retail, or manufacturing.
4. **Digital Transformation Metrics:** Assess the effectiveness of specific digital tools in improving SME resilience during crises.

In conclusion, the survival and growth of SMEs in Kriva Palanka depend on proactive strategic planning, organizational flexibility, digital adoption, and supportive institutional frameworks. By implementing the recommendations outlined, SMEs can enhance their capacity to navigate future crises while contributing to local economic development.

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