



## BRIDGING THE ESG AWARENESS GAP: CHALLENGES AND OPPORTUNITIES FOR SMEs IN NORTH MACEDONIA

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**Abstract:** The growing emphasis on Environmental, Social, and Governance (ESG) principles highlights the need for SMEs to integrate sustainable practices into their operations. However, ESG adoption in SMEs remains a challenge due to limited awareness, financial constraints, and lack of standardization and regulation. This study investigates ESG awareness among SMEs in North Macedonia based on a comprehensive survey assessing their knowledge, attitudes, and practices. The survey explores key ESG dimensions, including environmental responsibility, social impact, and corporate governance, as well as barriers to implementation. Findings indicate varying levels of ESG awareness, with gaps in knowledge about regulatory requirements, measurement of carbon emissions, and ethical governance practices. The study also examines the willingness of SMEs to adopt ESG strategies, including participation in ESG training, ethical sourcing, and renewable energy investments. Additionally, the research highlights the role of policy incentives, industry support, and stakeholder engagement in fostering ESG compliance. By analyzing the impact of ESG integration on business competitiveness and sustainability, the study provides practical recommendations to enhance ESG adoption in SMEs. Strengthening ESG awareness and implementation will contribute to responsible business conduct and long-term economic growth in North Macedonia.

**Keywords:** ESG, SMEs, sustainability, corporate governance, North Macedonia.

### 1. INTRODUCTION

In recent years, the world has witnessed a significant transformation in how societies and economies view their impact on the environment. This shift has put sustainability in the forefront of public discourse and policy-making. As the consequences of climate change and

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the depletion of natural resources become increasingly evident, governments are introducing a range of initiatives and comprehensive regulations designed to encourage environmentally responsible behaviour and foster a culture of accountability and innovation, thereby embedding sustainability into economic development. Businesses are considered to be relevant actors in this shift. Consumers, investors, and employees alike are demanding transparency and ethical conduct, making sustainability increasingly important element of corporate strategy and performance. As a result, businesses are directing their efforts towards investing in renewable energy sources and green technologies, implementing environmental management practices and integrating Environmental, Social, and Governance (ESG) principles into their decision-making processes. However, this sustainability quest is complex and multifaceted. While policymakers push forward ambitious environmental agendas, and consumers and investors have rising demands for corporate transparency and ethical business practices, companies face numerous challenges in adapting to the sustainability transition. Integrating ESG principles into corporate strategy is one of the key challenges for businesses.

Aligning environmental, social, and governance factors with strategic goals primarily requires strong commitment to sustainability from management, as well as significant investments and changes in operations and supply chains. In addition, businesses must address the complexities of measuring and reporting ESG factors. Aligning financial and sustainability objectives, as well as managing complex regulations, market pressures, and the costs of transformation, presents considerable challenge for businesses. Therefore, achieving significant progress in sustainability- at both the business and state levels- requires more than individual efforts. Close cooperation between governments, businesses, and civil society is essential to scale these initiatives into widespread sustainability. Moreover, achieving a carbon-neutral EU by 2050 is not possible without the full commitment and active engagement of SMEs. In this context, gaining an in-depth understanding of the SMEs' awareness of ESG factors, as well as the challenges they face, is crucial for developing effective policy and support mechanisms. This research contributes to the emerging body of literature on ESG practices in SMEs, where studies remain scarce.

## **2. LITERATURE REVIEW**

The increasing emphasis on sustainability has led to the development of policies and incentives aimed at encouraging improved environmental business practices. In this context, the Environmental, Social, and Governance (ESG) framework, originally introduced as tools for sustainable investing, has assumed a central role in corporate strategy, risk management and long-term business objectives. Its popularity reflects both the growing concern about climate change and stakeholders' expectations for ethical business conduct, accountability, and transparency. In recent years, the EU has taken significant steps to promote ESG through a comprehensive regulatory framework and establish mechanisms for the effective implementation of ESG requirements. In line with this, the EU Taxonomy Regulation (EU Regulation 2020/852) was introduced to enhance sustainability and transparency in business practices. In addition to the Taxonomy Regulation, the Corporate Sustainability Reporting Directive (CSRD) (EU Directive 2022/2464) came into effect in 2024, requiring all large companies, as well as listed SMEs, to disclose detailed sustainability information in their annual reports on the company operations. Indirectly, however, this directive will also affect other firms within the supply chain. Although SMEs comprise 99% of all businesses in EU, they are currently exempt from ESG reporting requirements under the EU Taxonomy Regulation. Nevertheless, voluntary ESG reporting could provide SMEs with several advantages, such as enhanced visibility towards investors and customers, improved access to finance, and

opportunities to benchmark their performance against sustainable targets or competitors, among others. As Moeslinger et al. (2022) indicate, considering the predominant share of SMEs within Europe and across supply chains, it is paramount to support and prepare SMEs for ESG reporting and ensure their access to sustainable finance, while taking into account their specific needs and constraints.

## **2.1. THE IMPACT OF ESG PRACTICES ON FIRM PERFORMANCE**

Recent research has supported the importance of incorporating ESG factors into the business strategy and business operations. ESG performance was found to enhance firm's market value, particularly through operational capacity (Zhou et al., 2022). Corporate ESG initiatives are also found to enhance green innovation performance in firms (Liu et al., 2023). A 2024 global survey (Selig, 2024) revealed that SMEs enhanced their business reputation, increased business differentiation, met customer expectations and won new customers as a result of their environmental efforts. However, a significant 84% of SMEs have not received any financial incentives to support emission reduction efforts, and over 70% indicated a need for additional funding to start or accelerate their climate efforts. Examining the impact of environmental investments on economic performance, measured by firms' net profits in over 6000 firms, Pekovic et al. (2018) found that too little or too much environmental effort can be detrimental to a firm's economic performance. They argue that there is an optimal level of environmental investment and that the ability to manage the tension between green investments and the pursuit of profitability, though complex and costly, can be the key determining whether the chosen level of green investments will enhance or hinder firm's economic performance.

In the social dimension of ESG, Albuquerque et al. (2019) presented empirical evidence of the positive impact of corporate social responsibility (CSR) on firm value, particularly in firms with high product differentiation. CSR activities targeting employees, customers, and society have also been found to positively impact the financial performance of SMEs in Germany (Hammann et al., 2009). Analysing 812 listed European firms, Qureshi et al. (2020) revealed positive impact of ESG disclosure and board gender diversity on firm value. Additionally, firms in sensitive industries tend to achieve stronger social and governance performance, whereas firms with greater female board representation show significantly better overall ESG performance. Similarly, Xie et al. (2019) found that governance information disclosure has the strongest positive link with corporate efficiency, followed by social and environmental disclosure. Other studies have found negative correlation between gender diversity on boards and voluntary ESG disclosure (Cucari et al., 2018). A study on the benefits of CSR in SMEs (Bielawska, 2022) showed that all enterprises gained at least one benefit from CSR. However, most entrepreneurs fail to recognize many of the opportunities CSR offers and tend to act intuitively, implementing CSR initiatives sporadically rather than strategically. This lack of understanding about the meaning, objectives, and potential benefits of CSR prevents entrepreneurs from identifying and appreciating all the achievable benefits of CSR.

## **2.2. BARRIERS TO ESG IMPLEMENTATION IN SMEs**

The green transition offers significant opportunities for SMEs, yet it remains a low priority for many. Unlike large companies, SMEs often face considerable barriers to adopting sustainable practices, mainly as a result of limited access to financing, technology and relevant skills. In this regard, SMEs often face challenges in adopting ESG practices primarily due to limited understanding of ESG practices and awareness of its relevance, skills gaps in incorporating ESG principles in business operations and ESG performance reporting, lack of

funding and access to necessary tools to implement ESG principles in their operations (ESCAP, 2024). Analysing the 50 most cited articles, Álvarez Jaramillo et al. (2019) identified 175 barriers to sustainability for SMEs, with the most frequently cited being lack of resources, high initial capital cost of implementing sustainability measures, and lack of expertise. A qualitative research conducted among UK SMEs (UK Finance, 2024) reveals that they have undertaken initial sustainability measures, with as much as 96% of the SMEs taking at least one action towards carbon reduction. Most businesses, however, have yet to implement comprehensive sustainability measures. Lack of resources, expertise, and policy clarity are the main barriers hindering their sustainability efforts. Through meta-analyses and literature reviews of empirical studies conducted over the past decade in developed countries, Rudžionienė & Brazdžius (2023) have found that sustainability reporting can yield significant benefits for companies, both financial – such as improved financial performance, better access to capital, and reduced cost of capital – and non-financial, including enhanced reputation, increased employee motivation, and improved risk management. While the costs associated with sustainability practices and reporting can be substantial and may lead to short-term negative impacts for businesses, the long-term benefits generally outweigh these disadvantages. The benefits were found to be particularly pronounced for SMEs, as sustainability initiatives can boost their competitiveness, facilitate access to capital, and strengthen stakeholder engagement. By incorporating ESG practices into their operations, SMEs can proactively anticipate future challenges and fully leverage the potential benefits of sustainability.

### **3. DATA AND METHODOLOGY**

The purpose of the research is achieved through the use of the survey method, using a survey questionnaire as an instrument. The previously constructed questionnaire was forwarded to a randomly selected sample of SME's in different industries via the data base of the Economic Chamber of North Macedonia. In the period of April 2025, the survey questionnaire was forwarded mainly in digital version, electronically (email and social networks) using the google survey platform.

The questionnaire consists of 25 survey questions, closed type, with the possibility to choose one or in some cases more of the offered answers. The data obtained from the survey research are analyzed on a univariate, bivariate and multivariate level by applying appropriate statistical procedures in excel and they are interpreted textually and visually, usually through graphs. In order to enrich and detail the findings and knowledge, the basic data obtained from the survey is structured into 3 different parts, each obtaining knowledge of the awareness and implementation of the key ESG dimensions, including environmental responsibility, social impact, and corporate governance, as well as barriers to implementation. Furthermore, the survey investigates ESG awareness among SMEs in North Macedonia based on a comprehensive survey assessing their knowledge, attitudes, and practices.

The limitations that appeared during the realization of the empirical research are as follows: limited response rates due to varying levels of interest or understanding of ESG topics among SMEs; potential bias introduced by self-reported data; difficulties in reaching micro-enterprises without active digital presence; and uneven industry representation despite efforts to randomize the sample through the Economic Chamber database.

Despite these limitations, the research provides valuable insights into the ESG awareness, attitudes, and practices of SMEs in North Macedonia, highlighting both progress

and gaps in understanding and implementation across the environmental, social, and governance dimensions.

#### 4. RESULTS AND DISCUSSION

The growing global emphasis on sustainable business practices has brought ESG (Environmental, Social, and Governance) principles to the forefront of economic development discourse. While multinational corporations often lead in ESG implementation due to regulatory pressure and stakeholder demand, the role of small and medium-sized enterprises (SMEs) is no less critical. This study presents an in-depth analysis of ESG awareness and practices among SMEs in North Macedonia based on the findings of a nationwide survey conducted during April 2025. The survey targeted a randomized sample of SMEs across various industries, utilizing digital distribution channels via the Economic Chamber database. Several of the survey questions closely related to the topic of this paper are hereby analysed. The results reveal a broadly positive trend in ESG awareness among SMEs. A significant 80% of respondents stated that they had heard of the term ESG, while only 10% had not, and another 10% expressed uncertainty. This level of awareness is a positive indicator, suggesting that ESG discourse has penetrated the SME sector to a considerable extent. When asked to self-assess their understanding of ESG principles, the majority of respondents rated their knowledge as moderate (40%) or high (35%), while only 12% rated it as very high. These findings suggest that while awareness is high, depth of understanding remains a challenge. Approximately 13% of respondents admitted to having low or very low understanding, signalling the need for more targeted educational initiatives and capacity-building programs to move SMEs from awareness to informed implementation (See Figure 1).

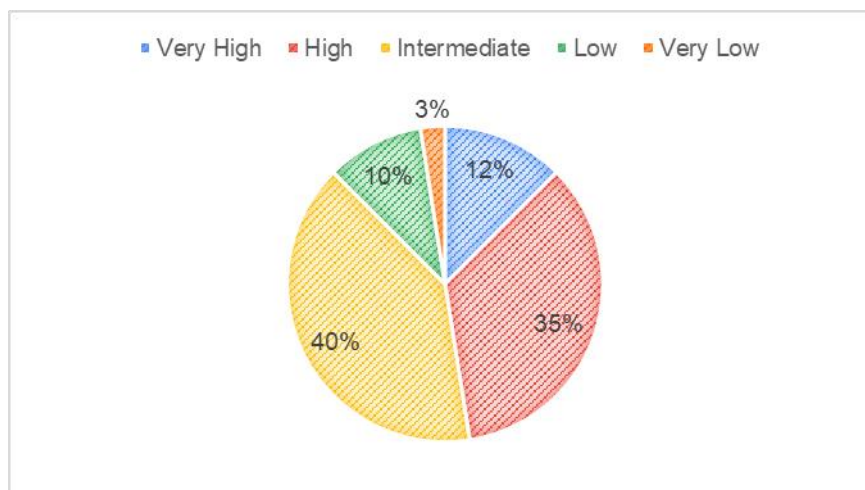


Figure 1. Level of understanding of ESG principles

Environmental sustainability appears to be a high priority for many SMEs according to the survey. When asked whether companies should be held accountable for their environmental impact, an overwhelming 95% of respondents either agreed or strongly agreed, with 65% choosing the strongest level of agreement. This indicates a strong normative commitment to environmental responsibility within the SME sector. Moreover, when it comes to internal practices, 70% of SMEs reported having set specific environmental goals, with 42% also tracking their progress through indicators. An additional 18% have set goals but are not yet measuring progress. Only 7.5% stated that they had not considered environmental goals at all, while another 17.5% are planning to do so in the near future. These findings suggest that

environmental awareness is translating into practical action for a significant share of SMEs, although there remains a need for improved monitoring mechanisms and clearer metrics for impact evaluation (See figure 2).

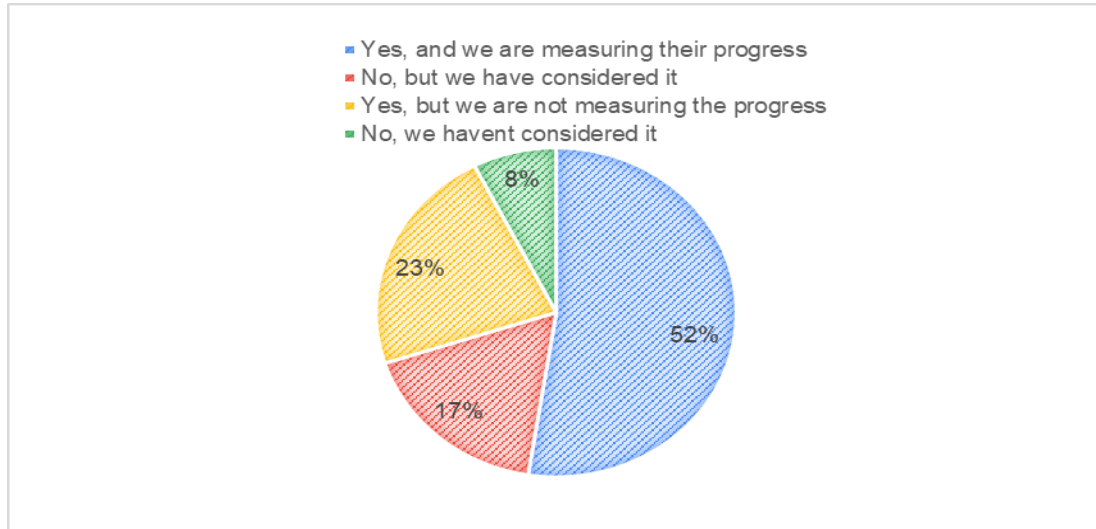


Figure 2. ESG goals and measuring progress

Governance, particularly in the area of business ethics and anti-corruption, is another area where SMEs appear to be progressing. The survey shows that 80% of respondents confirmed having a policy of zero tolerance toward corruption, bribery, and unethical conduct. This is a positive sign of institutionalization of ethical standards in governance structures, a crucial component of the "G" in ESG. However, 10% of SMEs indicated that they do not have such policies, and another 10% were unsure, which may reflect smaller or less formalized businesses that lack structured compliance mechanisms. This uncertainty points to a potential gap in internal communication or the formal documentation of governance practices, which could be addressed through training and policy standardization. More so the majority of SMEs do not know any other government factors that influence ESG scores, even further confirming the knowledge gap in the governance part. Furthermore on the social part they do not always work with partners which prioritize their social responsibility (See figure 3).

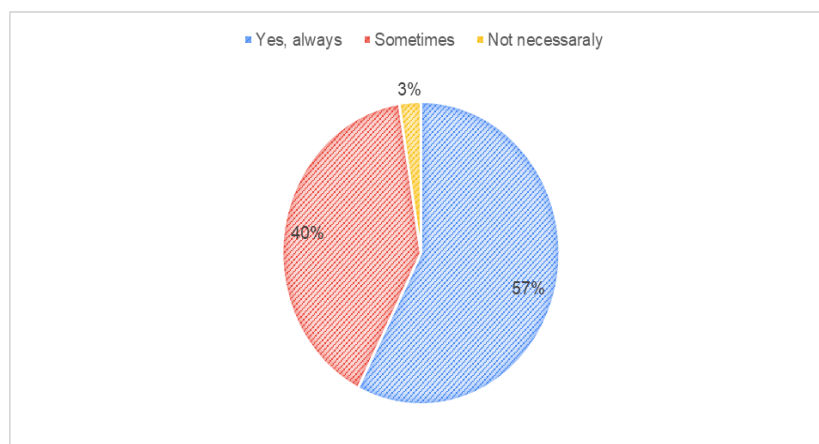


Figure 3. Collaboration only with socially responsible partners

The survey also explored consumer and market behaviour related to ESG. When asked whether they would be willing to pay a premium for products or services from companies with

strong ESG commitments, the most common response (65%) was "maybe." A smaller group (25%) responded affirmatively, while only 8% indicated unwillingness. These responses reflect a moderate but growing consumer consciousness around sustainable business practices and the value they bring (See figure 4).

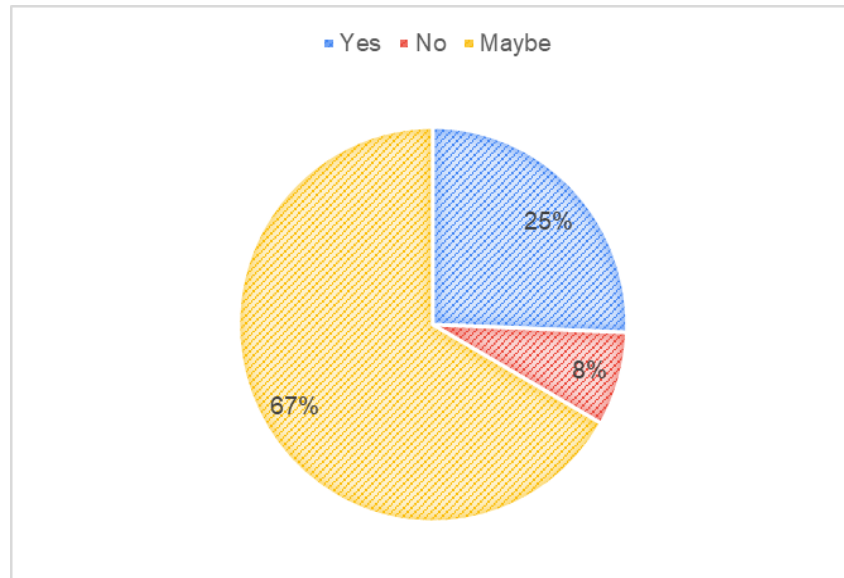


Figure4. Willingness to pay more for products or services that are made regarding the ESG principles

The hesitancy among some respondents to commit to paying more for ESG-aligned goods and services suggests that price sensitivity remains a significant barrier, especially in price-competitive markets. This finding reinforces the importance of policy incentives and market-based mechanisms that can help reduce the cost burden of ESG compliance for SMEs, while making ESG products more competitive.

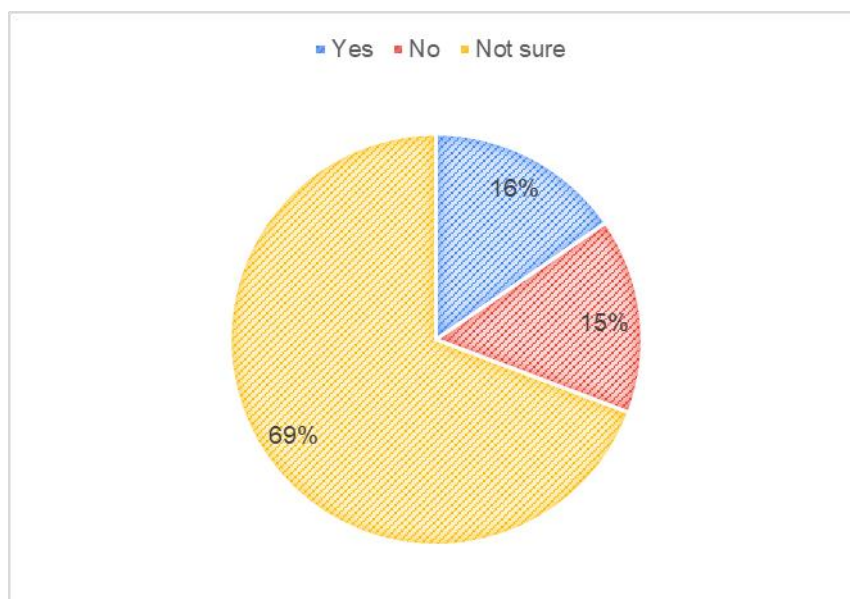


Figure5. Opinion on whether the ESG related benefits exceeds costs

The most striking insight is that over two-thirds of respondents are unsure about whether ESG investments pay off (See figure 5). This points to a significant knowledge gap or lack of information about the tangible benefits of ESG practices. It also signals hesitation or confusion among SMEs in assessing ESG value. Among those who had a definitive opinion, responses are nearly evenly split between those who think ESG costs outweigh the benefits and those who believe the opposite. This division suggests there is no strong consensus on ESG as a business advantage. The high level of uncertainty underscores the need for targeted awareness campaigns and real-world case studies showing the return on investment (ROI) of ESG initiatives, especially for SMEs.

## 5. CONCLUSION

This study offers critical insights into the level of ESG (Environmental, Social, and Governance) awareness, implementation, and barriers among small and medium-sized enterprises (SMEs) in North Macedonia. The findings reveal a promising degree of general awareness, with a majority of SMEs having heard of ESG principles and acknowledging their importance. However, despite this awareness, significant gaps remain in the depth of understanding, particularly regarding regulatory requirements, carbon emissions measurement, and governance-related practices.

While environmental responsibility is widely embraced by SMEs—evidenced by goal-setting and increasing use of environmental indicators—this momentum does not fully extend to the social and governance dimensions. Many SMEs still lack formalized policies, especially in ethical governance and responsible supply chain partnerships. Moreover, limited collaboration with socially responsible partners and insufficient understanding of governance impact on ESG scoring further highlight the need for targeted capacity-building.

Barriers to implementation—such as limited financial resources, lack of standardized ESG frameworks tailored to SMEs, and a general need for policy clarity—remain considerable. The willingness of SMEs to adopt ESG-aligned practices is evident, particularly in areas like ethical sourcing and environmental goal-setting, but these efforts are often fragmented and informal due to structural limitations and a lack of external support.

To improve ESG integration in the SME sector, the study recommends a multipronged approach:

- Policy makers should introduce tailored incentives and simplified regulatory guidelines that reflect the operational scale of SMEs.
- Public institutions and business chambers should consider developing decision-support tools or financial incentives to reduce the perceived risk and cost burden of ESG implementation.
- Industry bodies and chambers of commerce should lead targeted training programs to close knowledge gaps and support the development of ESG reporting tools suited for SMEs.
- Financial institutions should facilitate easier access to green financing instruments, helping SMEs overcome initial investment barriers.
- Civil society and academic institutions should support awareness campaigns and provide technical assistance to promote ESG best practices.

Ultimately, strengthening ESG adoption in SMEs is not only a matter of compliance but a strategic opportunity for competitiveness, innovation, and long-term sustainability. As North Macedonia aligns with broader European Green Deal goals, empowering SMEs to navigate and embrace ESG principles will be vital for inclusive and resilient economic growth.

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