

Pursuing European ESG  
standards: growing  
sustainability engagement  
in North Macedonia



## Introduction to the Readiness and Maturity Assessment Analysis Report

The Readiness and Maturity Assessment Analysis Report is a key component of the project titled “Strengthening the Role of North Macedonia’s Corporate Sector Through the Integration of Sustainable Investing Principles” implemented by the American Chamber of Commerce in North Macedonia. The analysis was conducted in partnership with Kearney.

This project is supported by a Grant from the Center for International Private Enterprise in Washington, D.C.

The primary objective of this analysis was to evaluate the knowledge, preparedness, and competencies of companies in North Macedonia in adopting and implementing Environmental, Social, and Governance (ESG) principles into their business operations.

This analysis was conducted through a comprehensive approach that employed a combination of a structured questionnaire and two focus group interviews. The selection of participating companies was based on diverse criteria such as size, industry, geographical reach, and other relevant parameters.

The survey questionnaire was divided into two distinct parts. Part 1, focusing on ESG Readiness, comprised 17 questions, designed to assess a company’s initial steps and preparedness for ESG engagement. Part 2, covering ESG Maturity assessment, included 31 questions that holistically addressed each dimension of ESG.

Both parts collectively represent different phases along the ESG journey – readiness marking the initial steps, and maturity reflecting the integration and effectiveness of ESG factors throughout a company’s operations and strategy.

In addition to this quantitative activity, focus group interviews were conducted to extract first-hand critical information and valuable insights. These interviews aimed to dive deeper into the knowledge and preparedness of Macedonian companies concerning the implementation of ESG principles.

The insights and findings derived from this analysis provide an understanding of the current state of the corporate sector in North Macedonia. They stand as a crucial foundation for the development of future activities as well as for formulating public policies.

## Pursuing European ESG standards: growing sustainability engagement in North Macedonia

Through this in-depth examination, we offer invaluable perspectives for companies, regulatory bodies, and other interested parties that are keen on navigating the intricate landscape of ESG in North Macedonia.

Although the country is not a member of the European Union, Macedonian companies of all sizes are seeking ways to implement ESG strategies, according to the results of a new Kearney study.

Despite not having strictly defined regulations, North Macedonia's large corporations and small and medium-size enterprises (SMEs) are working to establish environmental, social, and governance (ESG) principles amid growing pressure from their European customers.

To understand more about this environment, we conducted a study of large companies and SMEs (including micro businesses) across various sectors in North Macedonia in September. Using a survey of questions encompassing the three pillars of ESG, we set out to gauge the rising ESG maturity of the country's businesses and gain insights into the top areas of concern and strategies for enhancement.

In this report, we share companies' perspectives on both the potential risks and the opportunities, in addition to the broader impact of their actions on society and the environment. The report is organized into three sections. First, we present a broad overview of companies' understanding of, familiarity with, and overall situation for ESG. Then, we discuss the varying dynamics between large entities and smaller companies. And finally, we dive into the nuances that differentiate manufacturing and services firms.

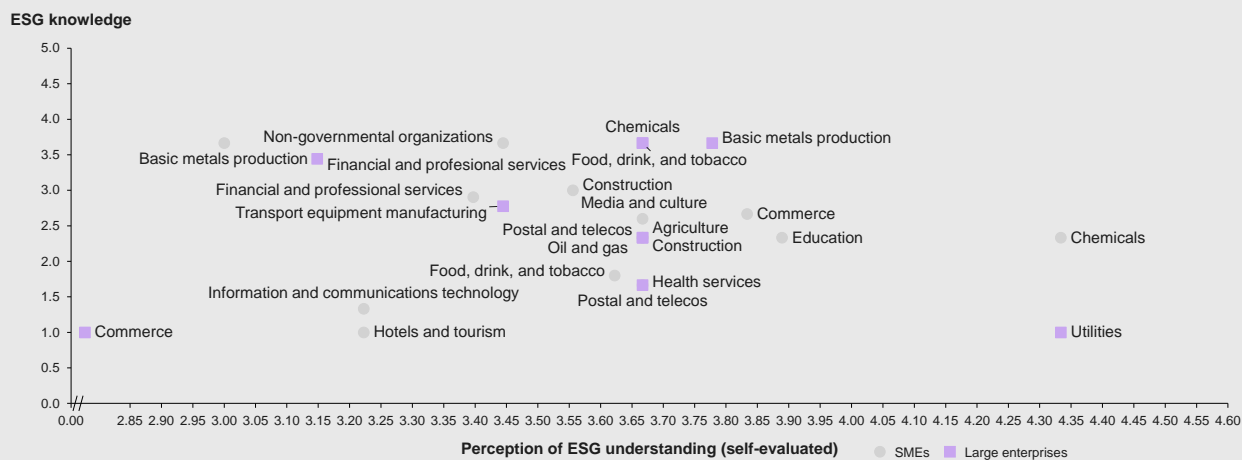
# Companies say they understand ESG quite well, but there's a readiness gap

To explore the overall ESG readiness of Macedonian companies, we created a tailored

assessment that compared companies' self-assessed level of their ESG understanding and tested their general knowledge of the basic principles to understand their actual familiarity with ESG concepts. Our research reveals an emerging trend: large companies and SMEs both tend to overestimate their understanding of the principles and components of ESG. This pattern is consistent across industries, with a few outliers (see figure 1).

Figure 1.

## Many companies overestimate their understanding and knowledge of ESG



In our respondent pool, the sectors with the biggest gap between perceived and actual ESG knowledge are the small to medium-size chemicals companies and the large utility companies. Conversely, large chemicals companies have a more accurate self-assessment, aligning closely with their perceived and actual knowledge. We saw a similar pattern in large basic metals production enterprises, where there was a slight overestimation of knowledge but, overall, a reasonably objective assessment.

The most intriguing anomaly surfaced in the analysis of SMEs in the basic metals production industry. Companies in this sector exhibited commendable performance in actual ESG knowledge; however, an analysis of their self-

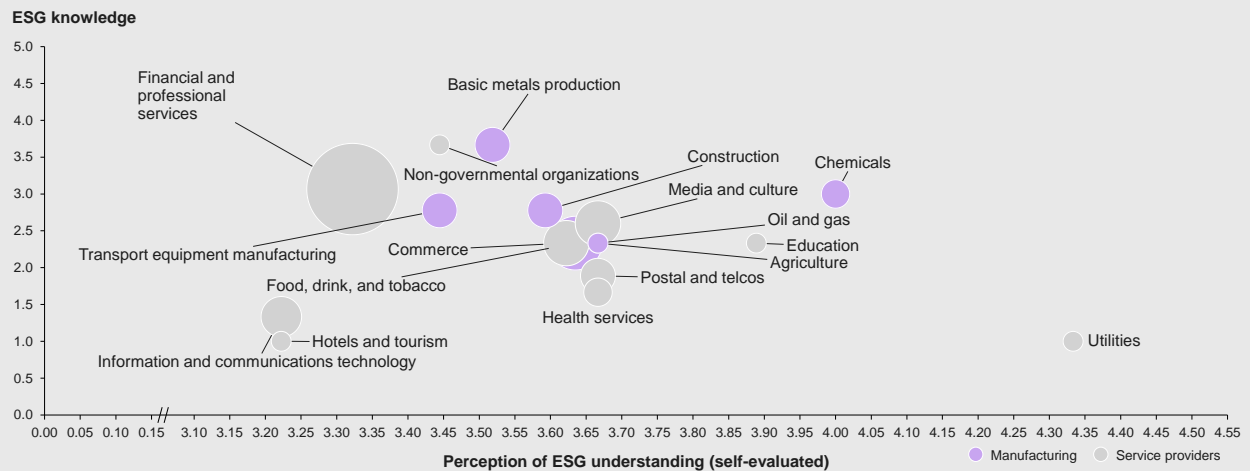
evaluation revealed an underestimation of their perceived knowledge.

Our readiness assessment suggests that certain sectors have a relatively accurate understanding of ESG while others face substantial gaps in their grasp of crucial components. Outliers underscore the complexity of assessing ESG knowledge, with discrepancies between their perceived and actual understanding—revealing an opportunity for improvement.

When comparing ESG readiness based on the split between service providers and manufacturing companies, we saw similar trends (see figure 2).

Figure 2.

**ESG knowledge varies widely among service companies, while manufacturers tend to have an average understanding**



In the manufacturing sector, the perception of ESG understanding and ESG knowledge is generally consistent, with most companies exhibiting an average understanding. However, self-reported understanding tends to be slightly overestimated, except in the basic metals production industry, where actual knowledge aligns with self-reported knowledge.

Service-sector companies show great variability in their ESG readiness. Financial and professional services are scored among the

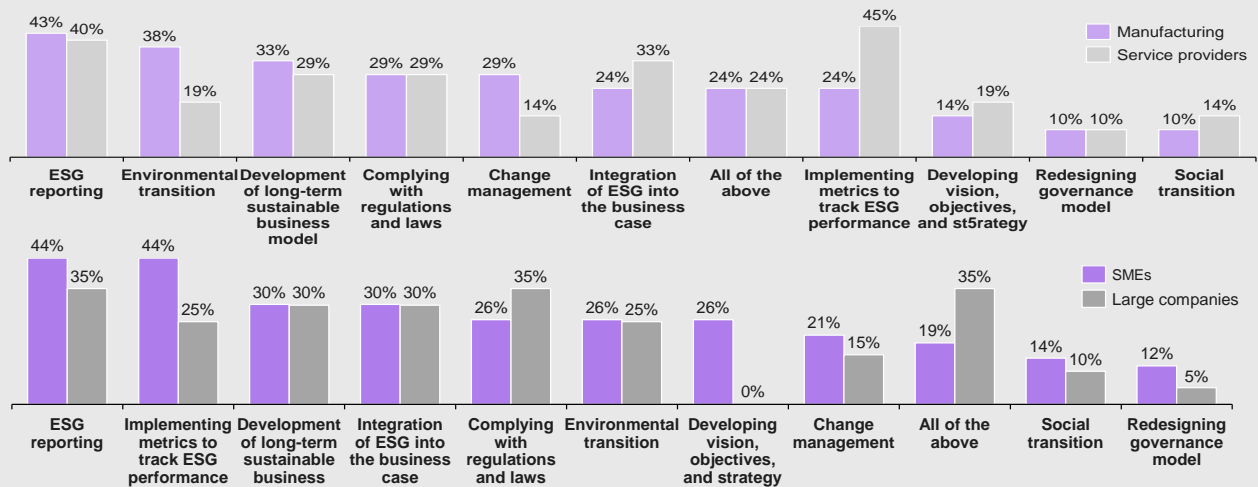
highest when it comes to ESG knowledge, while the information and communications technology sector and the hotels and tourism sector show a low knowledge and perceived understanding.

The data also reveals that, regardless of the state of ESG readiness, all manufacturing companies and over 80% of service providers are planning to develop an ESG strategy in the upcoming years (see figure 3).

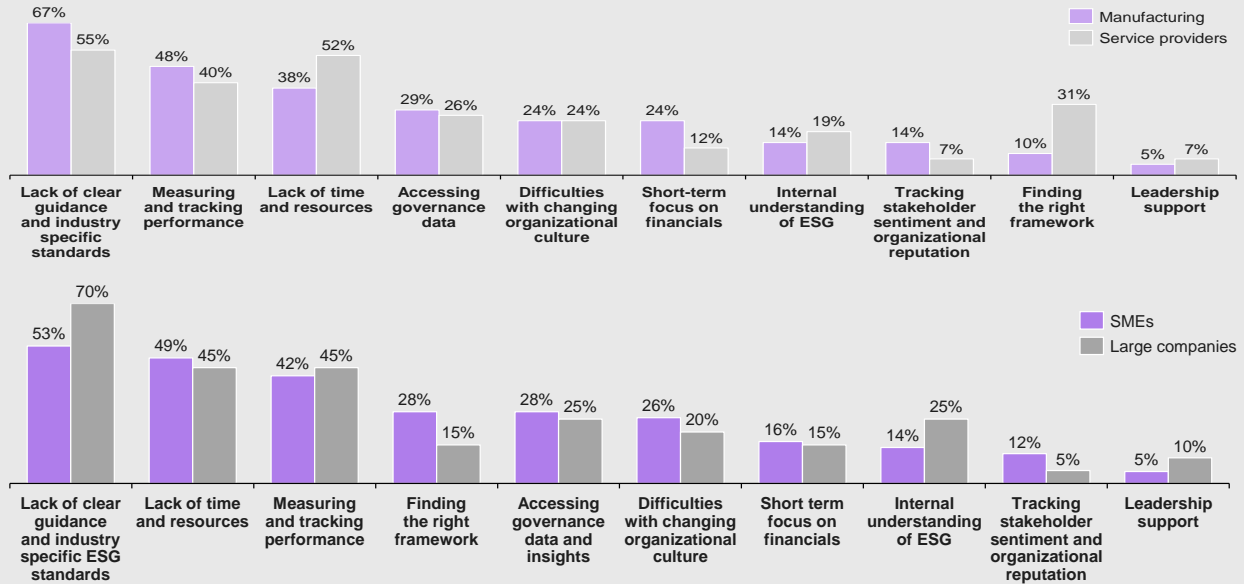
Figure 3.

Surveyed companies expect the most need of ESG knowledge in ESG reporting, whereas they also expect that they would need the least knowledge in redesigning governance model

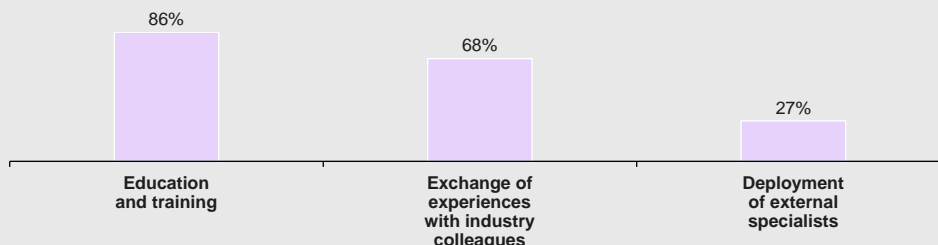
In what areas do you expect the most need of ESG knowledge?



What are the biggest challenges in implementing ESG strategy for your company?



What do you think is the best way to further develop ESG knowledge in your company?



To do so, they would need to overcome challenges related to understanding ESG strategy and successfully implementing it. The survey reveals that companies expect the greatest need for ESG knowledge in ESG reporting (43% for manufacturing and 40% for service companies), emphasizing that companies perceive ESG primarily as a legal framework. For manufacturing companies, this need for ESG knowledge is followed by an urgency to understand environmental transition (38%), whereas for service companies, the top priority is ESG metrics implementation for ESG performance tracking (45%). Surveyed companies also expect that they would need the least ESG knowledge in redesigning the governance model, with only 10% of manufacturing and service companies highlighting this area.

To further develop ESG knowledge, companies underline the importance of education and training, with 86% of surveyed companies selecting this method as the best way to improve ESG comprehension.

Lastly, when it comes to challenges in implementing ESG strategy, Macedonian companies highlight a lack of clear guidance and industry-specific standards (this opinion is supported by 67% of manufacturing companies and 55% of service companies). Additionally, surveyed companies emphasize performance measurement and tracking, as well as a lack of time and resources, as major hindrances on the way to ESG excellence. In contrast, leadership support is seen as the least problematic aspect when it comes to ESG strategy implementation, with only 5% of manufacturing and 7% of service companies identifying it as one of the biggest challenges.

This sector-specific ESG readiness analysis highlights the need for targeted efforts to improve ESG knowledge and understanding in the manufacturing and service sectors in North

Macedonia. The observed discrepancies between actual knowledge and self-reported evaluations, particularly in the utilities sector, emphasize the importance of building internal ESG capacity.

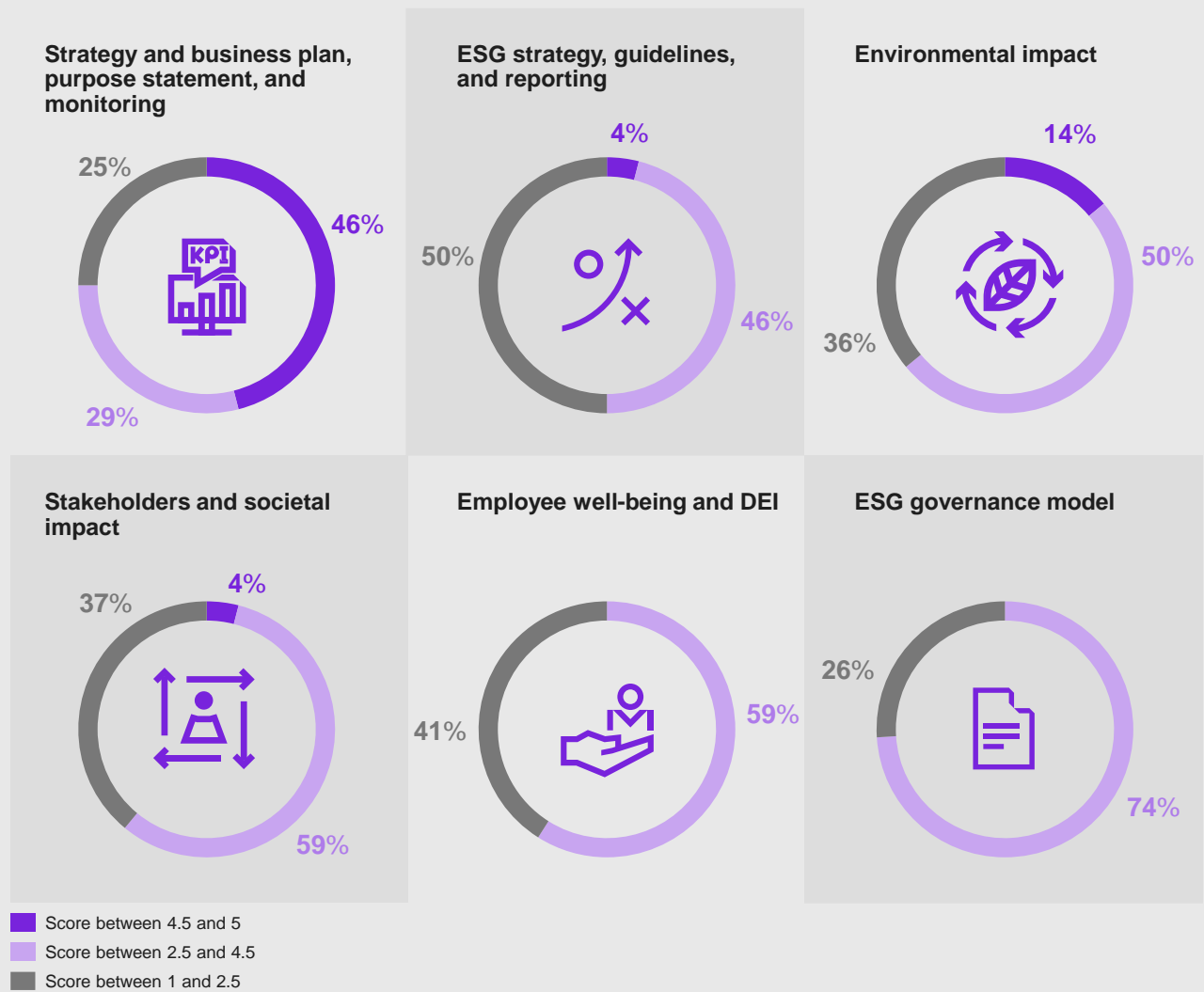
## North Macedonia is making progress, but certain segments are still lagging

Our assessment of ESG practices in North Macedonia reveals that companies are dedicated to strategic business factors but are lagging in actual strategies and the pillars of ESG (see figure 4).



Figure 4.

**Kearney's ESG study ranks Macedonian companies in six categories**



While 75 percent of the companies we surveyed have a strong score in overall business strategy, business plan, and purpose statements (scoring between 2.5 and 5.0), only 50 percent exceed a score of 2.5 when it comes to ESG strategies, reporting, and guidelines, with a mere 4 percent surpassing a score of 4.5.<sup>1</sup> This data suggests that, although making commendable progress, there is significant potential for Macedonian companies to enhance their approach to catch up with their European counterparts.

When it comes to the individual pillars of ESG, Macedonian companies are the strongest in environmental aspects: only 36 percent of companies score below 2.5, and 14 percent score above 4.5. The data also suggest a great stride forward in the stakeholders' relationships and societal aspects.

In contrast, when it comes to diversity, equity, and inclusion (DEI) as well as employee well-being, none of the companies scored above 4.5, and almost half scored below 2.5, revealing substantial room for improvements in fostering DEI and addressing employees' need and concerns. And although just a quarter of the companies scored below 2.5, none have excelled in their ESG governance model so far.

## There are significant distinctions between large corporations and SMEs

In the following section, we analyze the differences between large enterprises (with revenue of more than €50 million and a workforce of more than 250 people) and the SMEs that operate below these metrics.

### ESG strategies: large companies tend to have bigger commitments to ESG strategies and reporting

The formulation and execution of ESG strategies, along with reporting, have become fundamental aspects of business practices for many firms in the European Union, regardless of the size of the company, and this trend is also true for large companies in North Macedonia. This is evident in the way these companies craft their ESG approaches and how regularly they report on them. Notably, as much as 50 percent of large companies have a comprehensive strategy across all ESG dimensions, which is treated as a strategic priority, and only 18 percent of large companies lack a clear ESG strategy (see figure 5).

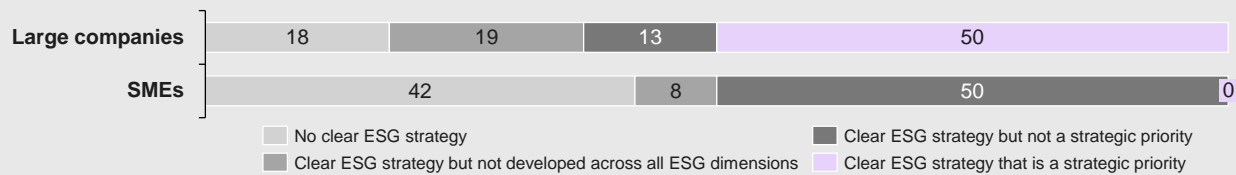
<sup>1</sup> This study uses a three-level scale: a score between 1 and 2.5 means the company does not have that ESG segment developed, a score between 2.5 and 4.5 means the

company is developing it, and a score between 4.5 and 5 means the company is demonstrating excellence in that ESG segment.

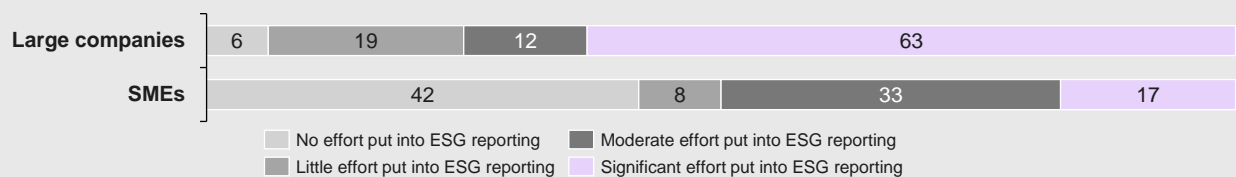
Figure 5.

## Larger companies tend to have a bigger commitment to ESG strategies and reporting

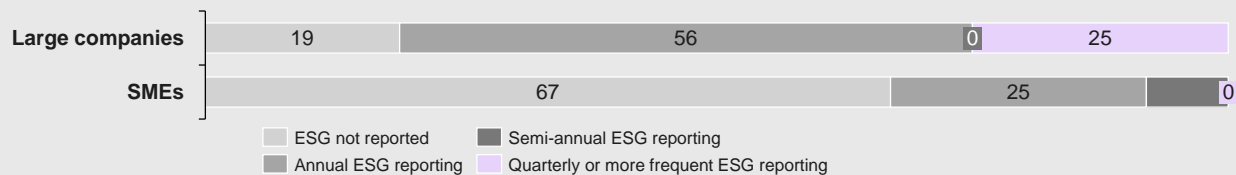
### ESG strategy



### Level of development of ESG reporting



### Frequency of ESG reporting



This is in contrast to SMEs, which are less dependent on European partners: none of the companies we surveyed have a clear ESG strategy that is also a strategic priority, and as many as 42 percent of SMEs have no clear ESG strategy.

The level of ESG strategy development is also transposed into ESG reporting efforts and frequencies. As much as 63 percent of large Macedonian companies are putting significant efforts into ESG reporting, with 25 percent reporting it at least quarterly. However, only 17 percent of SMEs are putting significant efforts into ESG reporting, which is being reported on a

semiannual basis by 25 percent of them and by none on a quarterly or more frequent basis.

### Environmental goals: a quarter of large companies and more than half of SMEs have no emission targets

Our research reveals that Macedonian large companies have a growing commitment to environmental sustainability. As many as 75 percent have emission targets in place, which is two times more than among SMEs. There is a striking difference in the companies that are tracking and reducing their emissions according to their targets. Large companies lead the way,

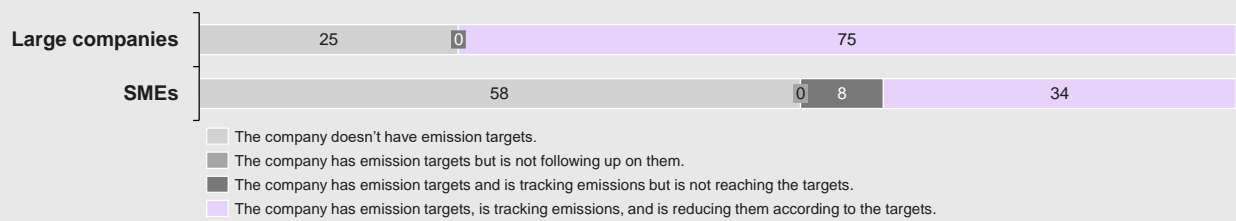
with all of the 75 percent that have emission targets achieving those goals, compared with just 34 percent of SMEs. This could suggest that large companies have more resources or more expertise or that they are under institutional

pressure from their European partners to launch environmental initiatives. Nevertheless, it's concerning that nearly two-thirds of SMEs haven't set any emissions goals, indicating a significant area for improvement (see figure 6).

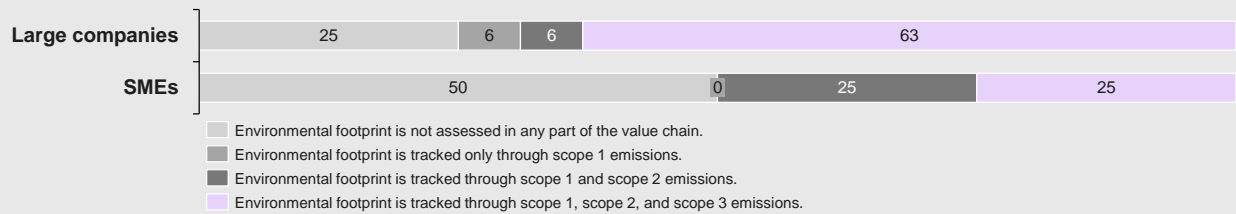
Figure 6.

**A quarter of large companies and more than half of SMEs have no emissions targets**

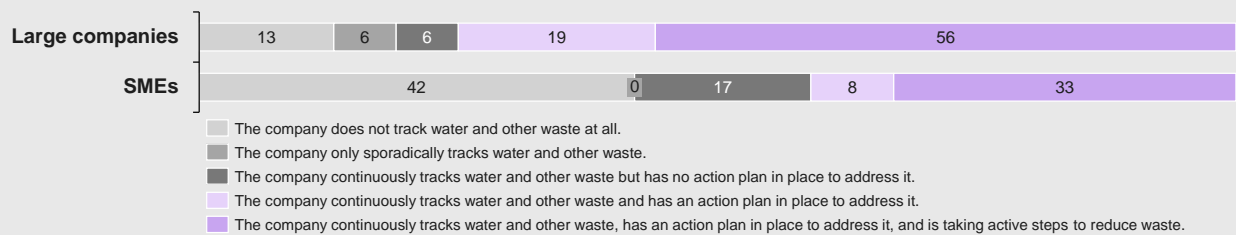
**Emission targets**



**Footprint assessment scope**



**Water and waste management**



There's a pronounced disparity in companies that don't assess their environmental footprint at all. Exactly half of SMEs do not assess their footprint in any capacity, while only a quarter of large companies fall into this category. This difference could be attributed to SMEs' potential resource limitations, lack of awareness, or less regulatory and stakeholder pressure compared with their larger counterparts. In contrast, almost two-thirds (63 percent) of large companies stand out as leaders in environmental stewardship, comprehensively tracking their footprint through their scope 1, scope 2, and scope 3<sup>2</sup> emissions—indicating they have a comprehensive perspective of sustainability and understand the interdependence of their activities within the larger ecosystem.

The disparity between large companies and SMEs in terms of waste management is evident but nuanced. Commendably, three-quarters of large companies continuously track their water and waste, while the same is true for only about half of SMEs. This discrepancy underscores a substantial opportunity for SMEs to enhance their tracking and management practices.

**Social elements: almost 20 percent of large companies and 25 percent of SMEs say their customers are willing to pay more for a purpose-driven product**

Most large companies and SMEs believe that their customers perceive their offerings as purpose-driven, yet 37 percent of large companies and 25 percent of SMEs say it

doesn't influence their customers' purchasing decisions (see figure 7).

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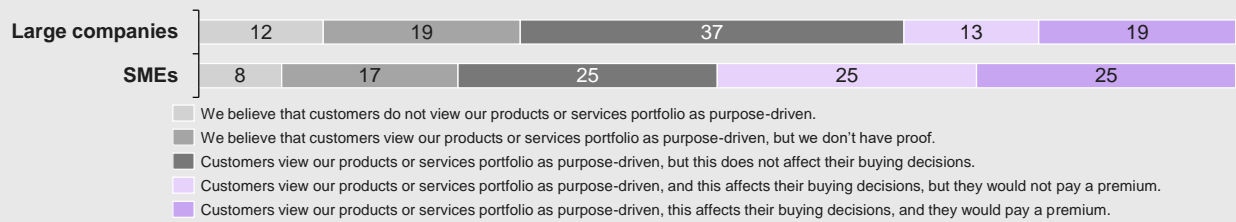
<sup>2</sup> Scope 1 are direct emissions from company-owned and controlled resources (e.g., facilities and vehicles). Scope 2 are indirect emissions from the generation of purchased energy. Scope 3 are all

indirect emissions that are not included in Scope 2 and occur in upstream and downstream value chain of the company.

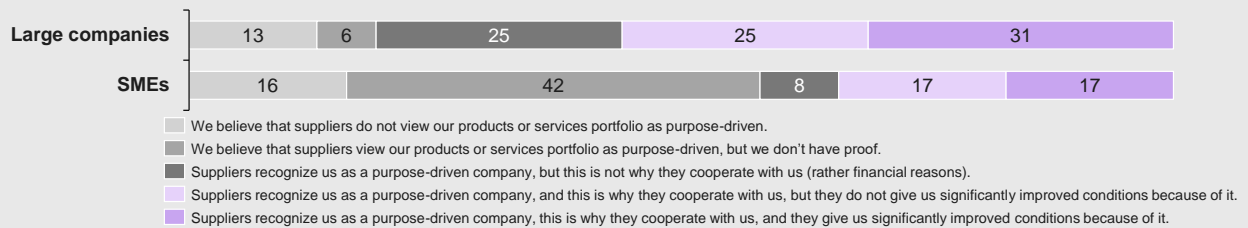
Figure 7.

**Almost 20% of large companies and 25% of SMEs say their customers are willing to pay more for a purpose-driven product**

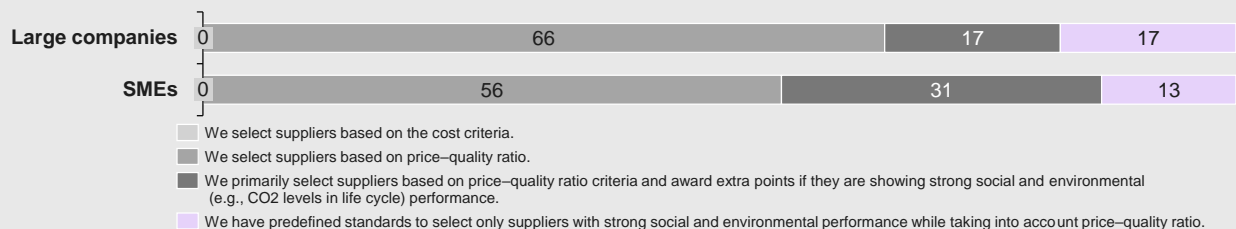
**Buyers' perception**



**Suppliers' perception**



**Supplier selection model**



In contrast, only 12 percent of large companies and 8 percent of SMEs say their products aren't perceived as purpose-driven at all. Interestingly, SMEs generally feel more confident about buyers' perception, with as many as 50 percent believing that not only do their customers perceive their products as purpose-driven, but it also impacts their buying decisions.

We also asked companies about their suppliers' perceptions. Eighty-one percent of large companies say their suppliers recognize them as a purpose-driven company, as opposed to just 42 percent of SMEs. In addition, 31 percent of large companies believe that their suppliers not only recognize them as a purpose-driven company, but also that it is the reason for their cooperation and improved conditions. Meanwhile, 42 percent of SMEs are unsure about their suppliers' perceptions.

Interestingly, when choosing their suppliers, only 17 percent of large companies and 13 percent of SMEs look for predefined standards, whereas the majority of both segments select suppliers based on a price-quality ratio, which is sometimes accompanied by extra points for strong ESG performance. Notably, almost twice as many SMEs compared with large companies select their suppliers based on the forementioned model.

### Social elements: large companies and SMEs say they are excelling when it comes to talents' perception, but they need to invest more in DEI

Companies of all sizes say they have a strong reputation with the people who work for them. In our study, from companies' perspective, 75 percent of the young recruits for large companies and 50 percent of those for SMEs join their respective companies because of their dedication to the environment, the community,

and their employees. Moreover, people are committed to their firms: a quarter of people working in both segments say they would choose to stay with the company, even when presented with superior working conditions elsewhere. This demonstrates the growing value of and alignment that employees see in the mission of the companies the work for.

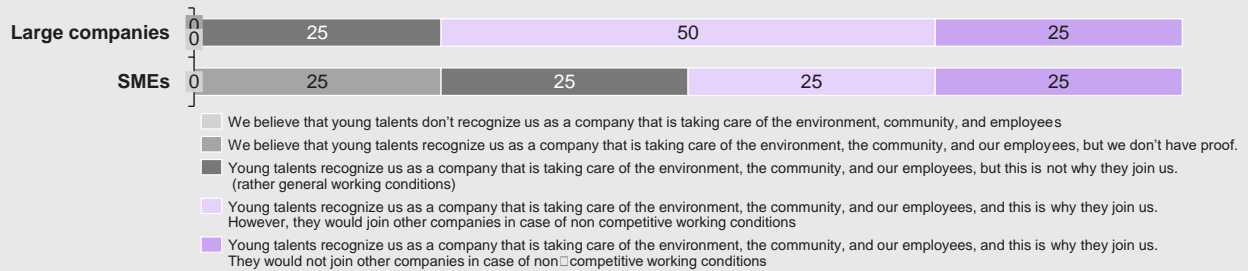
When it comes to salary differences, large companies are experiencing a big wage disparity, with 38 percent having top earners who receive more than 21 times as much pay as the lowest-paid full-time employees. For SMEs, the wage gap is smaller: most of the highest earners receive five to 10 times more income than the lowest salaries (42 percent of SMEs).

In terms of employee well-being, large companies and SMEs are at the same level, with just 6 percent more of the large companies (64 percent overall) regularly tracking and having moderately to well-developed systems for addressing well-being compared with SMEs (58 percent overall). It is concerning, however, that almost a third of both segments are either not tracking well-being at all or only track it occasionally and have no system for addressing well-being issues (see figure 8).

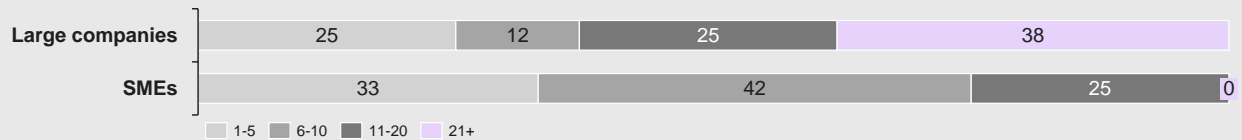
Figure 8.

**64% of large companies and 58% of SMEs regularly track their employees' well-being**

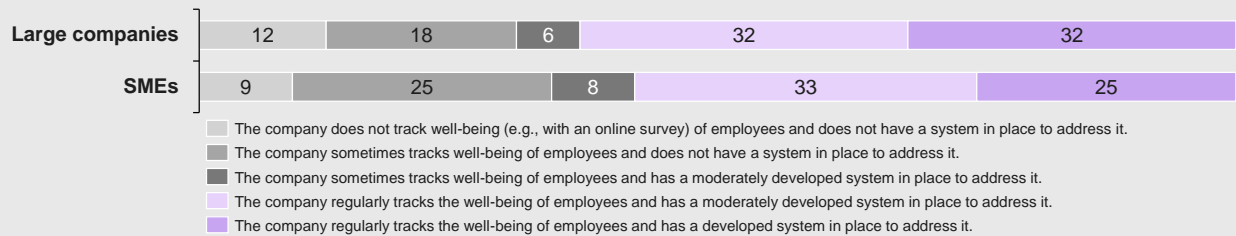
**Employees' perception**



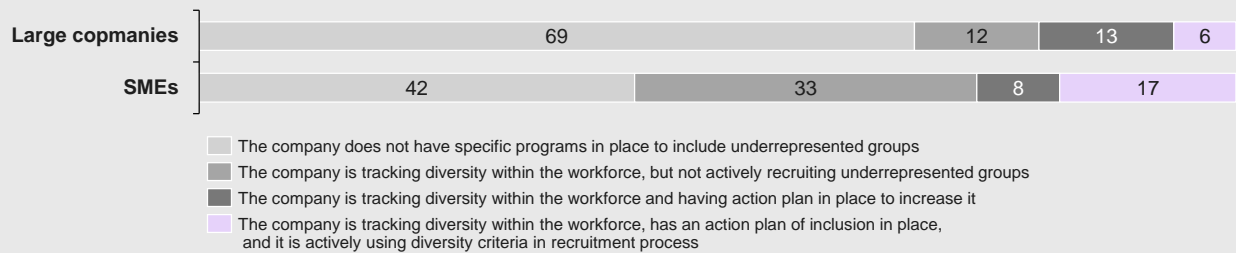
**Multiple of the highest-compensated individual paid compared with the lowest-paid full-time worker**



**Employee well-being**



**DEI**





Lastly, when it comes to DEI, large companies and SMEs both need to invest more into developing programs since 69 percent of large companies and 42 percent of SMEs lack specific programs to include underrepresented groups. Moreover, only 13 percent of large companies and 8 percent of SMEs have an inclusion action plan. On the other hand, almost one-fifth of SMEs are using diversity criteria in their recruiting processes, as opposed to just 6 percent of large companies. To conclude, despite SMEs appearing to be more proactive in their DEI efforts, both segments could take a step forward and enhance their inclusion strategies for underrepresented groups.

**Governance: all large companies have a formal written code of ethics, and large firms and SMEs are both close to reaching gender equality in leadership positions**

Within the governance dimension of ESG, large companies demonstrate their dedication to ethical governance by instituting a formalized code of ethics. Notably, 100 percent have developed and documented an ethics code. SMEs, however, are a bit behind: 8 percent still haven't developed a formal written code.

However, the ethical aspect is still strong among SMEs: only 5 percent fewer SMEs than large companies have employees who are fully familiar with the code of ethics and act accordingly (83 percent of SMEs as opposed to 88 percent of large companies).

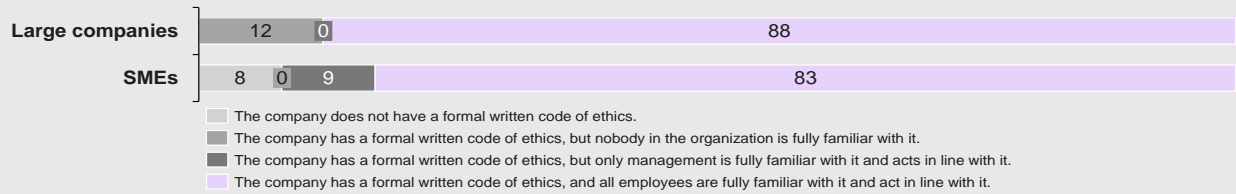
The results, however, are not so prominent when it comes to succession plans: 38 percent of large companies and 17 percent of SMEs do not have a clear succession plan. More than half of the companies in both segments have not only invested in a succession plan but also motivated the successors in the governance realm of ESG. This data suggests that although many large companies and SMEs have robust succession plans, the other half—regardless of size—could benefit from enhancing their strategies to ensure seamless leadership transitions and to motivate successors about ESG.

In terms of gender diversity, our study reveals similar strong performance among large companies and SMEs. On average, women hold 43 percent of managerial roles across all companies, with SMEs just 1 percent lower at 42 percent (see figure 9).

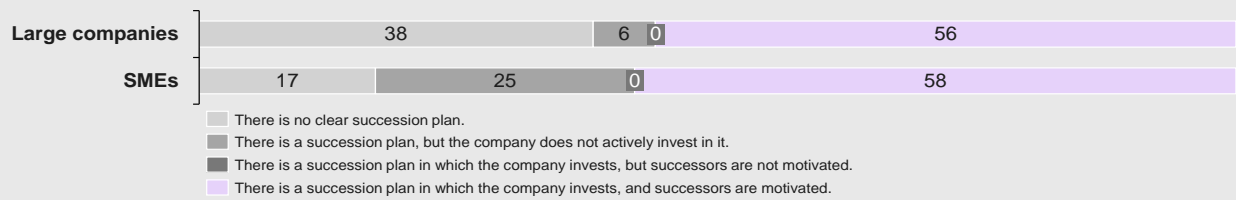
Figure 9.

**43% of leadership roles are occupied by women**

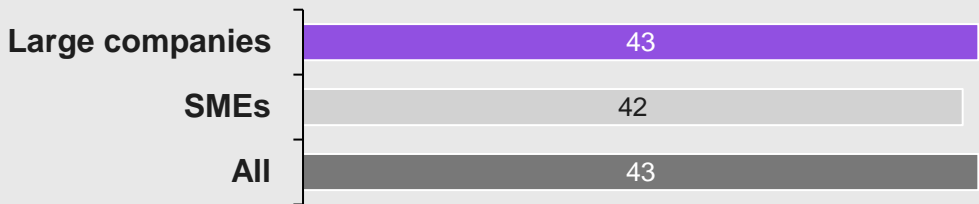
**Code of ethics**



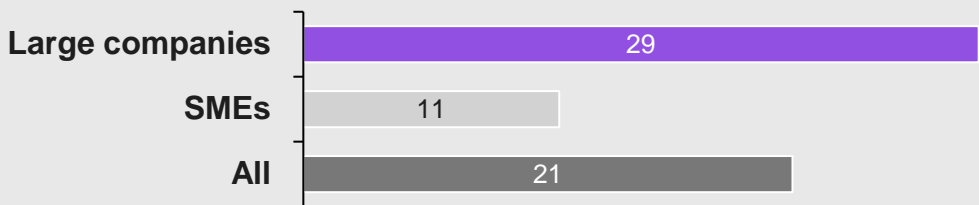
**Succession plan**



**% of women in leadership roles**



**% of independent board members**



Furthermore, consistent with governance standards, 21 percent of North Macedonia's corporate boards are composed of independent board members. However, there's a noticeable disparity between larger corporations and SMEs, at 29 percent and 11 percent respectively. This indicates a potential area for improvement to ensure diverse viewpoints and robust governance.

## The manufacturing / services split reveals another layer of differences

In the following section, we compare the differences in ESG adoption rates between service-centric sectors (such as retail, banking, insurance, telecommunications, postal, and financial services) and production-oriented sectors (such as capital goods, chemicals, food and beverage, utilities, energy, oil and gas, pharmaceuticals, basic materials, and construction).

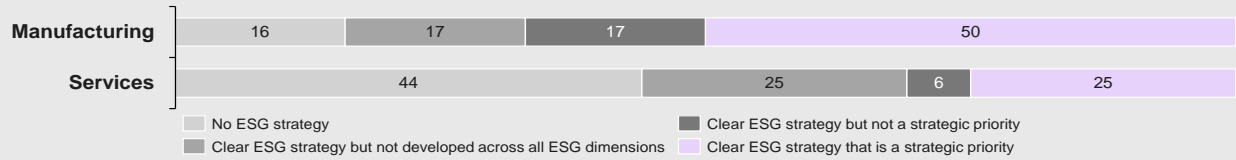
**ESG strategies: half of all manufacturing companies and a quarter of services companies prioritize ESG, whereas 16 percent of manufacturing companies and almost half of services companies still need to develop ESG strategies**

Exactly half of the manufacturing companies have developed comprehensive ESG strategies across all dimensions, making it a strategic priority. In contrast, far fewer services companies have achieved this level of dedication: most have no ESG strategy in place (44 percent) or have not yet developed a strategy across all ESG dimensions (25 percent) (see figure 10).

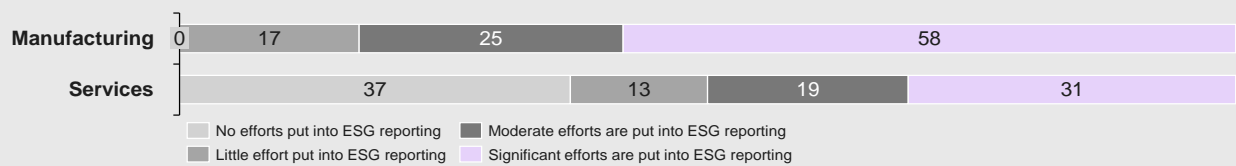
Figure 10.

**Half of manufacturing firms and a quarter of services companies are prioritizing ESG**

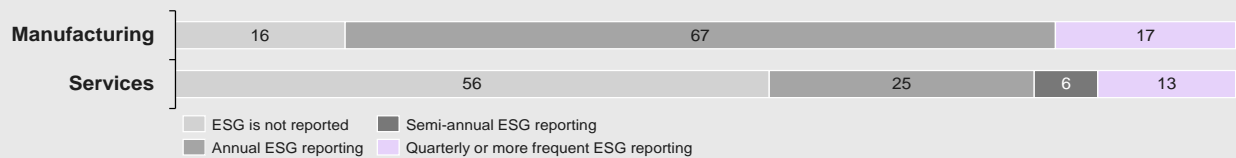
**ESG strategy**



**ESG reporting**



**ESG reporting frequency**



This gap could be a consequence of manufacturing companies being under more pressure from stakeholders since they are suppliers to international companies. Nonetheless, with the growing possibility of European regulations' incorporation in Macedonian national law, services companies would be wise to invest more into developing an ESG strategy across all dimensions.

When it comes to ESG reporting, the results are aligned with the approach to ESG strategies: 58 percent of manufacturing companies put significant efforts into their reporting, as opposed to 31 percent of services companies. It is also concerning that 37 percent of services companies put no effort into ESG reporting. And

it's even more concerning that more than half of services companies (56 percent) do not report on ESG to their external stakeholders, and only 19 percent report semiannually or quarterly. Meanwhile, 84 percent of manufacturing companies are reporting on ESG annually or quarterly.

**Environmental: more than half of services companies do not have emission targets, compared with just 17 percent of manufacturing companies, and most of the ones that do have targets reduce their emissions according to those targets**

Taking a closer look at the environmental pillar of ESG, manufacturing companies

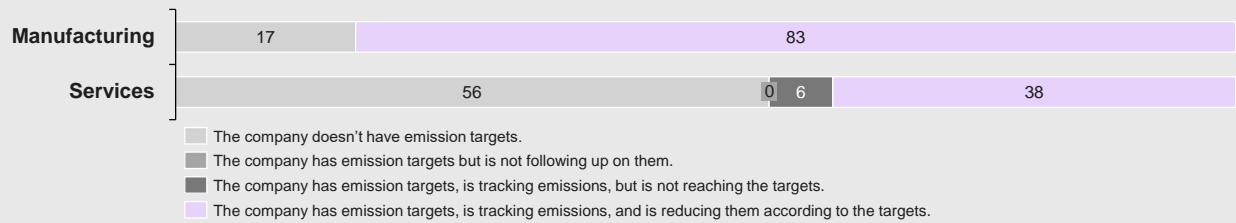
are outperforming services companies. Most of the manufacturing companies (83 percent) not only have emission targets and track their

emissions, but also reduce them according to those targets (see figure 11).

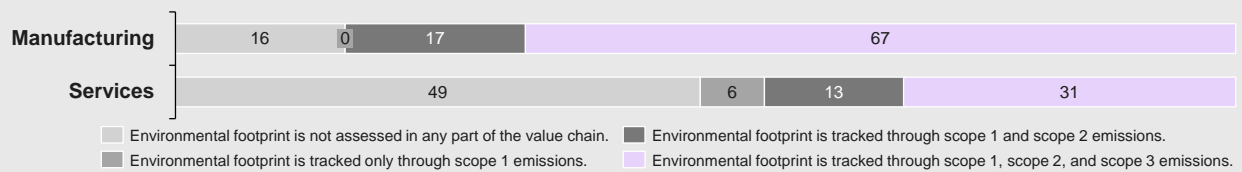
Figure 11

**More than half of services companies do not have emission targets in place compared with just 17% of manufacturing companies**

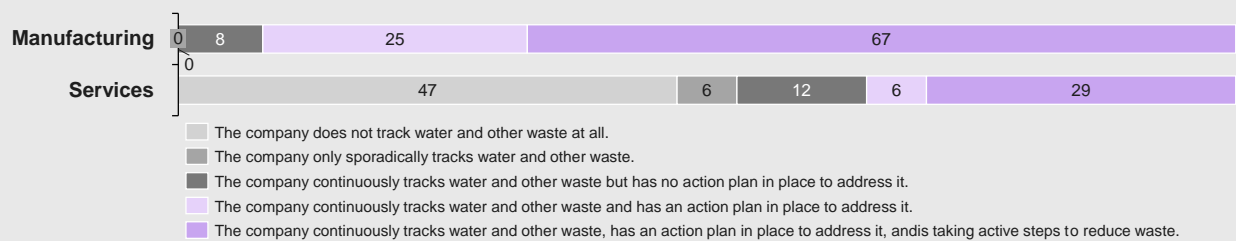
**Emission targets**



**Footprint assessment scope**



**Water and waste management**



In contrast, only 38 percent of services companies accomplish the same, and more than half (56 percent) have no emissions targets at all. This concerning data indicates a great opportunity for easy wins for services companies that set emissions targets.

Furthermore, 83 percent of manufacturing companies track at least their scope 1 and scope 2 emissions, and 67 percent track their emissions across all three scopes. For services companies, these percentages are much lower, with 51 percent tracking at least their scope 1 emissions, and only 31 percent tracking all three scopes.

Regarding water and waste management, manufacturing companies are once again leading the way. All of the manufacturing companies that we surveyed are continuously tracking their water and other waste, and 67 percent have action plans to address these issues and reduce their waste. For services companies, the picture is much different.

Almost half of services companies (47 percent) do not track their water and other waste at all, and only 35 percent have implemented action plans, with 29 percent of companies also addressing the issues and actively reducing their waste.

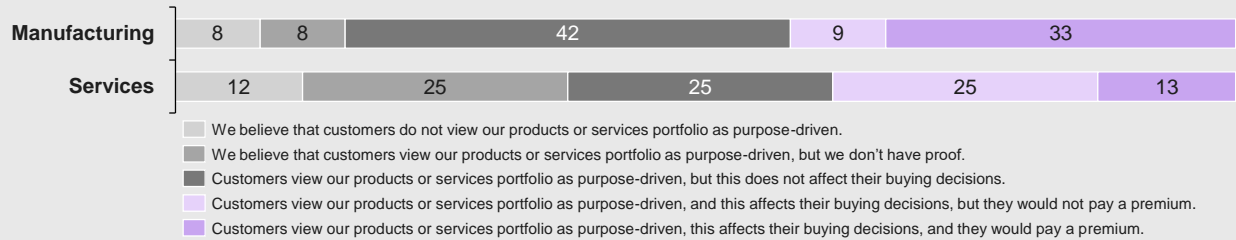
**Social: nearly 40 percent of manufacturing and services companies say their customers perceive their portfolios as being purpose-driven and that this affects their buying decisions**

To some extent in the social aspect of ESG, manufacturing and services companies share similar perceptions and approaches across various stakeholders. When it comes to buyers' perceptions, 92 percent of manufacturing companies and 88 percent of services companies think that their customers view their products and services as purpose-driven (see figure 12).

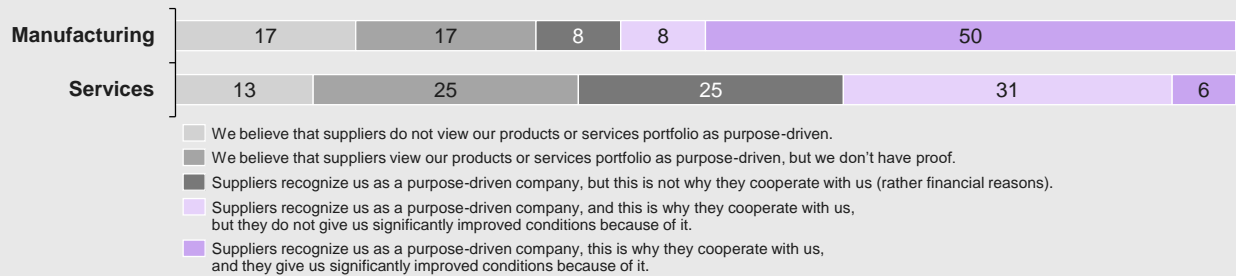
Figure 12

**Almost 40% of Macedonian companies say that buyers perceive their products or services portfolio as purpose-driven, and this affects their buying decisions**

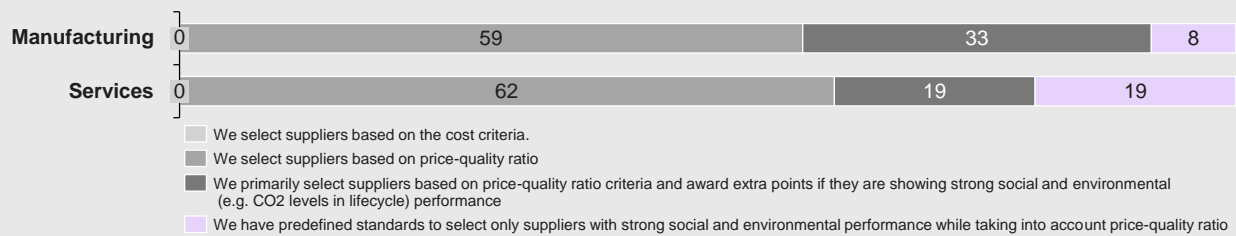
**Buyers' perception**



**Suppliers' perception**



**Supplier selection model**



However, only one-third of manufacturing companies and 13 percent of services companies believe it affects customers' buying decisions and their willingness to pay a premium.

But when it comes to suppliers' perceptions, it's a slightly different picture. Half of the manufacturing companies believe that their suppliers recognize them as purpose-driven, which not only leads to a willingness to cooperate with them, but also gives them significantly improved conditions. Meanwhile, only 6 percent of services companies share this same perspective. When it comes to the principles for selecting suppliers, services and manufacturing companies both predominantly base their choices on a price-quality ratio. One-third of manufacturing companies and 19 percent of services companies also emphasize environmental and social supplier performance. Notable, almost one-fifth of the services companies demonstrate even more dedication to this ESG principle, focusing exclusively on suppliers with strong environmental and social performances along with the price-quality ratio. This is more than double the share of manufacturing companies that take the same actions.

### Social: manufacturing companies are more dedicated to the social and DEI agenda

When it comes to young talents' perceptions, manufacturing and services companies both say they are well-perceived by potential recruits, with two-thirds of the companies in both sectors saying they are recognized as being committed to ESG and it is a reason that young professionals choose to join them. Moreover, none of the companies feel they aren't seen as

being dedicated to the environment, the community, and their employees.

On the other hand, an examination of pay equity reveals a varied spectrum for the manufacturing and services sectors. A concerning quarter of all manufacturing companies and one-fifth of services companies have a wage gap of more than 21 times, leaving much room for improvement. Yet, as much as a third of manufacturing companies and exactly a quarter of services companies have a small disparity, with the top earners making only one to five times more than their lowest-paid counterparts—setting an example for other companies to work toward.

In terms of employee well-being, manufacturing companies are ahead of services companies—with double the share of companies that not only regularly track well-being but also develop systems to address any issues that arise (42 percent of manufacturing companies versus 19 percent of services companies). In addition, half of all services companies don't regularly track their employees well-being, raising concerns about the need for immediate actions to improve the social aspect.

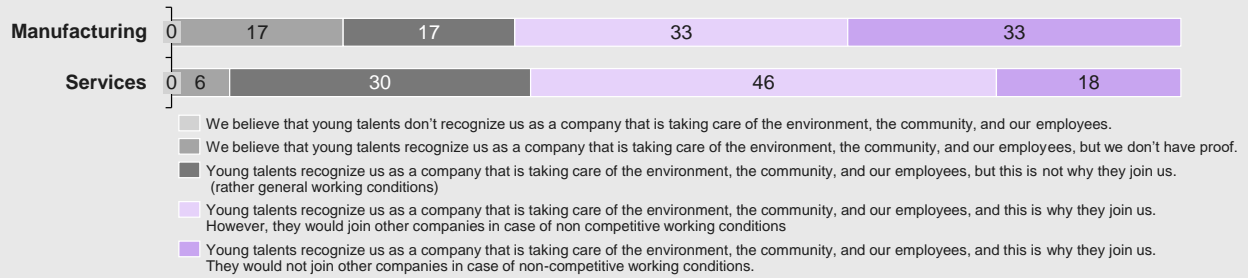
Lastly, when it comes to DEI, companies in both sectors have room to improve: half of manufacturing companies and almost two-thirds of services companies do not invest in the inclusion of underrepresented groups (see figure 13).



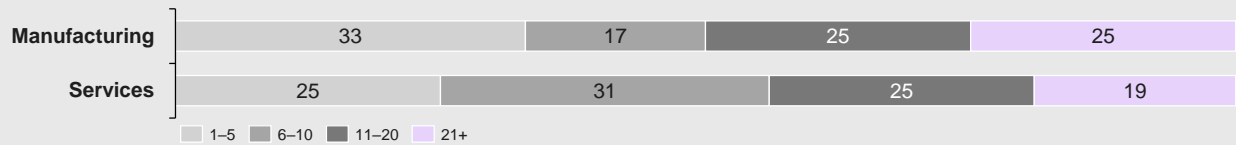
Figure 13

**94% of young talents recognize services companies as a company that cares about ESG, with 18% stating it's a reason they join**

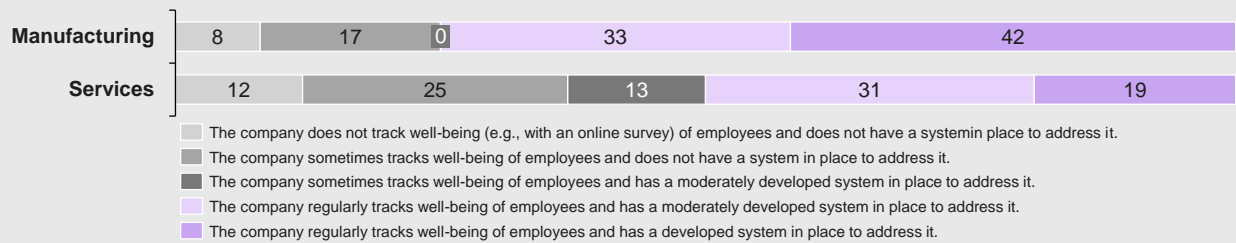
**Talents' perception**



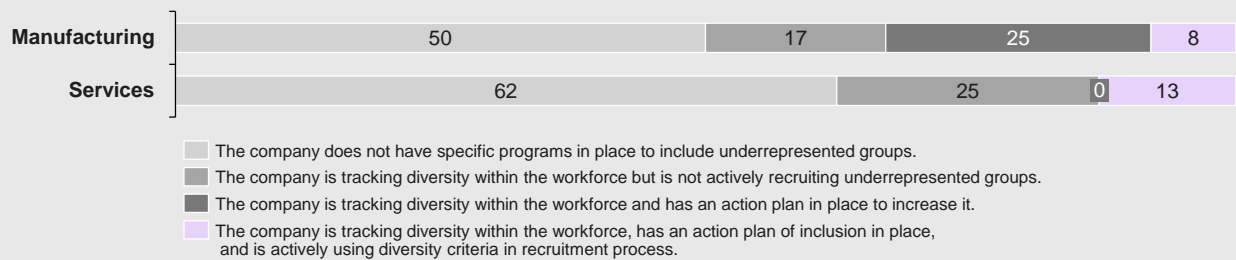
**Multiple of the highest-compensated individual paid compared with the lowest-paid full-time worker**



**Employee well-being**



**DEI**



## Governance: successors in manufacturing companies are less motivated

In general, the services sector exhibits more robust adherence to governance tenets. Specifically, every services firm that we surveyed says they have a formalized code of ethics, while 8 percent of manufacturing companies still don't have one, and in 9 percent of manufacturing companies, nobody in the

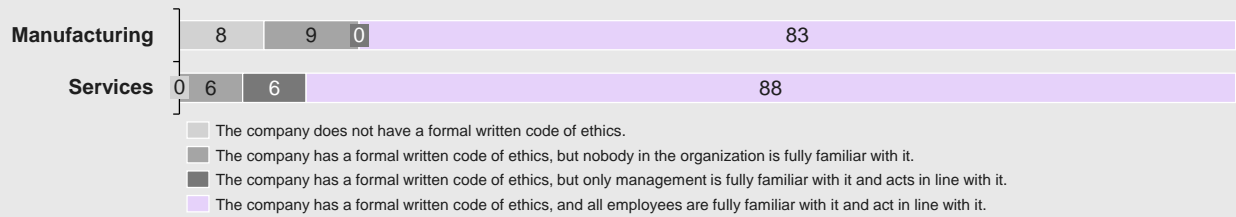
organization is fully familiar with the code of ethics despite its formalized presence.

Manufacturing companies are also lagging in their succession plans. In fact, half don't have a clear succession plan, compared with 12 percent of services companies. Moreover, 69 percent of services companies are investing in a succession plan, and their successors are motivated about ESG, whereas the same is true for only 42 percent of manufacturing firms (see figure 14).

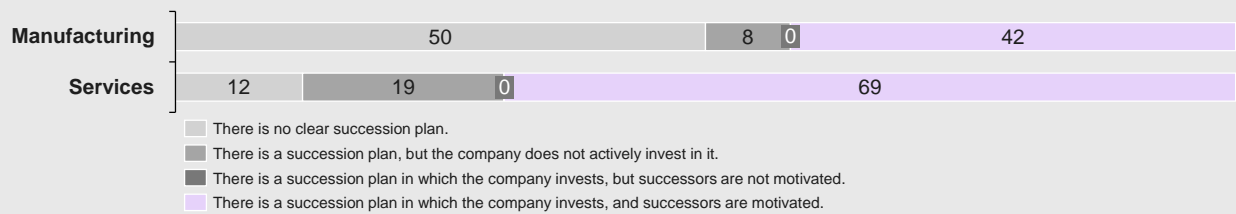
Figure 14

**69% of services companies and 42% of manufacturing companies have a succession plan, and successors are motivated**

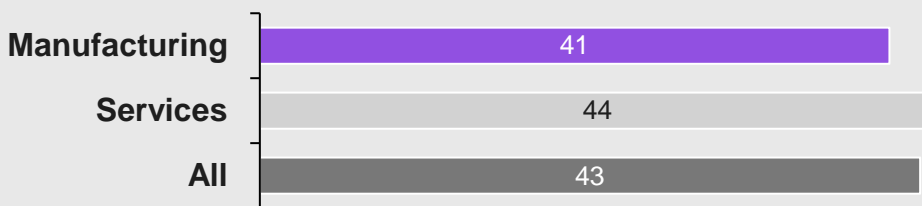
**Code of ethics**



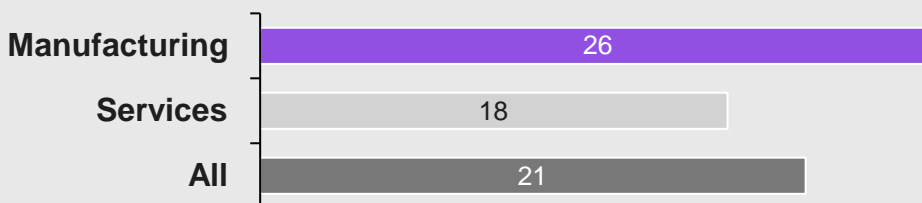
**Succession plan**



**% of women in leadership roles**



**% of independent board members**



On the positive side, manufacturing and services companies are both facing gender equality in leadership roles, with an average of 43 percent of leadership roles filled by women. In terms of the share of independent board members, the numbers are 26 percent for manufacturing and 18 percent for services, averaging out to 21 percent. These figures point to an ongoing need to create more diverse boards. Although the data shows that there is consistency in governance practices for services companies, there is room for development in both the manufacturing and services sectors.

### Firsthand insights: an executive take on ESG in North Macedonia

The focus groups that we conducted with Macedonian executives reveal that service providers and manufacturing companies approach ESG differently. While some companies in the services sector exhibit varying levels of awareness and action toward integrating ESG, their efforts tend to be limited and selective. In contrast, manufacturing companies perceive ESG primarily through a regulatory lens, viewing it as an additional legal framework to comply with, with a particular emphasis on the environmental aspects. Notably, the manufacturing sector doesn't seem to view ESG as a strategic initiative but rather as supplementary components to other priorities.

The challenges associated with ESG implementation also differ between the two sectors. Service providers identify comprehension of the ESG concept and purpose as their biggest challenge, alongside a lack of regulations and a lack of understanding. Meanwhile, manufacturing companies face hurdles related to the absence of clear regulations and standards, along with uncertainties about compliance. Manufacturers

perceive ESG as an added burden on finances and other resources, and they face insufficient external support along with difficulties comprehending certain activities. Moreover, North Macedonia's developmental stage poses infrastructural challenges for manufacturing companies when it comes to implementing ESG initiatives.

Regarding the potential benefits of investing in ESG, service providers recognize reputational and social agenda improvements, although they say that the financial gains are limited. Conversely, manufacturing companies acknowledge the broader societal benefits of ESG, envisioning a better environment and a more sustainable future. However, there is a shared lack of understanding about how to monetize ESG efforts, presenting a common challenge for both sectors.

## Conclusion

Our study reveals a considerable gap between large companies and SMEs in North Macedonia, especially when it comes to their commitments to environmental sustainability and managing their emissions. However, large corporations and SMEs are on about the same level for the social and governance pillars, with large companies just slightly ahead. The difference can be partially explained by the companies' partnerships: it's more likely that large companies work with and supply the European market, which means they automatically fall under the need for environmental reporting. On the social aspect, some commitments are to be expected from a regulatory perspective, but there's still no clear "how-to" manual, leaving room for companies of all sizes to act based on their own judgment. Keeping this in mind, it's worth noting that both categories of companies say they are performing strongly among young professionals. However, both segments can improve when it comes to their DEI initiatives. Interestingly, governance among smaller companies includes more structured succession planning than it does for large corporations, yet both segments need more diverse boards.

There are also differences between manufacturing and services sectors when it comes to prioritizing ESG, the latter being less developed in the environmental and social perspectives. Manufacturing companies are more strongly aligned with ESG principles and more dedicated to environmental goals. The results are consistent with the role of manufacturing companies in the European supply chain and the accompanying need for accurate reporting according to financial and non-financial standards set by the European Union. Yet again, when it comes to governance,

the absence of a need to implement a coherent structure aligned with regulations brings services companies ahead of the manufacturing sector, especially when it comes to succession planning.

Overall, with the expectation of the transposition of European regulations into North Macedonia's legal system and the growing importance of sustainability in the global landscape, both sectors—regardless of the company size—will need to intensify their ESG efforts.

The Macedonian market is determined in its ESG commitment, yet certain business sectors will need to bridge a variety of gaps. Ensuring the country's future ESG growth will hinge on integrating sustainability into both the formulation and the execution of business strategies.

The American Chamber of Commerce in North Macedonia is a business community that serves as a platform for advocacy, networking, exchange of knowledge as well as sharing of best practices, and where business professionals dedicate their time and expertise to co-create a better business environment in the country.

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