

Risk management in small and medium enterprises: A case study in the Republic of North Macedonia

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Abstract: Risk management is a global concern for business survival. While large corporations dedicate significant professional and financial resources to this process, small and medium enterprises (SMEs) worldwide are increasingly recognizing the importance of effective risk management. This study, based on statistical data and other research methods, identifies the factors influencing and practices employed in risk management by SMEs in the Republic of North Macedonia. Business and entrepreneurship literature indicate that several factors determine the success and growth of an enterprise. Profitability is one of the most crucial factors for an enterprise's survival in a competitive market environment. Profitability refers to the ability of an enterprise to be financially successful, which can be assessed before entering a business or used to analyze an enterprise that is currently operational. The study also examines the impact of internal and external factors, including the economic environment, access to finance, managerial experience, and organizational strategies, on improving SME performance. The findings aim to contribute to the development of more effective policies and strategic approaches that support the sustainable growth and long-term competitiveness of the SME sector.

Keywords: *Businesses, Economic development, Entrepreneurs, Risk management, Risk, Strategy.*

1. Introduction

Businesses play a vital role in the economic development of many countries, including the Republic of North Macedonia, where they contribute significantly to job creation, innovation, and overall economic stability. However, these businesses often face numerous risks that can pose significant challenges to their long-term sustainability.

Risk is an important concept in various scientific fields; however, there is no consensus on how it should be defined and interpreted [1]. "Real people" do not seek small risks, but there is a large industry that strives to reduce risk and help balance different risks [2]. Risk refers to the degree of uncertainty or potential financial loss inherent in an investment decision [3].

Entrepreneurs often take risks, requiring a certain level of security and confidence to enter and succeed in business. Taking risks is often viewed as something to be feared, but when done correctly, it can lead to significant rewards [4].

Effective risk management approaches and practices can help businesses minimize financial losses, protect their assets, and enhance their ability to seize opportunities. In the case of the Republic of North Macedonia, where the business landscape is continually evolving, understanding how entrepreneurs perceive and manage risks is essential for their sustainability and growth.

This paper aims to investigate entrepreneurs' approaches to risk management in small and medium enterprises in North Macedonia. The study addresses the following research question.

What is the approach of entrepreneurs in the Republic of North Macedonia towards the risk management process in their businesses?

1. How do businesses in the Republic of North Macedonia conceptualize risk?

2. What forms of risk treatment do entrepreneurs employ?
3. What are the main challenges they face during the risk management process?

By addressing these questions, this paper aims to contribute to the understanding of the current state of risk management practices among SMEs in the Republic of North Macedonia and provide insights for improving their approach to risk management.

2. Methodology and Data

This research employs a qualitative methodological framework, supplemented by elements of document analysis and comparative review, to explore the institutional, economic, and strategic dynamics influencing small and medium-sized enterprises (SMEs), with a specific focus on the manufacturing sector in the Republic of North Macedonia.

2.1. Literature Review

A critical and systematic literature review was conducted, covering both theoretical and empirical contributions from domestic and international scholars. Sources included peer-reviewed journal articles, monographs, policy briefs, and working papers. The literature review aimed to identify key conceptual frameworks, trends in SME development, strategic industrial policy approaches, and comparative insights from EU and regional contexts.

2.2. Secondary Data Collection

Secondary data were obtained from a range of authoritative and internationally recognized sources to ensure reliability and comparability. These included:

- Eurostat: For macroeconomic indicators, industrial output data, and SME sector performance in EU member and candidate countries.
- OECD: For structural policy evaluations, innovation metrics, and competitiveness indexes relevant to SME ecosystems.
- National Strategic Documents: Two key national policy frameworks were analyzed:
- *The Competitive and Incentive Strategy for SMEs in the Republic of North Macedonia*, which outlines government support mechanisms, access to finance, and institutional reforms aimed at SME development.
- *The Industrial Strategy*, with a particular focus on the manufacturing sector, highlights strategic priorities, investment incentives, digital transformation, and export orientation.

2.3. Analytical Approach

The data were subject to qualitative content analysis, enabling the identification of patterns, gaps, and strategic alignment across policy documents and empirical findings. The research also integrates a comparative perspective, positioning North Macedonia's industrial and SME strategies within the broader European policy landscape. This approach allows for an assessment of both convergence with EU standards and local specificities that influence policy effectiveness.

This multi-source, document-driven methodology ensures a comprehensive understanding of the structural and policy environment, thereby supporting informed conclusions and practical recommendations for SME development in emerging economies.

3. Literature Review

3.1. Nature and Definition of Risk

Risk is an inherent part of life and is present in various fields, including finance, health, environment, technology, and daily activities. Risk refers to a potential event that may have both positive and negative impacts. The perception of risk arises from our perception and quantification of

uncertainty. Risk can be defined as the possibility that the actual return from an investment is less than the expected return [5].

Business risk can be defined as uncertainty or unforeseen events that are beyond control. In other words, business risk refers to the chance of incurring losses or earning less profit than expected.

According to Indeed [6], there are several types of risks that entrepreneurs should be aware of and manage:

- Legal Risk: Occurs when a company fails to comply with government regulations.
- Contractual Risk: Arises when a company does not fulfill obligations in a business contract.
- Dispute Risk: Occurs when there is a legal conflict with a client.
- Regulatory Risk: Happens if a government regulator withdraws a company's operating license.
- Strategic Risk: Occurs when a company's business strategy is flawed.
- Reputational Risk: Threatens a company's position or public opinion.
- Operational Risk: Occurs when daily business activities threaten profits.
- Security Risk: Arises if a business fails to implement or follow cybersecurity strategies.
- Financial Risk: Occurs when a company does not manage debt properly.
- Currency Risk: Arises in international business relations.
- Credit Risk: Occurs when a business loan has a higher interest rate.
- Liquidity Risk: Arises when a company faces liquidity issues.

Risk management is, therefore, all coordinated activities to direct and control an organization concerning risk [1].

The goal of risk management is to protect an organization from potential losses or threats to its continuous operation [7].

Effective risk management in SMEs provides a framework for assessing profit opportunities and measuring threats of loss. Without proper measurement, it is impossible to determine what actions should be taken to optimize the risk-reward exchange.

Today's managers explore all risks together and consider correlations between risks and their management. Organizations must have a proper risk management plan. A risk management plan includes all assessed risks that an organization faces, with appropriate steps outlined to mitigate those risks. The risk management process is a systematic application of policies, procedures, and practices to communicate, consult, establish context, identify, analyze, evaluate, treat, monitor, and review risk [8].

The process of risk management can be visualized in the following figure:

Five Step of Risk Management Process



Figure 1.
Steps in the Risk Management Process.

In a successful risk management system, the first and most critical step is the identification of the types of risks that an organization currently faces or may face in the future [9]. Once all potential risks are identified, they must be carefully analyzed. According to Horvath [9], a thorough risk analysis should address the following questions:

- What is the likelihood that these risks will occur?
- What would be the consequences of these risks for the organization?

Upon completing a comprehensive risk assessment, the identified risks should be ranked according to their severity and then prioritized for treatment. Each risk faced by small and medium-sized enterprises (SMEs) must either be eliminated, mitigated, or controlled. Some risks may be ongoing in nature, particularly external risks such as market fluctuations or environmental uncertainties.

According to Sodah [8], an effective risk management process should aim to:

- Prevent the occurrence of identified risks;
- Mitigate the impact of those risks; and
- Serve as a framework for preparing an emergency response plan.

These practices contribute to the establishment of a resilient organizational structure, capable of navigating uncertainties while maximizing long-term sustainability.

4. Business Development and Risk Exposure in the Republic of North Macedonia

4.1. Businesses and Their Development

Businesses, particularly small and medium-sized enterprises (SMEs), are widely recognized as key pillars of economic growth, job creation, and social stability across all modern economies. In the era of globalization, businesses have undergone significant transformations, shifting from locally focused operations to dynamic actors within complex global supply chains. These changes reflect the evolving role of entrepreneurship as not only a vehicle for private profit, but also as a catalyst for social innovation and inclusive development [10].

4.1.1. *The Role of Businesses in Economic Development*

In both developed and developing economies, businesses, regardless of their size, function as crucial engines of growth. Their contributions span multiple dimensions:

- Economic dimension: generating gross domestic product (GDP), increasing national income, and facilitating capital accumulation.
- Social dimension: creating employment, reducing poverty, and promoting upward mobility.
- Innovative dimension: driving technological change, knowledge diffusion, and digital transformation.

The effectiveness of businesses in fulfilling these roles depends on a supportive ecosystem composed of infrastructure, market access, institutional frameworks, access to finance, and a culture of entrepreneurship. In economies in transition, such as the Republic of North Macedonia, building this ecosystem remains a central policy challenge.

4.1.2. *Entrepreneurship in North Macedonia: Current Landscape*

Entrepreneurship in North Macedonia is still considered to be at an early stage of development. The national business environment continues to face structural constraints inherited from its socialist legacy, such as:

- Over-regulation and bureaucratic inefficiencies;
- A high degree of informality;
- Fragmented markets and limited economies of scale;
- Weak institutional trust and limited rule of law enforcement.

However, the emergence of social enterprises, organizations that pursue both financial sustainability and measurable social impact, has highlighted a potential avenue for redefining entrepreneurship in the country. Unlike traditional for-profit firms, social enterprises aim to reinvest profits in social missions, addressing issues such as unemployment, inequality, and environmental degradation.

Despite this potential, the development of the social enterprise sector in North Macedonia lags behind that of EU member states. According to Filipovska [11], in the EU, the social economy accounts for nearly 10% of GDP, and approximately one in four newly established businesses is socially driven. In contrast, North Macedonia lacks:

- A clear legal definition or status for social enterprises;
- Formal institutional support structures;
- Targeted funding mechanisms and investment readiness programs.

This underdevelopment reflects a broader lack of understanding and visibility of social entrepreneurship within public discourse, academic research, and policymaking circles. Building an enabling environment for such enterprises would require multi-level reforms, legal, educational, financial, and institutional.

4.1.3. *Challenges Faced by Enterprises in the Global and Local Context*

The global business environment has become increasingly volatile and complex due to several interrelated factors:

- Global market integration and the liberalization of trade and investment;
- The digital economy and the growing significance of intangible assets;
- Heightened shareholder expectations for short-term returns;
- Geopolitical risks, environmental sustainability concerns, and demographic changes.

These dynamics disproportionately affect SMEs, which often lack the capacity to absorb external shocks or rapidly adapt to technological disruptions. In the context of North Macedonia, Amelon [12] identifies financial risk as a critical vulnerability. Limited access to affordable financing, weak capital markets, and stringent lending conditions constrain business growth and innovation, particularly for high-risk ventures and start-ups.

According to Stojchevska [13], the development of social entrepreneurship is further hindered by:

1. The absence of legal frameworks and strategic policy alignment;
2. Low awareness and understanding of the concept among stakeholders;
3. Inadequate financial infrastructure, with very few dedicated instruments (e.g., social impact bonds, blended finance).

Internal factors, such as low managerial capacity, poor financial planning, and a lack of technical expertise, further exacerbate these challenges, resulting in fragile and unsustainable business models.

4.1.4. *The Role of SMEs in Economic Systems*

Globally, SMEs constitute the backbone of most economies. In OECD countries, SMEs represent approximately 99% of all registered businesses, accounting for over 70% of total employment and contributing more than 50% of GDP, particularly in high-income countries [14].

SMEs are essential for:

- Fostering entrepreneurship and local innovation;
- Enhancing competition and market diversification;
- Promoting inclusive and sustainable economic growth;
- Facilitating integration into global value chains (GVCs).

In North Macedonia, SMEs make up the overwhelming majority of private sector enterprises. In cooperation with international organizations, such as the EU, UNDP, GIZ, and the World Bank, the government has implemented various policy instruments aimed at SME development. These include:

- Financial support schemes: grants, interest-free loans, and guarantee facilities;
- Capacity-building programs: training in business planning, innovation management, and digital transformation;
- Regulatory simplification: the introduction of electronic business registration and one-stop-shop services;
- Incentives for export promotion and integration into regional markets through CEFTA and EU approximation frameworks.

However, the impact of these initiatives remains limited due to low outreach, implementation bottlenecks, and a lack of institutional coordination.

4.1.5. *Definitions and Classifications of SMEs*

The classification of SMEs varies significantly across countries, usually based on:

- Number of employees;
- Annual turnover;
- Total assets.

Among these, the number of employees is the most widely used due to its simplicity and comparability. For instance:

- The European Union defines SMEs as firms with up to 250 employees;
- Japan allows up to 300 employees;
- The United States considers businesses with up to 500 employees as SMEs [15].

Such variation in definitions presents challenges in international benchmarking, statistical analysis, and access to foreign funding programs. Harmonizing definitions and adopting international standards, such as those outlined in the OECD SME Policy Index, would facilitate better policymaking, more accurate data collection, and improved alignment with global support mechanisms.

Table 1.
Definitions of SMEs in Different Countries (Not displayed).

Country	Year	Definition of an SME
China	Early 1990s	<100 employees
South Korea	1995	<300 employees
Vietnam	Early 1990s	<200 employees
India	1991/1992	<30 million in machinery and plant investment
Singapore	Early 1990s	<100 employees
Malaysia	Early 1990s	<75 employees
Thailand	Early 1990s	<100 employees
Tanzania	2002	<50 employees
Malawi	2003	<50 employees
Denmark	Early 1990s	<500 employees
France	1994	<500 employees
Sweden	Early 1990s	<200 employees
Finland	1991	<500 employees
Japan	1991	<300 employees
United States	1994	<500 employees
Average for 6 OECD countries		(To be calculated if needed)

4.2. The Role of SMEs and the Informal Sector in North Macedonia's Economic Development

According to Schneider (2003), cited in OECD [15], a comparative analysis of the size of the informal sector in 22 transition economies (former Soviet Union and Central and Eastern European countries) and 21 OECD countries during the period 2000–2002 revealed that the informal economy constituted, on average, 16.7% of GDP in OECD countries, 29.2% in Eastern European countries, and 44.8% in the former Soviet Union [15].

In the Republic of North Macedonia, small and medium-sized enterprises (SMEs) play a crucial economic and social role due to their contribution to the functioning of the economic network and their capacity to generate new employment opportunities. This role becomes particularly vital during periods of economic crisis and rising unemployment. The development of SMEs in North Macedonia is essential for addressing a range of challenges associated with national economic development, including persistent inequalities, high unemployment rates, demographic pressures, and the need for structural transformation.

Furthermore, the expansion of the SME sector can significantly enhance competitiveness and productivity, while also stimulating overall per capita income growth. Such development fosters the structural transformation of SME sectors and strengthens their connection with innovation and technological progress.

On a broader scale, this process contributes to regional and local development and promotes social cohesion by reducing disparities. Income growth across a wide segment of the population reinforces demands for improved governance. These positive developments enhance both economic and political opportunities and counteract discouraging demographic trends that exacerbate poverty and instability. Thus, it can be concluded that SMEs have a positive and multidimensional impact on the key drivers of development throughout the country.

4.3. Classification of SMEs in the Republic of North Macedonia

In the Republic of North Macedonia, there is no single, unified legal definition of Small and Medium-sized Enterprises (SMEs). However, according to the Law on Trade Companies (Official Gazette 28/2004), the classification aligns with the European Union Recommendation 2003/361/EC, which categorizes enterprises based on the number of employees, annual turnover, and balance sheet total, as shown in Table 3.

Table 2.

Classification of SMEs based on annual turnover and balance sheet total according to the European Commission

SME Category	Number of Employees	Annual Turnover (€)	Balance Sheet Total (€)
Micro enterprises	1 – 9	≤ 2 million	≤ 2 million
Small enterprises	10 – 49	≤ 10 million	≤ 10 million
Medium enterprises	50 – 249	≤ 50 million	≤ 43 million

Source: European Union [16].

According to this classification, enterprises are defined by the number of employees, turnover thresholds, and annual balance sheet totals.

The Statistical Office of the Republic of North Macedonia reports that the number of SMEs fluctuates annually. As of December 31, 2017, there were 71,419 registered SMEs employing 14,481 workers, more than the previous year 2016, accounting for 9.73% of total employment. The distribution of enterprises varies by sector, with trade being the dominant sector, comprising 23,337 enterprises or 32.27%, followed by manufacturing with 7,885 enterprises, and lastly, 172 enterprises operating in electricity, gas, and air conditioning supply [17].

In North Macedonia, the number of employees remains the sole criterion used for classifying enterprises by size, differing from EU countries, where turnover and balance sheet data are also considered. Table 4 presents the distribution of registered enterprises based on the number of employees in North Macedonia.

Table 3.

Registered Enterprises in RNM by Number of Employees – 2018.

Number of Employees	Number of Enterprises	Percentage of Total (%)
Undefined	7,888	11.05
1 – 9	56,658	79.34
10 – 19	3,188	4.47
20 – 49	2,067	2.91
50 – 249	1,382	2.00
250 and above	236	0.33
Total	71,419	100.00

Source: <http://www.stat.gov.mk/Publikacii/SG2018/12-DelovniSubj-BusinessEnt.pdf>.

Out of 71,419 enterprises, 56,658 (79.34%) are micro-enterprises; 3,188 (4.47%) have up to 20 employees; 2,067 (2.91%) are medium-sized; and only 236 (0.33%) are classified as large enterprises with over 250 employees. The predominance of micro-enterprises has significant implications for the national SME strategy.

Sectorally, SMEs are mainly concentrated in retail trade, transport, warehousing and distribution, food, beverages, and tobacco production, as well as hotels and restaurants.

According to the SME Policy Index, enterprises are organized according to their activity types as follows Table 5.

Table 4.

Registered Enterprises by Ownership Type in RNM.

No.	Ownership Type
1	Individual business
2	General partnership
3	Limited partnership
4	Limited liability company (LLC)
5	Joint-stock company
6	Foreign-owned enterprise
7	Social enterprise
8	Public enterprise
9	Agricultural cooperative
10	Others

Significant differences exist between small and large enterprises in North Macedonia regarding management and risk practices. Small enterprises typically have fewer employees, smaller scale, limited market reach (mainly local), and simpler organizational structures. Key distinguishing characteristics include:

- Faster decision-making
- Greater flexibility
- Higher centralization of decisions
- Direct communication lines from owner to employees
- Simple formal planning
- Limited employee participation in decision-making
- Fewer management layers

The development of SMEs is closely linked with local economic growth, where local authorities play a vital role despite the functioning of market economy mechanisms.

Hence, the preparation and approval of a strategy accompanied by incentive operational measures in the private sector, especially in fiscal policy, are prerequisites for sustainable SME development and employment expansion. This necessitates close cooperation among government, scientific institutions, business communities, and local authorities.

Key activities include:

- Developing and implementing a strategic development program
- Enhancing management capacities in SMEs
- Creating favorable conditions for entrepreneurship and economic activity
- Promoting attractive locations for domestic and foreign investors
- Supporting domestic product and service promotion
- Providing technical and informational assistance
- Facilitating access to capital
- Offering business training programs
- Supporting advanced technologies and innovations
- Increasing information flow
- Fostering cooperation among research institutions, businesses, and government

At the local level, a wide spectrum of opportunities exists for self-employment. According to European Commission Directive No. 12 on Employment "Utilizing New Opportunities for Job Creation," new employment can be generated mainly in three areas:

- Everyday life services
- Services related to quality of life
- Environmental protection services

The European Commission's report on "Local Employment and Development Initiatives" identifies key sectors with potential to meet citizen needs and provide important employment opportunities.

4.4. Supporting Infrastructure for SMEs in North Macedonia

The infrastructure includes institutions, networks, and organizations such as:

- Local economic development centers
- Business associations
- Business centers
- Business incubators
- Technology parks
- Technology transfer centers
- Business angel networks

According to the World Bank Group [18], North Macedonia ranks 11th in ease of starting and managing a business, considering:

- Time required for capital acquisition
- Procedures and duration to meet formal requirements and build premises
- Procedures and time for property transfer and quality of administrative services
- Credit information systems and collateral legislation
- Business regulations, taxes, and related fees
- Procedural time and costs for product export and raw material import
- Contract formation, enforcement, and judicial service quality
- Labor regulation flexibility and workforce quality

4.5. *The Impact of Government Policies on Stimulating SMEs*

Small and medium-sized enterprises (SMEs), including micro-enterprises, play a crucial role in the economic landscape of North Macedonia, contributing significantly to employment, regional development, and GDP. Despite their potential, SMEs in the country face persistent structural and institutional challenges that hinder their growth, productivity, and internationalization.

One of the critical problems remains the lack of access to finance, which is compounded by insufficient financial literacy, weak collateral structures, and limited availability of tailored financial instruments. Furthermore, regulatory complexity and a lack of transparency in public administration deter SME development and innovation. Corruption and administrative burdens continue to act as informal entry barriers, especially for newly established enterprises and start-ups.

Additionally, the low level of managerial education and entrepreneurial competencies results in weak business planning and underutilization of available government support. Many SME owners exhibit a passive attitude towards institutional engagement, largely due to a lack of trust in public programs, complex procedures for application, and limited awareness of existing financial and non-financial support mechanisms.

One particular concern is the Law on Foreign Investment Promotion, which, while intended to attract international capital, has inadvertently created competitive disadvantages for local SMEs. Tax breaks and direct subsidies to foreign companies have led to market distortions without fostering effective spillover effects or integration of local enterprises into global value chains. This asymmetry has raised questions about the coherence and inclusiveness of the government's economic development strategy.

In response, the government of North Macedonia has undertaken a range of institutional reforms and launched specific programs aimed at supporting SME development. The current institutional framework includes several key entities.

4.5.1. *The Department for Entrepreneurship and SME Competitiveness (Ministry of Economy)*

This department is tasked with designing, coordinating, and monitoring national SME policies. Its strategic objectives include:

- Addressing structural and operational challenges faced by SMEs through policy adjustments;
- Enhancing the business climate by reducing bureaucratic inefficiencies and reforming regulatory frameworks;
- Facilitating cross-sectoral collaboration between public institutions, development agencies, and international partners;
- Drafting long-term national strategies for entrepreneurship development;
- Promoting innovation, digital transformation, and sustainable business models.

The department also plays a central role in proposing legal reforms relevant to SME competitiveness and ensuring harmonization with EU standards and the principles of the Small Business Act (SBA).

4.5.2. *The Annual Program for Competitiveness, Innovation, and Entrepreneurship*

Published in the Official Gazette, this program provides a structured mechanism for state intervention in the SME sector. It allocates targeted financial support across three strategic areas:

- SME development and business scaling;
- Industrial policy implementation and modernization;
- Cluster support and networking among SMEs.

Each year, the program outlines eligibility criteria, funding levels, and strategic objectives in line with national development plans. However, the efficiency of the program is limited by low participation rates, often caused by inadequate outreach and communication with target beneficiaries.

4.5.3. *Agency for Promotion of Entrepreneurship (APPRM)*

Established in 2003, APPRM serves as an operational body under the Ministry of Economy. Its mandate includes:

- Implementing government policies and donor-funded projects;
- Providing consulting services, mentoring, and subsidies for start-ups and established SMEs;
- Supporting employment generation, regional development, and technological upgrading;
- Facilitating participation in international programs, including EU pre-accession assistance (IPA) and Horizon Europe;
- Acting as a bridge between SMEs and policy makers, and coordinating with chambers of commerce, incubators, and academia.

Despite its mandate, the agency faces constraints in budget, staffing, and outreach, which limit its ability to deliver support at scale.

4.5.4. *Fund for Innovation and Technological Development (FITD)*

FITD has emerged as a flagship institution for innovation-led SME development. The fund provides a range of financial instruments, including:

- Co-financing grants for early-stage start-ups and spin-offs;
- Conditional grants and soft loans for the commercialization of innovations;
- Support for technology transfer, digitalization, and R&D collaboration between firms and research institutions.

By focusing on high-growth potential sectors, FITD seeks to foster a knowledge-based economy and enhance the competitiveness of domestic SMEs in regional and global markets. Its operations are aligned with the national Economic Growth Plan (Pillar 3) and emphasize the integration of scientific research into business practice.

4.6. *Evaluation and Recommendations*

While the government has taken important steps toward establishing a supportive institutional infrastructure for SMEs, the impact of these policies remains mixed. Many SMEs still operate informally or semi-formally, and institutional support is unevenly distributed across regions and sectors. The effectiveness of state programs is often undermined by bureaucratic inertia, insufficient monitoring and evaluation, and a lack of adaptability to the real needs of SMEs.

To increase the impact of public policies on SME growth, several actions are recommended:

- Strengthening coordination between national and local institutions involved in SME support;
- Simplifying application procedures and increasing the transparency of funding allocations;
- Enhancing managerial capacity and entrepreneurial education through targeted training;
- Ensuring fair competition between foreign investors and domestic SMEs by revisiting investment incentive schemes;
- Expanding digital tools for access to information and public services relevant to SMEs.

A more inclusive, transparent, and evidence-based policy approach is required to fully harness the potential of SMEs as drivers of innovation, employment, and sustainable economic growth in North Macedonia.

5. Conclusions and Recommendations

5.1. Conclusions

This paper analyzed the current conditions, institutional frameworks, and developmental barriers surrounding businesses, particularly SMEs and social enterprises, in the Republic of North Macedonia. Drawing on both theoretical literature and policy documents, several key conclusions can be drawn:

1. Businesses, especially SMEs, are pivotal to economic development, as confirmed by OECD and EU data, representing over 99% of firms and accounting for 70% of employment in developed economies [14]. However, SMEs in North Macedonia still struggle to make a proportionate economic impact due to systemic constraints and a lack of cohesive support policies.
2. As noted by Krasniqi [10], the entrepreneurial landscape in post-socialist countries like North Macedonia is hindered by historical legacies, weak institutional infrastructure, and an absence of entrepreneurial culture. This remains true today, despite regulatory reforms and the country's improved international ranking in "Doing Business" indicators [18].
3. The emergence of social enterprises reflects an important shift in entrepreneurial thinking. Yet, as Filipovska [11] and Stojchevska [13] argue, this sector remains structurally unsupported. It lacks legal recognition, dedicated funding mechanisms, and is not integrated into mainstream economic policy.
4. Internal firm-level challenges, such as low managerial competence, insufficient innovation capacity, and underutilized technology adoption, are prevalent among Macedonian SMEs [17]. This limits their growth potential and ability to compete in regional or EU markets.
5. According to Amelon [12], external factors such as globalization, financial volatility, and technological change disproportionately affect small firms. In North Macedonia, these macro risks are amplified by local challenges: fragmented institutional support, a risk-averse banking system, and weak cooperation between stakeholders.
6. Policy fragmentation remains a cross-cutting issue. Although various support mechanisms exist, through the Ministry of Economy, FITR, and international donors, they often lack strategic alignment, continuity, and measurable impact metrics, leading to duplication or underutilization of resources.
7. Best practices from the EU and OECD indicate that coherent, innovation-driven, and inclusive entrepreneurial ecosystems are essential to national economic resilience. North Macedonia must move beyond ad hoc support and adopt a systems approach to SME and social enterprise development.

5.2. Recommendations

Grounded in the literature and empirical observations, the following recommendations are offered to strengthen the business environment in North Macedonia, with particular attention to SMEs and social enterprises:

1. Adopt a legal framework for social enterprises, incorporating criteria for recognition, accountability, and eligibility for public and private support. As Filipovska [11] suggests, this would serve as a cornerstone for ecosystem development and enable access to EU funding instruments dedicated to social economy actors.
2. Expand and diversify financial instruments available to SMEs. According to Yi-Lin and Rayavarapu [14], access to finance remains the most significant growth barrier. Macedonia should develop guarantee schemes, innovation grants, co-financing models, and blended capital approaches in partnership with donors and private investors.

3. Invest in entrepreneurship education and skills development. Following Stojchevska [13], training programs for both new and existing entrepreneurs should be integrated into national curricula and extended through vocational centers, with a special focus on digital competencies, business modeling, and leadership.
4. Establish a centralized, cross-sectoral strategy for SME and social enterprise development. This would align efforts from various ministries, agencies (e.g., APPRM), municipalities, and international donors. The strategy should include KPIs, timelines, and independent monitoring mechanisms.
5. Develop sector-focused industrial clusters and regional hubs to support SMEs in sectors like agribusiness, IT services, renewable energy, and tourism. These sectors demonstrate high potential for growth, employment, and export diversification [18].
6. Create and maintain a national SME/social enterprise database, enabling real-time data collection for policy targeting, transparency, and academic research. As recommended by Krasniqi [10], better data enables better decisions, especially in policy design and impact evaluation.
7. Enhance collaboration between academia, the private sector, and public institutions. Through joint R&D programs, public procurement schemes, and innovation labs, SMEs can better integrate into value chains and raise their technological capabilities.
8. Encourage risk-tolerant policies that allow failure as part of innovation and enterprise development. As Jobanputra [4] emphasizes, “calculated risk-taking is a prerequisite for entrepreneurship.” Government policy must foster a cultural and financial environment where business experimentation is supported, not penalized.
9. Align national policies with EU social economy frameworks. North Macedonia’s EU integration process provides a timely opportunity to harmonize definitions, funding channels, and performance standards with those used in the EU, as proposed by the European Union [16] on the Social Economy Action Plan.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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