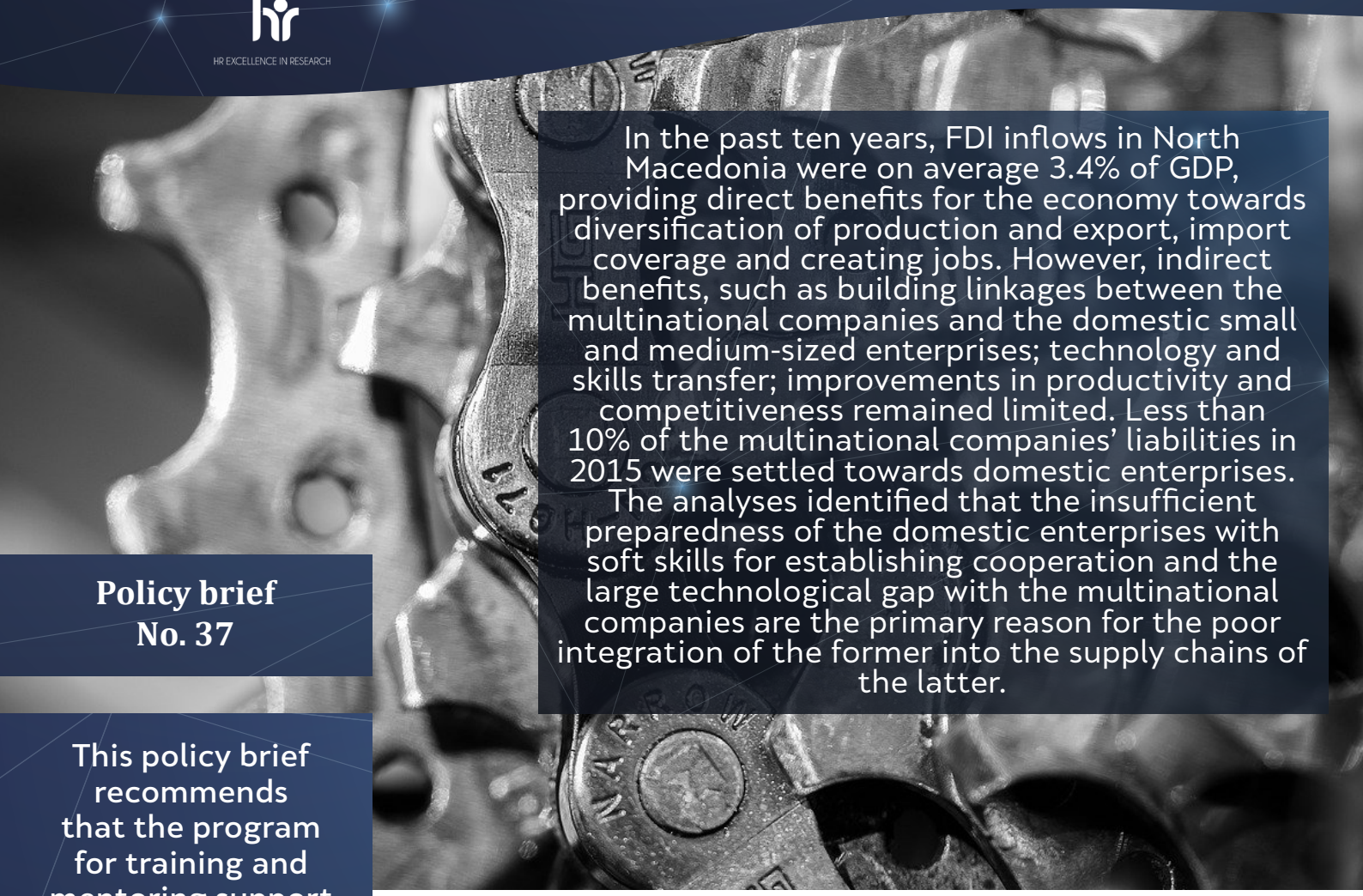
This project is funded by the European Union

FINANCE THINK OUT OF THE BOX

HR EXCELLENCE IN RESEARCH

Is there a potential for the domestic small and medium-sized enterprises to link with the multinational companies in North Macedonia?



In the past ten years, FDI inflows in North Macedonia were on average 3.4% of GDP, providing direct benefits for the economy towards diversification of production and export, import coverage and creating jobs. However, indirect benefits, such as building linkages between the multinational companies and the domestic small and medium-sized enterprises; technology and skills transfer; improvements in productivity and competitiveness remained limited. Less than 10% of the multinational companies' liabilities in 2015 were settled towards domestic enterprises. The analyses identified that the insufficient preparedness of the domestic enterprises with soft skills for establishing cooperation and the large technological gap with the multinational companies are the primary reason for the poor integration of the former into the supply chains of the latter.

Policy brief No. 37

This policy brief recommends that the program for training and mentoring support of the domestic small and medium-sized enterprises should be taken as a model for their integration into the supply chain of the multinational companies operating in North Macedonia. The Agency for Foreign Investments and Export Promotion could take over the program and scale it up in the form of a national program for assistance in such linkage.

Introduction

In the past two years, Finance Think – Economic Research & Policy Institute, in partnership with the Center for Change Management, has been conducting a project supported by the European Union aimed at establishing and/or improving the linkages between the domestic small and medium-sized enterprises and the multinational companies operating in North Macedonia, with the ultimate goal of enhancing the competitiveness of the domestic business sector. The project included direct intervention in such linkage, through: delivering training on soft skills, training on technological standards and a mentoring program for the included enterprises. The first contingent of trainings included a series of soft skills such as presentation, communication skills, approaching foreign partners, self-presentation, effective meetings and the like. The second contingent included introduction and analysis of the range of technological and professional standards which the domestic companies should or is desirable to possess, in order to improve their internal processes, which is often a necessary or desired precondition for cooperation with the foreign companies operating in North Macedonia. The mentoring program was conducted in two forms: pairing a domestic enterprise with a foreign factory and encouraging identification of the potential for cooperation, with the ultimate goal of signing a contract by which the domestic enterprise becomes a supplier (i.e. integrates into the supply chain) of the foreign factory; and consultancy support for implementing or elevating the technological and professional standardization.

Objective

The objective of this analysis is to evaluate - in a rigorous quantitative manner - the program for training and mentoring of domestic small and medium-sized enterprises who intend to get included into the value chain of the multinational companies operating in North Macedonia.

Methodology

The analysis is based on the application of the difference-in-difference (DID) impact evaluation method. DID is typically used to estimate the effect of a specific intervention or treatment by comparing the changes in outcomes over time between a population which is subject to intervention (treatment group) and a population which is not (control group). This is exactly what we did in this analysis: we measured some outcomes (soft skills and technical preparedness) before participants embarked on the program composed of training and mentoring support, and then we measured the same outcomes after the program ended. Then, the difference in outcomes pre- versus post-intervention in the treatment group was compared with the same difference in outcomes in the control group. In this way, we avoid the need for full randomization of the sample (which is hardly feasible in circumstances such as this project). By taking the difference in differences, we eliminate some other impacts on the outcomes, aside from our project (for example, that at the same time a government measure affected both the treated and the control group).

Data and measured outcomes

83 domestic companies applied for the program for training and mentoring support on an open call. Given the fact that it was made possible for them to apply for the program on their own, equalization of participants was ensured according to the so-called unobservable characteristics, primarily motivation for linkage with the foreign factories. All of the 83 enterprises responded to the baseline questionnaire, in February/March 2018.
In the questionnaire we defined six outcomes related to the soft skills for cooperation and four outcomes related to technological preparedness. They were measured on a scale from 1 to 5, where 1 represents the worst outcome and 5 the best outcome. Table 1 presents the outcomes for the soft skills before the beginning of the intervention in all of the respondent enterprises, namely: potential and knowledge for cooperation; skills to identify potential collaborator; comfortability with self-presentation; presentation skills; communication skills; meeting comfortability.

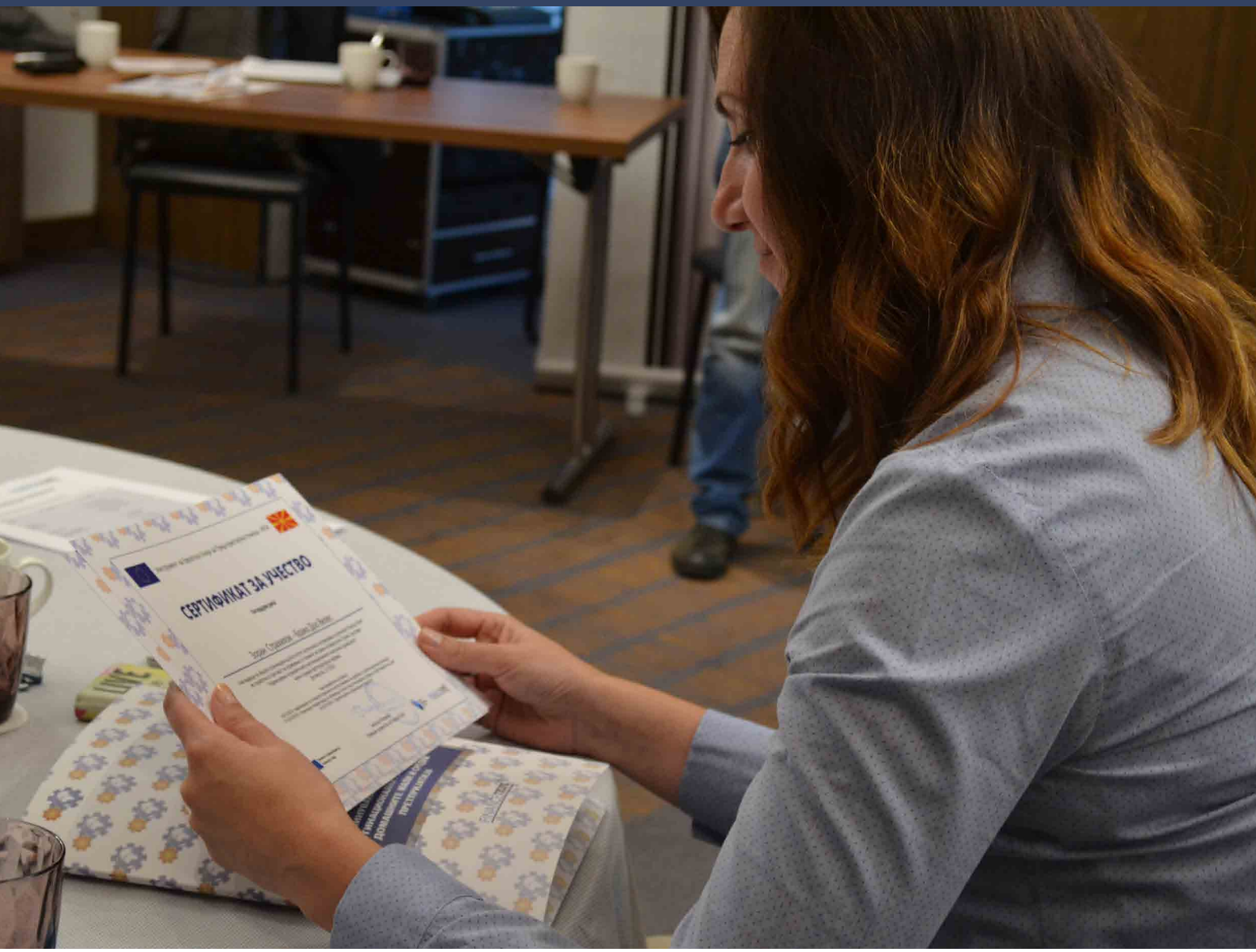


Table 1 - Soft skills for cooperation with MNCs (% of total respondents)

	How would you rate your potential and knowledge for establishing cooperation with foreign companies?	How easily can you identify a potential collaborator from the foreign companies?	If the opportunity arises, how comfortable do you feel to present your enterprise and products to a foreign company?	How would you rate your own presentation skills for your products and enterprise?	How often did you communicate with associates from foreign companies in the previous year, starting from today?	How comfortable do you feel each time you are given an opportunity to conduct a meeting with multiple participants from multiple companies?
1	1.4%	2.8%	0.0%	0.0%	7.0%	0.0%
2	2.3%	6.5%	5.4%	4.3%	38.7%	4.6%
3	44.8%	48.7%	16.1%	40.0%	25.5%	48.5%
4	36.7%	32.7%	46.7%	30.6%	2.6%	32.3%
5	14.9%	9.3%	31.8%	25.1%	26.3%	14.6%

Source: Own baseline survey.

Table 1 reports that regarding potential and knowledge for cooperation; skills to identify potential collaborator; presentation skills and meeting comfortability, the majority of the companies position

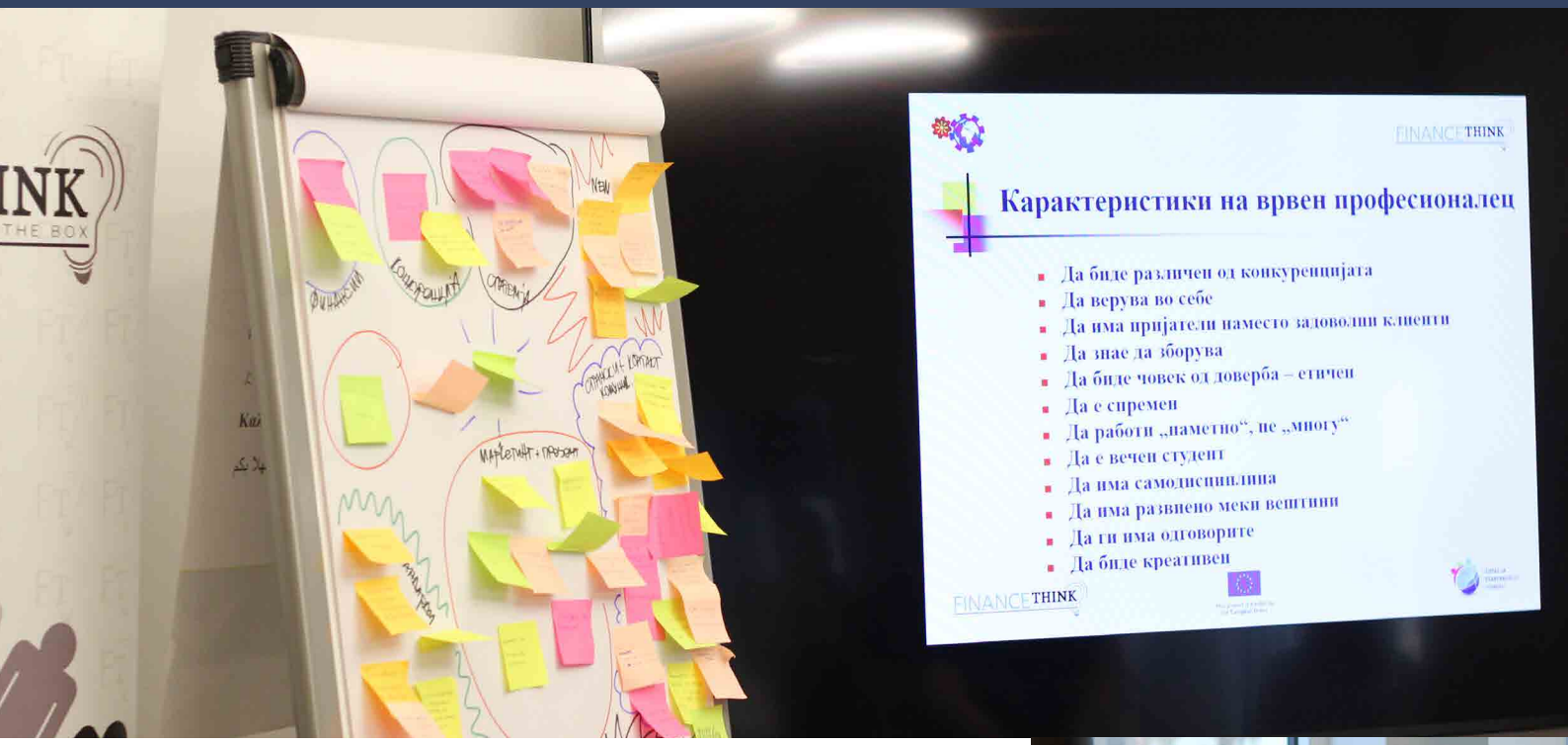
themselves in the middle of the 1-5 scale, meaning neither a strong nor a weak skill. However, the prevalence of responses (5), meaning 'very strong' is quite more pronounced than the prevalence of responses (1), meaning 'very weak'.
Table 2 presents the outcomes for the technological preparedness before the beginning of the intervention in all of the respondent enterprises, namely: need; company's readiness; employees' readiness and management readiness, for implementing technical standards.

Table 2 - Readiness for implementation of a technical standard (% of total respondents)

	How do you rate the need for implementing technical standards in your enterprise?	Generally speaking, how do you rate the readiness of your enterprise for implementing technical standards?	How do you rate the readiness of the employees in your enterprise for implementing technical standards?	How do you rate the readiness of the management for investing in the implementation of technical standards?
1	3.2%	3.2%	3.2%	3.2%
2	15.9%	4.4%	7.6%	7.9%
3	20.3%	42.9%	33.3%	31.7%
4	43.7%	34.7%	47.4%	42.3%
5	16.9%	14.8%	8.5%	14.8%

Source: Own baseline survey.

Table 2 documents a strengthened need to implement technical standards, as 60.6% of the enterprises reported a high or very high need. Likewise, the readiness of the employees and the management is assessed as high or very high in 55.9% and 57.2% of the cases, respectively. While, the overall readiness of the enterprise (mainly reflecting its current level of technological development) is assessed more conservatively: 42.9% of the enterprises reported a "neutral"



stance for the technological preparedness.
35% of the initial contingent of enrolled enterprises participated in the training on soft skills. Although all of them were invited to attend, some of them did not show up on the training or declined the invitation, with the most common reason provided being that they could not participate due to other duties in the days of occurrence. This is important because the reason for non-participation should be unrelated to the outcomes which we measure. 26.7% of the enterprises participated in the training on technological preparedness. Only 6.5% of them participated in both trainings (thereby, we do not measure the cumulative effect from the two groups of trainings, due to the small number of enterprises who participated in both groups of trainings).
20.7% of the enterprises received mentorship, either in the form of direct pairing with a MNC or through consultancy mentorship for introducing relevant technical standards. 37.5% of the enterprises who received training on soft skills continued to receive mentoring support, while half of those who were trained for technical standards continued towards mentoring support. Out of those who attended both trainings, 78% received mentoring support (even though the number of such cases was very small).
All of the companies who applied to the open call, but did not participate in the trainings and/or the mentoring program, served as a control group. The comparability of the control group with the treated groups was tested using the standard t-test and Hotelling test. The results show that between the treated and the control group there are no differences in terms of several observable characteristics which were available to us (number of employees, age of the enterprise, whether it is an exporter, % of exports in total turnover), which provided the basis for their further comparison in terms of the treated outcomes.
The same contingent of questions in form of a post-intervention survey was conducted on all 83 enterprises after the program ended, i.e. in September/October 2019.

Results

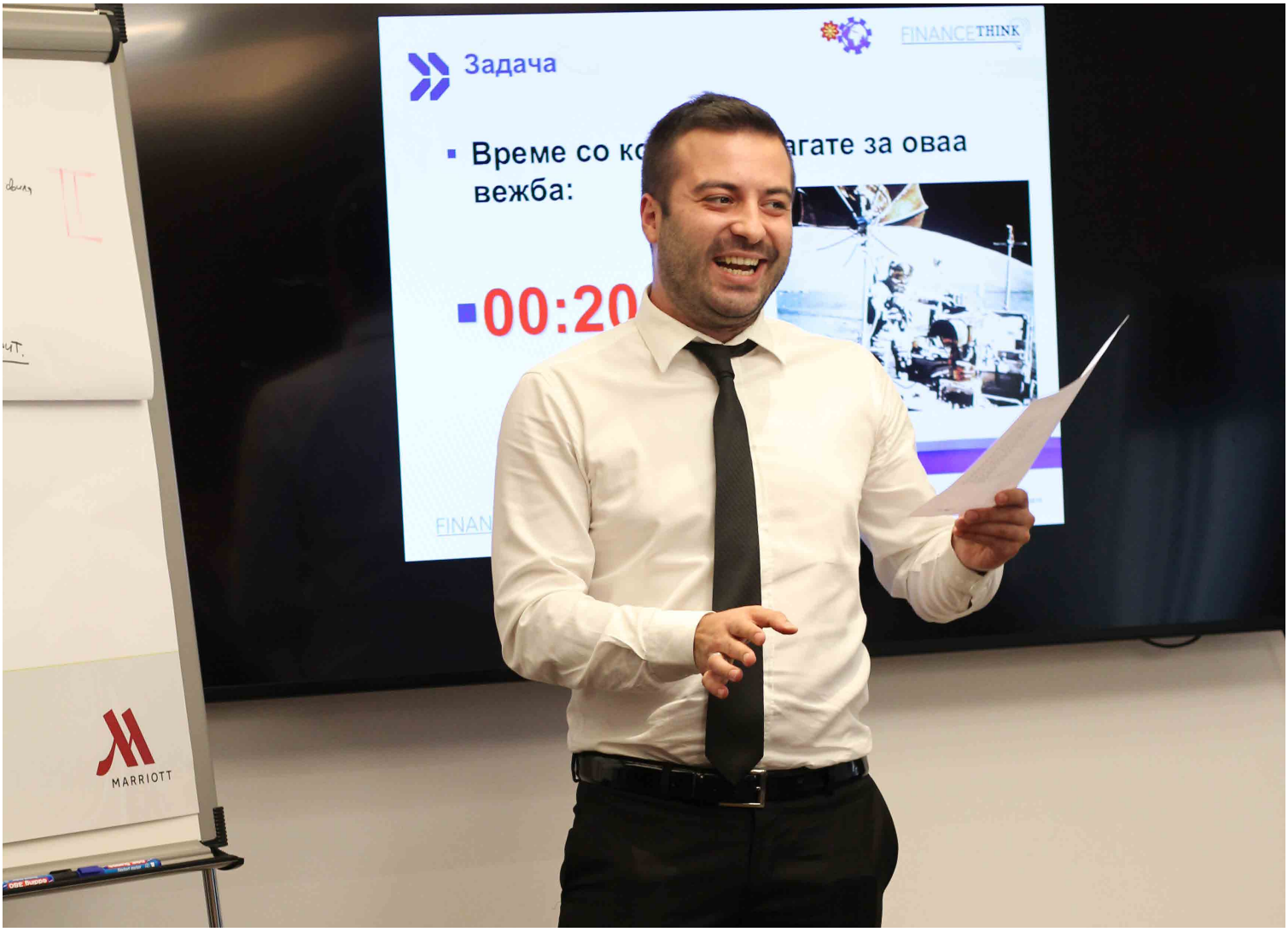
The results from the intervention in the area of soft skills are presented in the following figure:

Figure 1 - Results of the intervention for soft skills

	Potential and knowledge for cooperation	Skills to identify potential collaborator	Comfortability with self-pre-sentation	Presentation skills	Communication skills	Meeting comfortability
Treatment with training on soft skills	No effect	No effect	Positive effect 0.562	Positive effect 0.612	No effect	Positive effect 0.580
Treatment with mentoring support	No effect	Positive effect 0.556	No effect	Positive effect 0.829	No effect	No effect

Source: Own calculations.
Note: The magnitude of the positive effects can be freely interpreted as an improvement on a scale from 1 to 5, in the same way the outcomes are measured.

The results suggest that the soft-skills component exhibited positive and fairly large effect onto the comfortability with self-presentation, the presentation skills and the comfortability with meeting business partners. Then, the mentorship support has been found crucial as well, as it reinforced the training effect in the case of presentation skills (by a larger magnitude than the coefficient onto the training component), while it yielded a significant positive result for the skill to identify potential collaborator.



The results of the intervention in the area of technological preparation are presented in the following figure:

Figure 2 – Results of the intervention for technological preparation

	Need for technological upgrade	Enterprise readiness for technological upgrade	Employees readiness for technological upgrade	Management readiness for investing in technological upgrade
Treatment with training on technological preparation	No effect	No effect	No effect	No effect
Treatment with mentoring support	Positive effect 0.813	No effect	No effect	Positive effect 0.652

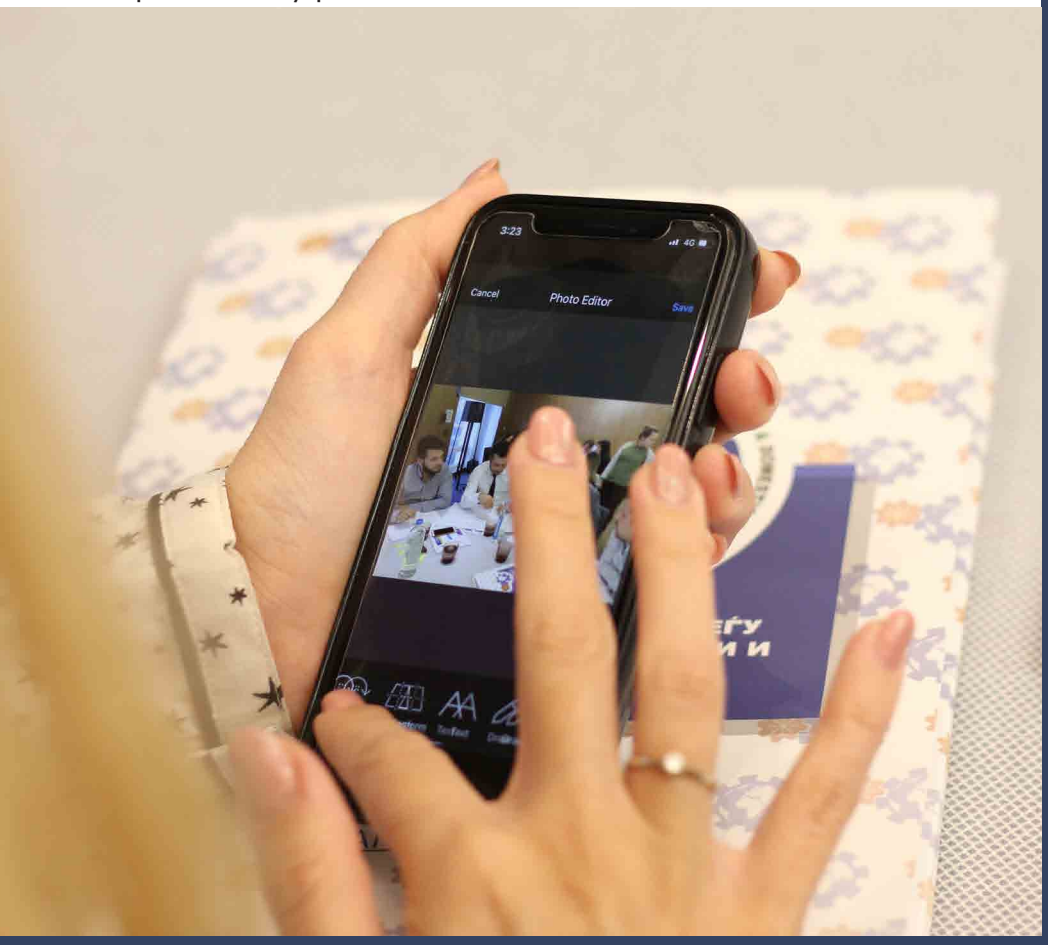
Source: Own calculations.
Note: The magnitude of the positive effects can be freely interpreted as an improvement on a scale from 1 to 5, in the same way the outcomes are measured.

The results suggest that the training has been insignificant for the technological preparedness of the enterprises. Such finding could correlate with the finding that a high share, two thirds, of the trained enterprises has already implemented a technical standard. However, the mentoring support made a significant difference, as in two out of four outcomes it produced positive results with a fairly large magnitude. Namely, the mentoring support significantly strengthened the need of the enterprises for technological upgrade, as well as the management readiness for investing in technological upgrade.
Despite the results in the case of the technological preparedness may not seem entirely satisfactory, one needs to consider the fact that these are short-term outcomes, while technological awareness, needs' assessment and confronting it with the potential and readiness for upgrade is a process that could occur only over the medium to a long haul. Therefore, the early signs identified with this impact evaluation should be considered rather overly satisfactory.

Conclusion and recommendations

The results show that the training on soft skills component produces positive and fairly large effect onto the comfortability with self-presentation, the presentation skills and the comfortability with meeting business partners. Then, the mentoring support reinforces the training effect in the case of presentation skills, and is wholly significant for the skill to identify a potential collaborator. The training has been insignificant for the promotion of the technological preparedness of the enterprises, though the mentoring program strengthens the need of the enterprises for technological upgrade, as well management readiness for investing in technological upgrade. Overall, the project produced positive and significant results for both soft skills and technological preparedness of the included companies. The training component has been particularly powerful for elevating soft skills to be used for smoother establishment of cooperation between the domestic enterprises and the multinational companies, while the mentoring support has been found important for both soft skills and technological upgrade.

The results provide space for recommending the program as a model for fostering the linkage between the domestic enterprises and the multinational companies. Potentially, this project should be taken over as a model within other initiatives and / or, better yet, within the government institutions relevant for the attraction of FDIs and their sections for aftercare. More specifically, results recommend that the government should engage in elevating the soft skills and technological readiness of the domestic enterprises in order to assist in effectuating their attempt to engage into the supply chains of the multinational companies operating in North Macedonia.



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Finance Think is an independent Institute for economic research and policy in Skopje.

Our Vision

To steer economic thinking for increased wellbeing tomorrow.

Our Mission

To enhance the impact of economic and social trends and policies on citizens in North Macedonia and the Western Balkans, through economic research, evidence-based and data-driven advocacy, and steering critical debate on economic processes. The research of Finance Think helps policymakers, policy advocates, opinion makers, journalists, and the public understand the issues affecting ordinary citizens.

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Центар за управување со промени

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