
A QUALITATIVE ANALYSIS OF THE BARRIERS BETWEEN MULTINATIONAL COMPANIES AND SMALL AND MEDIUM ENTERPRISES IN NORTH MACEDONIA

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Abstract: This paper presents the barriers between multinational companies (MNCs) and domestic small and medium enterprises (SMEs) in the Republic of North Macedonia. The main goal of this analysis is identifying the linkages between domestic small and medium enterprises and multinational companies operating in North Macedonia, in order to improve the cooperation, networking and development of the system for exchange of goods and services between SMEs and MNCs. The internal, external and financial barriers faced by both MNC and SMEs are analysed. Barriers to cooperation are analysed based on the requirements of the MNC, the conditions for starting cooperation with local domestic companies and the capacities of domestic companies to achieve these conditions. The analysis includes domestic companies from sectors with the greatest potential to achieve cooperation with MNC, such as: companies from the metal processing industry, rubber and plastic production, automotive industry, transport, services and the like. Additionally, the research covered the existing government measures for encouraging the cooperation between MNC and SMEs, and measures for encouraging investments of domestic companies. The financial environment was analyzed by assessing the ability of domestic companies to self-finance and the availability of loans for productive investment. Internal organizational barriers are explored by analyzing the internal resources and capacities of domestic SMEs; availability of technical standards, human resources; lack of qualified managers; skills for promotion and access to MNC.

The assessment of training needs of domestic companies is part of the overall analysis of the networking and overcoming the barriers between domestic SMEs and MNCs in North Macedonia. The training needs assessment helps to identify the differences between the knowledge possessed by domestic SMEs and the knowledge that is a prerequisite for achieving cooperation with MNC. The research was to identify and show the current needs in the context of technical standards, skills and competencies of SMEs in order to better position themselves in front of multinational companies (MNCs), current problems faced by domestic SMEs in achieving business cooperation with MNCs in our country, their weaknesses in the process, as well as how to manage to overcome the existing barriers to demand and supply between domestic SMEs and MNCs operating in our country. A deliberate sample was designed, where the main criteria for identification and selection of potential respondents were: managers/ owners of micro, small and medium enterprises, from the targeted industries, operating in the Republic of North Macedonia. The analysis of the data is thematic and narrative, to illustrate the views and opinions / examples expressed by the respondents, quotes from the received answers are presented. The obtained results give us a detailed overview of the barriers faced by small and medium enterprises in the process of starting cooperation with the MNC in the country. The conclusions provide an overview of the priority needs for improving the standardization of domestic companies that will enable their networking and cooperation with multinational companies and thus their inclusion in the value chain.

Keywords: small and medium enterprises - SMEs, multinational companies (MNCs), networking

1. INTRODUCTION

Foreign direct investment (FDI) are considered driving strength of transition economies: many countries - from Visegrad and The Baltic group, as well as Ireland – it followed by "the path to development through FDI" and achieved significant results. Also, FDI is considered have a positive effect on growth and export diversification, it strengthens the industrial base and economic growth and encourage employment. Macedonian governments make an effort to attract foreign direct investment from multinational companies (MNCs) since 2000, though significantly intensified policies in 2007, mainly because of the fast regulatory reforms and the new tax policy with reduced and leveled tax rates, introduced from the then new government. As a result of these reforms, between 2009 and 2019, average FDI inflow to North Macedonia is about 3.4% of GDP. However, North Macedonia has noted the lowest inflow of FDI (EUR 260 million) in compared to other countries from Western Balkans. Processing sector seems to be the most attractive sector for foreign investors in the last 8 years (42.3% of total FDI inflows in average). The main driver of these investment is automotive industry and other transport equipment, with an average share of up to 74.5% in the total foreign investment in processing sector. Other significant drivers of the FDI are the service sector (41.5%) and the construction sector (12.7%). In addition to the direct impact, such as great market competitiveness, increase in real GDP per capita and creating direct jobs, FDI additionally provide indirect benefits through creation

multinational ties companies (MNC) and domestic small and medium enterprises (dMSP); technology and transfer of skills; and improvements in productivity and competitiveness in the overall economy. In North Macedonia, these connections are limited. In addition, no progress is registered in “FDI and the transfer of technology” between 2011 and 2019 year. MNCs in North Macedonia are poorly supplied in the domestic economy. Less than 10% of total liabilities are generated to domestic companies (FISCAST, 2018), which in 2017 year is insignificant 46 million, which compared to total MNC exports (about 2 billion in 2019) is significantly negligible. The chain on the procurement of domestic SMEs is even worse. Generally small and medium enterprises participate with only 36% in the national exports, as opposed to contributing to GDP with over 90%; they most export to neighboring countries, indicating that their export capacities for countries requiring higher standards are limited. Domestic SMEs also face small investments in innovation and in research and development (R & D), and investments in new technologies and knowledge capital are minimal. Except for the gaps in the supply chain, the weak infrastructure and development of skills, is missing and knowledge transfer mechanism from MNCs to domestic SMEs, as and information asymmetry, and opportunities for bridging the information deficit and creating network capital between domestic SMEs and MNCs are rare.

2. MATERIALS AND METHODS

This study is based on combined methodologically approach and includes: (1) semi-structured interviews - the first round was conducted with the affected parties (chambers of commerce, international organizations, business confederations, DTIDZ, relevant creators of policy), followed by interviews with representatives of MNCs operating in the country; and (2) online questionnaires - were implemented two questionnaires, one for MNC in the country and another for the domestic SMEs, including the general part with basic questions about the company (location, sector, number of employees, type of investment, etc.) and a section with specific questions for gaps and potentials for cooperation. Additionally, content analysis of relevant national/official documentation, analysis of secondary data / research reports, as well as literature review were conducted for the study. The survey involved 100 companies from all regions of the country. The companies were selected in relation to the sector they perform and according to their size. Accordingly, in the research were included domestic small and medium companies and multinationals companies from the entire territory of the Republic of North Macedonia. The target group of the survey questionnaire were managers or owners of companies.

Certain institutions relevant to the research were also included in the research. The following institutions were involved in the process: the Ministry of Economy of the Republic of Macedonia, the Ministry of Foreign Direct Investments, the Association of Metal and Electrical Industry - MAMEI, the Agency for Accreditation and Standardization of the RNM and the Delegation of the German Economy in North Macedonia.

In addition to the answers to the questionnaires, the data were collected by organizing a focus group with domestic SMS which aimed to gain more detailed knowledge of the current state of management practices, technological knowledge, skills and needs for additional training in order to meet the requirements of MNC. Along with the open questions, the respondents were asked to share their general opinion on the situation of domestic small and medium companies, the needs for their technical and technological development and to give recommendations for improving the cooperation with MNC in the Republic of North Macedonia.

3. RESULTS

The results of our research gave us answers about the overcoming the barriers in order to establishing cooperation between domestic SMEs and multinational companies in the country -MNC.

Among domestic SMEs and multinational companies in the country, there is an obvious established cooperation. 81.5% of the MNC in the country responded that they cooperate or have collaborated with domestic SMEs, compared with 18.5% who did not establish any kind of cooperation. Identified benefits for MNC from working with domestic suppliers, are the following: fast delivery due to proximity of suppliers, lower transportation costs and logistics costs, better communication due to direct contact with suppliers, easy and fast procedures etc.

On the other hand, the benefits of domestic SMEs from the established cooperation with MNC is: expanding their production and business operations, as well they are becoming technologically advanced and certified manufacturers. The analysis identified several factors for a successful cooperation, such as: good product quality, competitive price and timely delivery. Additionally, business trust and goods communication between the two parties is essential. From on the other hand, domestic SMEs require greater openness to MNC, less stringent requirements and payment on time. The possibility of cooperation and meeting the need for procurement in certain sectors / products is largely determined by possibilities the foreign companies to find the necessary products and suppliers locally. At the same time, access to domestic information suppliers is very difficult. A single base is missing of data on potential domestic suppliers, but a single base is also missing of data for all foreign investors in

the country. Procurement policy of MNC in the country is considered the main determinant of the established cooperation with domestic SMEs. There are differences in policy for procurement decisions locally and internationally, depending on the type of procurement (raw materials or services). General, service procurement decisions are mainly on local level, compared to decisions on procurement of raw materials, which mainly are on centralized level or combined (centralized and local level). Taking in considering the type and location of foreign investment, bigger potential for cooperation exists between domestic SMEs and MNCs that work outside the technological industrial zones, than potential for collaboration with MNC in zones.

The analysis identified certain gaps in cooperation between MNC and domestic SMEs in the country. Insufficient technological development and capacities of the home SMEs, the implementation of standards and certificates and production capacity, are considered as major weaknesses identified by MNC and are from greatest importance for cooperation. Insufficient technological development and home readiness SMEs are listed as major weakness by MNC, with greatest importance for cooperation. According to domestic companies, they are not ready to invest in new technologies, because they face high financial liquidity risks and cannot achieve sustainability in sales. Disadvantages in the implementation of standardization and certifications due to unimplemented or incompletely implemented quality standards and security and internationally recognized certificates, especially in the automotive industry. In MNC and dSME there is a misperception in relationship of level and appropriateness of standardization, suitable for cooperation. Although MNCs claim that domestic producers that do not have technological standards, 75% of domestic companies replied that they had implemented technological standards in their operation. Additionally, most companies have stated that the new technological equipment is too much expensive to buy new, so they decide to buy used equipment which can meet their needs and production standards. However, in terms of what they lack of equipment and technology for modernization of their production, the answers are mainly for the need of new more modern machines, or new software solutions that will improve it and will enhance the quality of production. Certainly, nowadays tracking the fast development of technique and technology is the basis for progress and better-quality production that must follow changes and market demands. Accordingly, domestic companies need new machines and equipment that allow them to shorten the production time of a product unit, increase accuracy as well as reduce overall costs.

However, most of the domestic SMEs possess some of the ISO standards, health standards safety at work, but only limited number of domestic SMEs have introduced the specific standards required by MNC. In addition, dmps consider that standardization processes and certification are expensive, so therefore many of them cannot afford to implement more than a standard or certificate. The analysis showed that there are three types of domestic enterprises:

- 1) Those who follow certain prescribed procedures of work, procedures of running documentation, control the stages of production of products with proper data archiving, etc., but not have certified standards.
- 2) There is a group of companies that are not even familiar with the standards and the procedures for obtaining them because they do not have enough information about their significance, the advantages and benefits of them and, as they pointed out, they do not intend to implement them.

However, the reasons to not implement the standards of working by those who have not implemented certain standards is that: they are expensive, they take a much time for consuming or they are complex. Experiences in some of the companies are that the companies that implement the standards spent too much time working on them (sometimes even a few months), that a lot of them interfered with work, required too many documents and work protocols and that as a result of that the production process suffered. Some of them had implemented certain standards, but because of such a long and expensive experience procedure, they have no longer renew them.

- 3) However, there are such companies that have introduced certain standards and which they regularly renew. Their view is that if they want to work, especially to export goods and have serious partners, it is necessary to possess the required standards. Usually this is case in enterprises with a larger number of employees, export-oriented, with modern working procedures, trained and experienced managers.

Their opinion is that it is necessary to strengthen the awareness of other domestic companies and managers about the importance and benefits of implementing standards and certification of production processes. In general, companies that do not have standards in their operations are weak informed of their significance, as well as what they mean. Most of them see the introduction of standards as a financial burden on the company, complicating the operating processes and additional obligation which, if not necessary, are avoiding to introduce it. This means that there is no awareness that the standard is an essential document that describes the process and manner of performing certain business activity, the basic characteristics of the process and the expected ones process results.

According to MNC, the limited production capacity of domestic SMEs is one of the main problems when you need to establish cooperation. The stakeholder's opinion for existence of the gap in production capacity is due to shortage of interest to domestic companies to invest in the growth and development of their production plants. According to

the SME, unsustainable and economically inaccessible sources of funding are considered for the main reason of the weak investment in production facilities. Non-competitive prices of dSME products, organizational gap and the gap in relation to human capital, as soft skills are additional disadvantages identified in the collaboration. Regarding the organizational gap, problems have been related to the low level of responsibility of SMEs that have to fulfil the terms of their contracts and ensuring timely delivery. While the lack of soft skills is mainly reflecting on the realization contacts and how domestic SMEs approach them of MNC.

Regarding the lack of capacity of domestic companies, many of them said that they have enough equipment needed to increase the existing volume of production and this can be easily achieved by introducing a second or third shift, but the problem is recruitment. of professional staff, warehouse space and markets where they will place the products. Also, most of them are able to finance themselves for procurement of raw materials for production and to cover the costs for employees.

According to the answers of the managers and owners of the companies, most of them agreed that the lack of qualified, specialized and a trained workforce is the main problem, and it is noticeable to all surveyed enterprises regardless of their activity or sector of working. The problem with trained, professional staff seems has become a serious problem, especially in the last ten years with the opening of many foreign companies in the country. It is obvious that there is a large outflow of skilled labor, more precisely absorption in the companies which are large in capacity and represent an opportunity for the workforce to find better working conditions and, of course, better incomes. In addition, a high degree of outflow of skilled labor is evident in more developed countries, resulting in a high degree of labor shortage in the country.

4. CONCLUSIONS

As general conclusions can be said that the countries that are open to entry multinational companies tend to achieve aggregate growth of productivity.

Foreign investors bring a wide range of knowledge and know-how with potential to transmit positive overflows in the country. They can also generate competitive pressures in the local economy to the detriment of some local firms. But in the long run, competitive pressures encourage efficient redistribution of factors within sectors, thus increasing productivity in sector. The balance between these potentially positives and the negatives impacts determine the overall effect of foreign companies having on local enterprises. The knowledge and technology that MNCs bring with them can be transferred to domestic companies through two main channels. The first is through collaboration between foreign companies and domestic suppliers. The second is the transfer channel knowledge and information through which domestic companies replicate foreign one's technologies and management practices in their own production processes.

However, although the benefits of FDI and MNC in the country are significant, there are some problems and difficulties in operation. Measures to improve standardization process:

(1) The Government to provide improvement subsidies of standardization and certification of domestic service providers (in full paid after implementation), for the most specific standards required by MNCs, such as: ISO: 50001, IATF 16949, TS16949, etc.;

(2) The Government to provide domestic subsidies businesses by covering 50% of the cost of implementation standards and certificates and through covering 100% of the costs for training of staff who will implements the standards and certificates in companies;

(3) Grants for all implemented standards that will increase cooperation with MNC. Repayment based on success in acquiring new one's clients over a period of three years after certification, ie with 5 new ones international customers, no repayment of assets; with 3 clients - 50% payoff; 1 customer - 75% repayment; 0 customers - full repayment.

Measures to stimulate raw material production and inputs. A package of measures for domestic companies that include: tax breaks, state land and grants with interest-free repayment for new investments and increased production of raw materials and inputs.

Stimulating new FDI with higher added value and promoting improvements with investors who already are present (supplement to Measure 9 in ERP). This method can improve efficiency and the effectiveness of the activity in frameworks of the support measure of the main influential economic projects in the country through inclusion support of domestic companies in international chains of values.

The strategy of attraction of foreign investment should avoid targeting large companies that have need for a large number of employees and low-paying jobs due to lack of qualified work force. Instead of that, the strategy should target: (1) product companies and services with higher added value, which in turn requires more skilled workforce, a thus better paid workers places (2) Brownfield Investments; (3) Medium companies with up to 150 employees;

Encouragement strategy mergers and acquisitions among domestic companies, with in order to strengthen the domestic enterprises. Such strategy will contribute to the creation companies with larger capacity and expertise that can meet the demand for MNC. M&A activities additionally will lead to a reduction of the number of small enterprises and increasing the number of medium-sized enterprises that will be better positioned and more competitive on the market. Easy, fast and quality access to information on foreign investors and potential domestic suppliers in the country, in order to facilitate the process of establishing cooperation.

The government should create a single database of potential domestic suppliers classified by sector, product type, manufacturing potential, etc. and for foreign investors, classified by type of investment, sector, products and location. Government and State Agency for foreign investment and promotion of exports to establish SME support system and to promote domestic suppliers by organizing days of suppliers and exhibits. Further reduction of customs duties and simplification of customs procedures for import of raw materials and inputs.

Recommendations for the domestic SMEs companies:

The following proposed measures can encourage domestic companies to focus on research, access to finance and improvement the skills through which they will ensure growth and will support building the capacities of the domestic companies. Service providers to invest in the process of standardization with a focus on standards and certificates demanded by foreign investors in the earth. Manufacturers of raw materials and inputs to invest in the quantity of production, competitiveness of prices, quality and efficiency in production. To improve corporate culture, the way of thinking and mentality in cooperation with foreign countries investors in terms of:

- (1) giving precise deadlines of delivery and ensure timely delivery;
- (2) improving accountability to meet the conditions of their contracts;
- (3) boot of awareness for the global market and the corporate culture of foreign companies in the country.

To improve soft skills in terms of:

- (1) representation of companies at a higher professional level of global and international fairs;
- (2) increase networking (making contacts) with MNC;
- (3) strategy improvement for access by making of an appropriate presentation of the company and products / services and promotional materials (brochures, business cards, product catalogues, etc.).

Recommendations for multinational companies in RNM

Redefine policies for procurement, especially those companies which are operating in technological-industrial zones. Procurement decisions to switch from central to local to the extent in which it is possible. MNC to invest in mentoring programs, such as capacity building of domestic suppliers. Investments can be in joint activities for easy transition and adaptation of the standards by domestic suppliers that MNCs require, which are leading in standardization process and implementation. To motivate the home manufacturers to invest in new production with guaranteed further supply of foreign companies or long-term agreements.

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