

Enhancing the manufacturing productivity in the Western Balkans

A study supported by FESTO Fellowship



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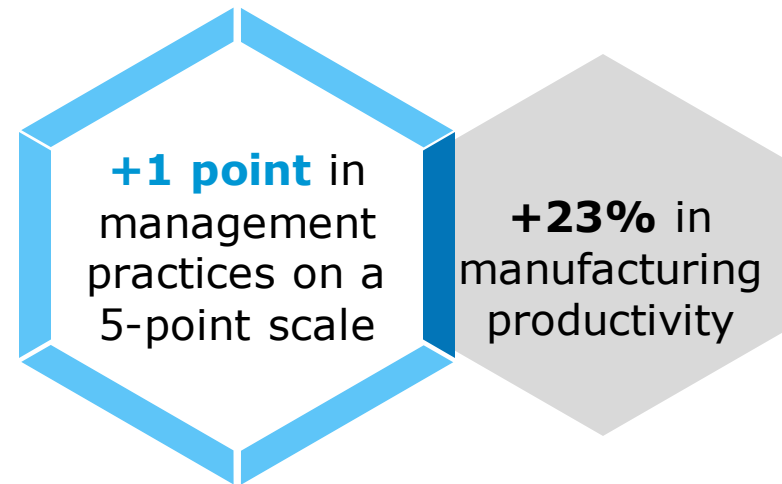
Why is manufacturing in the Western Balkans important for MNCs?

- **Region has cheap and relatively well-educated available workers**
- Multinationals, especially from **AT and DE**, are heavily interested in **further investing into the region**
- Region offers around **500.000 companies for potential future investment***
- **Problem:**
 - Firms **lack detailed knowledge** on where to invest and **what to expect from local management practices**
 - Investors are facing the **challenge to improve management practices** of their subsidiaries in this region

*Multi-annual Action Plan (MAP) for a Regional Economic Area (2017)

The importance of MNC practices and our survey

- **Management practices** are situation generic, highly structured **sets of activities** that can be **transferred across organizations and industries** to help operations management personnel address **similar operational problems**.*
- Focus on **4 types of management practices****:

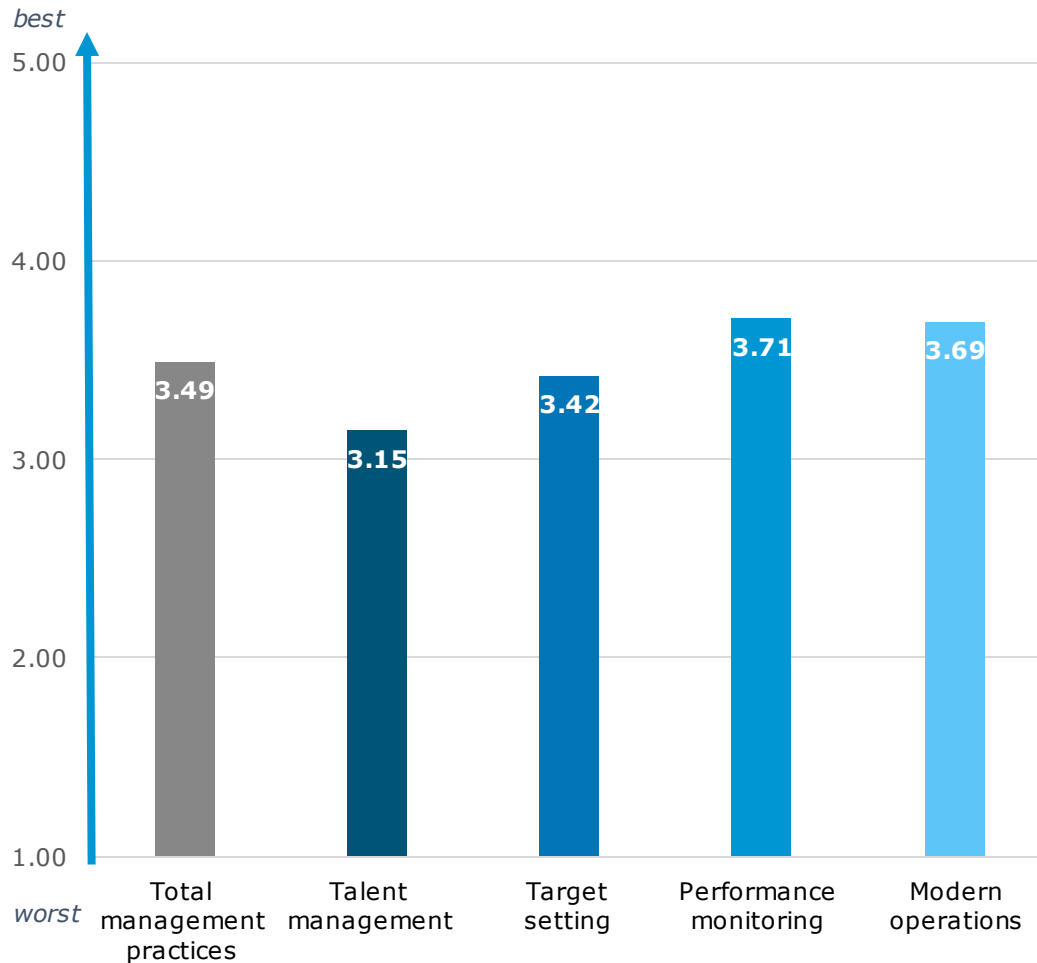


- We surveyed **277 plants** from the WB region using questionnaires and interviews to check their level of management practices.

* Jinhui Wu, S., Melnyk, S. A., & Swink, M. (2012). An empirical investigation of the combinatorial nature of operational practices and operational capabilities: compensatory or additive?. *International Journal of Operations & Production Management*, 32(2), 121-155.

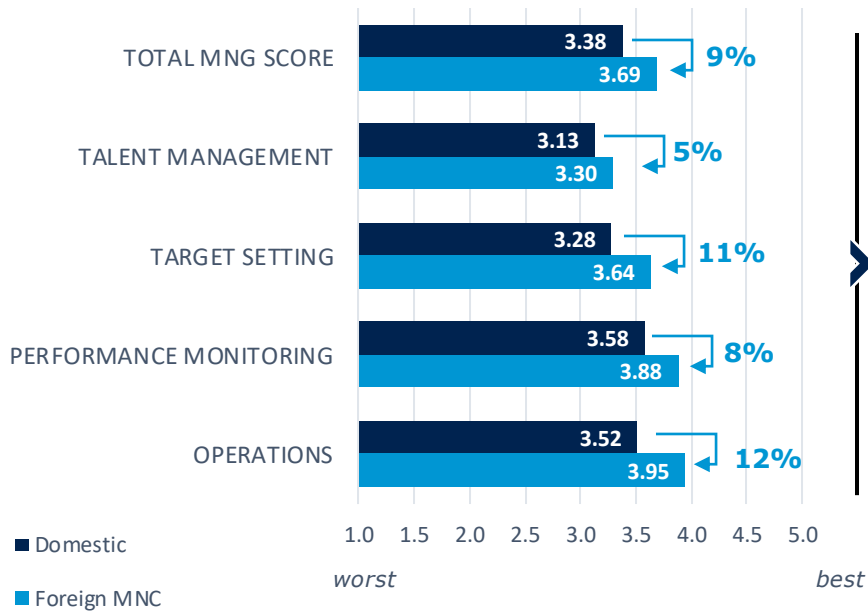
** Bloom, N., & Van Reenen, J. (2007). Measuring and explaining management practices across firms and countries. *Quarterly Journal of Economics*, 122(4), 1351-1408. Bloom, N., Genakos, C., Sadun, R., & Van Reenen, J. (2012). Management practices across firms and countries. *Academy of Management Perspectives*, 26(1), 12-33.

Overall management practices are relatively low – talent management is the worst



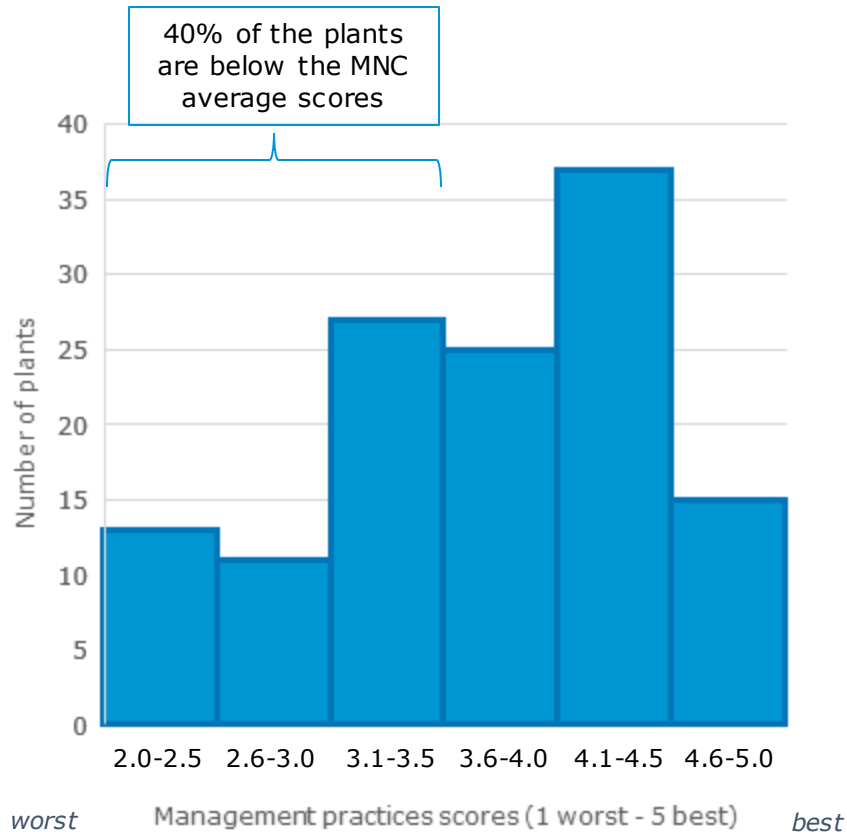
- Overall management practices scores are **mediocre**.
- **Talent management** practices seem to be **worst**, even though there are **no big differences in scores across practices**.
- Not shown: **no substantial differences across countries**

Across all management practices MNCs are run better than domestic plants



- MNC plants are **5 - 12%** better managed than domestic plants in **different types of management practices.**

However, there is substantial variation in management practices across MNCs



- Most MNCs are managed better than local firms, but there is still **a lot of variation among MNCs.**
- That means that **many MNCs are not able to leverage their skills to the WB plants.**
- Both **internal and external conditions** are **preventing MNCs to improve** the level of practices in their plants

Conditions preventing MNC to improve and what they can do about it

External conditions*



Labor

- Emigration taking away both highly-skilled and low-skilled workforce
- Large informal economy taking away low-skilled workforce
- Lack of qualified manual workers and modern education system
- Workers overprotected by Labor law



Government, institutions & politics

- Inefficient public sector and local government
- High bureaucracy



Taxes, contributions and benefits

- Too high payroll taxes preventing employers to increase salaries and bonuses

* Based on statements of plants managers from personal interviews
**Based on regression results

What can MNCs do about it? **



Codification

- Make available higher number of written procedures and instructions from HQ



Trainings

- Organize more trainings to leverage HQ practices to subsidiary plants

What did not help? **



People flows from HQ

- Expatriates, short-term assignees and business travellers' visits from HQ

Final take-aways



WB countries are **attractive as manufacturing hubs for MNCs**, but their level of operational management practices still needs to be improved.



Plants in all four countries are run at a **similar level of management practices** and these overall management practices **scores** are **mediocre**.



Foreign MNC plants are much **better run** than domestic plants, but there is still a **lot of variation among MNCs**.



External conditions are still preventing MNCs to improve their plant's practices to their maximum and there is still **big improvement space for local governments** if they want to attract new investment.



Higher number of **written procedures, instructions and trainings** from HQ how to run a plant are associated with higher level of management practices.