



## Development of Excellent Entrepreneurs in Small and Medium Enterprises in Laos and Cambodia

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**Abstract**— Laos and Cambodia share many similarities: both struggled against the French colonists and the United States in the Vietnam War, and both also started driving national development through a market-oriented economy in the 1980s. To strengthen economic growth and poverty reduction objectives, the enhancement of Small and Medium Enterprises (SMEs) was used as a critical engine to boost the success of socio-economic growth. With the administrative and financial support of government, Non Governmental Organisations (NGOs) and international organizations, the number of SME entrepreneurs was increased in various businesses, including food processing, garments, construction materials, wooden furniture, tourism, trading, transportation and so on in both countries. This contributed to more job opportunities and higher national income, and reduced the unemployment rate of the countries. The competition amongst the SMEs became intensified, and challenged the entrepreneurs in terms of accessing modern technology, limited capital and management skills. This study uses evidence from in-depth interviews to explore the similarities and differences of the SMEs' entrepreneurial characteristics, business experiences, problems and supporting requirements in Laos and Cambodia. The findings lead to recommendation aimed at upgrading effective entrepreneurial skills, as well as proposing some alternative considerations for the policy makers for excellent entrepreneurial capacity advancement.

**Keywords**— Cambodia, Laos, Entrepreneur Development, SMEs.

### 1. INTRODUCTION

Laos and Cambodia share many similarities: both struggled against the French colonists and the United States in the Vietnam War. Both Laos and Cambodia also started driving national development towards the same goal of a market-oriented economy in the 1980s. To strengthen economic growth and poverty reduction objectives as requested by the Asian Development Bank (ADB), the enhancement of Small and Medium Enterprises (SMEs) are particularly recognized as a critical engine to boost the success of socio-economic growth. Just a few years ago, due to the administrative and financial support of governments, Non Governmental Organisations (NGOs), and international organizations, the number of SMEs in Laos and Cambodia has increased. These ventures have played a significant role in employment generation in handicrafts, small-scale agricultural processing, timber production, textiles manufacturing and trading; reduced the unemployment rate of the countries; and contributed to national income as a whole. However, SME development was not easy as several constraints have been encountered by the entrepreneurs as a consequence of many substitute products/services and many competitors existing in the market, lack of access to modern technology, and inconsistent macro-policies for SME development. This study uses evidence from in-depth interviews of SME entrepreneurs in Laos and Cambodia

to investigate the nature of the SMEs, the constraints faced by the entrepreneurs, and how those challenges were tackled. The characteristics of the entrepreneurs, and supporting requirements in the SMEs of Laos and Cambodia were explored. Afterwards, the findings were compared and discussed in order to address the lessons learnt and to draw up recommendations aiming at fortifying SME development and promotion in these two countries. All these key elements are discussed in this study.

### 2. LITERATURE REVIEW

#### *Concepts of Entrepreneurs and SMEs*

An entrepreneur is someone who is always bursting with new ideas, highly enthusiastic, hyperactive and insatiably curious [1]. To make a success of a business, an entrepreneur has to (1) hold a lot of commitment and hard work, (2) accept uncertainty to minimize risk by calling up more information, (3) have good health to plug any gaps caused by other people's sickness, (4) be self-confident to make the venture succeed, and (5) have innovative skills do old things in new ways [1]. There are four main forms that a business can take such as sole trader, partnership, limited company, and public limited company (PLC or plc). A sole trader normally relies on loans from banks or individuals and other non-equity sources of finance. Partnership is for two or more people to agree to carry on a business together, intending to share the profits. The limited company is formed by two shareholders, one of whom must be a director, the company's assets are separate from the people who own it. PLC is formed by anyone to back a venture with a country-specific value of nominal shares. Besides these four, a co-operative is an alternative registered form in

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which shareholders can share profits and control, where each member has only one vote.

In research [2], the definition of SMEs employed by the Australian Bureau of Statistics is that a small firm employs between 5-19 workers and a medium firm has between 20-199 employees. However, in the Lao context SMEs are viewed differently. According to the Decree on the Promotion and Development of Small and Medium Sized Enterprises (No. 42/PM), SMEs are defined as dependent enterprises that are legally registered and operate according to the prevailing laws of the Lao PDR [3]. A small enterprise normally has an annual average number of employees not exceeding 19 persons or total assets not exceeding US\$25,000 or an annual turnover not exceeding US\$40,000. A medium sized enterprise has an annual average number of employees not exceeding 99 persons or total assets not exceeding US\$210,000, or an annual turnover not exceeding US\$100,000. However, the SME classification determines the nature of the support measures available, according to the actual situation of the social and economic development in each stage.

Cambodia is at the crossroads of economic development. Development is taking place in an increasingly competitive regional and international marketplace, making it imperative that SME issues and challenges are successfully identified and addressed. However, Cambodia does not have a legal definition of what constitutes an SME. The problem with defining a small industry on the basis of the size capital is that the cut off point needs to be revised over time in order to allow for inflation. However, because not all firms revalue their capital in a uniform manner, inconsistencies can also arise. An additional problem with defining SMEs is that any definition must serve several purposes. According to the Ministry of Industry, Mines and Energy [4], one definition could be based on employment and the other on size of capital in real terms. SMEs in Cambodia are divided into three sectors (1) Production sector including agricultural processing, manufacturing and mining; (2) Service sector; and (3) Trading sector including wholesale and retail. There are four types of enterprises which are defined according to the number of employees and the value of fixed assets (excluding land), such as micro enterprises, small enterprises, medium enterprises and large enterprises. Micro enterprises employ less than 10 people and have fixed asset values less than US\$50,000; small enterprises consist of not more than 11-50 employees and fixed assets value between US\$50,000-250,000; medium enterprises have between 51-100 employees with the value of fixed asset around US\$250,000-500,000; and finally large enterprises employ over 100 people and have fixed assets value of more than US\$500,000 [4].

#### ***Previous Study of SME Development in Laos and Cambodia***

The World Bank is one important participant that argued that fostering economic growth through free and open markets was the better way to alleviate poverty [5], while the ADB supported an investment of around \$5million in the Mekong Enterprise Fund (MEF) to support SME

enhancement for Cambodia (25%), Laos (10%) and Vietnam (25%) [6]. To meet the commitment of investment in a sustainable development way, the entrepreneurs are required to differentiate products/services and segment markets, as specified by the Law [7]. The study on Generating Employment through Micro and Small Enterprise and Cooperative Development in Lao PDR confirmed that SME enhancement did not only contribute to the creation of employment, but also contributed to mobilization of the country's resource with less external dependency, and help family members to utilize their available talents and resources to operate single or multiple enterprises. Around 259,000 full-time workers were employed in small enterprises - 10 times the employment created by large enterprises in 1996 [8]. The promotion and development of small business operations furthermore provided alternative opportunities for farmers and senior governmental employees to obtain jobs upon their retirement. The study showed that 43% of former farmers and 30% of retired governmental employees were occupying a career in small business, mainly engaged in the commerce and manufacturing sectors. A further 6.8% or 162,420 persons with disabilities (mostly resulting from accidents with unexploded ordnance in the North of Xieng Khoung and the South of Savannakhet), were investigated by the National Committee for Handicapped Persons. Based on that problem assessment, government agencies and international donors organized rehabilitation and other technical training courses to improve and enhance their skills and performance to help them into employment until they are able to run a micro business or become SME entrepreneurs.

Key international agencies of business developments in Laos are JICA, ADB and UNIDO which support through mainly providing rural access roads, power generation, and distribution. With cooperative support from government, NGOs and international organizations, the number of SMEs in Laos significantly increased from 10,735 units in 1995 to 25,993 in 2005 [9]. Nevertheless, it was found that there were unfair practices in accessing finance, credit unions, and raw materials as the larger enterprises got more support whereas the smaller enterprises faced complicated and lengthy administrative procedures and corrupt practices by officials. Even though small ventures existed; they were still less competitive in terms of price, quality and distribution. The small enterprise owners often have limited knowledge of business law and taxation. A study by ADB on SME development in Vietnam, Laos and Cambodia also showed that SME operation in these three countries still encountered many constraints such as the lack of capital, limited demand in the market, too similar competitors, lack of access to modern technology and inconsistent macro-policies for SME development [10]. To enhance SME development and promotion sustainably it is necessary to obtain considerable assistance in terms of infrastructure development, accessible credit unions, marketing study, and development of transparent macro-policies as SMEs had different target markets, faced different challenges and

required alternative support, as argued by Thikeyo [11]. The development of small enterprises of Laos is confronted with many challenges, mainly the lack of awareness of skill deficits, low competition in terms of quality, implications of modern technologies for business management and communication, productivity enhancement and marketing. Medium ventures are still challenged by products/service quality improvement, scale of production, unit and transaction costs. To deal with these challenges, medium enterprises urgently need to improve the business environment, acquire a deep understanding of accounting and finance management and the implications of Total Quality Management (TQM), Balanced Score Card (BSC), and obtain ongoing updated market information [12]. These issues are explored in the following sections.

### 3. METHODOLOGY

To explore the context of entrepreneur development of SMEs in Laos and Cambodia, 28 key informants were interviewed face to face. Thirteen individuals were randomly selected in SMEs in Vientiane Municipality and Savannakhet Province of Laos and 15 entrepreneurs of SMEs in Phnom Penh, the capital city of Cambodia. The entrepreneurs are involved in a variety of activities such as hairdressing, construction services, construction material retail, grocery retail and others were randomly selected by using convenience and snowball techniques. These approaches were considered to be useful and suitable for this empirical study since, by interviewing unknown entrepreneurs in the private business sector, it was assumed that they would be hesitant to share information, opinions or experiences of their business fields. Consequently, convenience and snowball approaches were chosen as it was believed that this would provide accurate and reliable information. Interview agendas were designed to identify the characteristics of entrepreneurs in SMEs, the problems facing SMEs in the globalization era, assistance and support from government and other relevant agencies. Further, this research is a qualitative study, aiming to explore naturally the concurrent practice of SME entrepreneur development in Laos and Cambodia. During interviews, the researchers made records in compliance with direct observation, and used the content analysis method to analyse the obtained information. Content analysis, a tool for measuring the semantic content of a communication [13], was used to diagnose the findings of the primary and secondary data.

### 4. RESULTS AND DISCUSSION

#### 4.1 Case Study of Laos

The promotion and development of SMEs in Laos is chiefly administered by the SME Promotion and Development Office, in accordance with the Decree on the Promotion and Development of Small and Medium Sized Enterprises (No. 42/PM), which is aimed at expanding commercial goods production, trading and service business activities as well as contributing to employment creation, the raising of living standards of

people, and gradual industrialization and modernization to contribute to the sustainable growth of the national economy. SMEs in Laos are categorized into three groups (1) SMEs operating in the commercial goods sector, (2) SMEs operating in the trade sector, and (3) SMEs operating in the service sector. The mandate of SME Promotion and Development Organizations at the national level consists of (1) the National SME Promotion and Development Committee (NSMEPDC), which will operate and advise the Government of Laos (GoL) on policies and SME promotion and development projects and programs, (2) The Standing Committee of the National SME Promotion and Development Office (SCSMEPDO)—not more than nine members of the National SME Promotion and Development Committee shall be appointed as the members to assist the NSMEPDC, and (3) the National SME Promotion and Development Office (NSMEPDO), to administer the practical operation of SMEs. The goals, however, would never be achieved without the contribution and high efforts of the individual entrepreneurs themselves. Consequently, the next session will address the entrepreneurs of SMEs in practice.

#### *Profiles of Entrepreneurs and Attributes of Expected Employees*

All 13 interviewees were of Lao nationality and Buddhists (6 in Savannakhet and 7 in Vientiane Municipality). Eleven of them were female entrepreneurs, and 11 were married, one was single, and one was widowed. Five of them were 21-30 years old; three were between 31-40 years old; three were between 51-60 years; and the other two were 51-60 years old. Five of them held bachelors degrees majoring in business administration or engineering; and the rest had various educational backgrounds, such as Lower-Secondary School, High School and Vocational School in electricity and teaching skills. All of the SMEs had been officially registered before starting operations. In practice, several of them had registered capital of less than US\$10,000 and a few had registered capital of around US\$10,000-50,000, which means most of the key informants interviewed had small rather than medium enterprises. Most SMEs were under the family ownership and control, meaning that businesses have family members as employees, influence in decision-making, and exist with a particular intent to transfer the family firm from one generation to the next generation. Other business ownership structures also existed, including a business registered as a limited company but still owned by a family. Interviews revealed that SME business ventures have been continuously established from 1991 until 2007. As start-up businesses, the number of employees employed ranged from 2-4 and 5-8 persons; eight employees represented the highest number hired including the owner, family members and others; females were more likely to be employed than males were (25 female employees and 10 male employees at 13 SMEs); the capital for start-up investment was certainly dependent on the nature of the business and ranged from US\$1,000-8,000; US\$8,000-13,000; and US\$13,000-200,000 as a maximum. The businesses that initially

invested around US\$1,000-8,000 and US\$8,000-13,000 mostly appeared to be commodity grocery shops, copying and office equipment, bicycle shops, gift shops, clothes boutiques, and so on; meanwhile the businesses which invested higher capital (around US\$8,000-200,000) were in wooden furniture, schools, tourism and car retailing and food manufacturing. The 13 entrepreneurs revealed average annual revenues of US\$1,000-3,000; US\$3,001-7,000; and maximum US\$7,001-54,000. These figures show some businesses were loss-making and others profitable. However, it was common for many businesses to sustain losses for the first or early years of investment as investors had to pay several operating costs, especially for fixed assets. Nevertheless, a few of them still obtained higher revenues in comparison to capital invested in the first year, showing that it was not always true that the businesses suffer losses as a start-up business. As an ongoing operating or existing enterprise, most of the business owners accepted that they kept increasing the capital on operating cost annually, based on social and economic circumstances (ranging from US\$500-11,000; US\$11,000-42,000; and US\$42,000-56,000); and the number of hired employees also increased, ranging from 2-8, and 9-18 employees. Again, the facts showed that more women were required (29 females and 13 males within 13 SMEs). These figures indicate that the performance of SMEs develops as the size of their businesses grow and are required to employ more employees to facilitate/provide services for customers. In addition to operating their own businesses, some of them are also worked for the government sector or other private companies.

According to the interviews, most of the entrepreneurs said that they initially preferred to hire employees who have good interpersonal skills and ability to interact well with customers, are honest and offer sincere opinions towards a particular situation, as well as having a high level of responsibility in dealing with their duties. Besides, potential employees should be cheerful, friendly and good looking to attract new customers as well as maintaining existing ones, and be able to speak other languages such as Vietnamese, Chinese and, principally, English. Females were preferable for most SMEs as entrepreneurs believed that women were hardworking, tolerant and worked well with clients. Family membership was another critical attribute to which business owners gave first priority in employment decisions. It emerged that educational levels were not very important in recruitment decision-making as long as applicants have working experience related to the available jobs. In addition, several entrepreneurs had moderate intent to hire relatives before considering employing other people like neighbours and friends who are already known. The main reasons that the entrepreneurs opted to invest in such business areas mentioned above are (1) the entrepreneurs firstly would like to be their own boss and manage the business with their own management style, (2) then pursue their personal interest such as inventing wooden objects which illustrated their abilities, talents and experiences in a particular ventures, (3) to seize advantages where there

was high customer demand in the market; and (4) some of them saw their friends doing good business and they viewed it as something which was not difficult to manage. The products which are currently available in the market included domestic and imported products. The domestic products were largely related to Lao cigarettes, Lao plastic bags, Lao soft drinks (Mirinda, Pepsi, Coca-cola), Lao beers, sweets, papers, garments, powder and others. For imported products, most of them were imported from Thailand (food commodities, office equipment, bicycles and clothes), China, Vietnam (books and some food commodities), Hong Kong (clothes), Japan and Italy (cars) respectively. From the interviews, it was clear that most investment capital was owned jointly or shared by family members, as it was common for family members to help or lend to each other to contribute to business investment even if they feared that they would lose capital early in the business venture. Another important source of capital was self-contribution. It is very important for business initiators to have their own money before borrowing from other sources to start-up a business; otherwise it would be uncertain whether they would be able to repay their creditors. Very few of the interviewed entrepreneurs intended to borrow money from other lenders as it was difficult to convince the informal lenders if they did not already know one another well. Approaching formal creditors was even more complicated and difficult since they had to prepare many official documents, property certificates and many steps to be processed.

#### ***Successful Traits for SMEs Entrepreneurs***

The number one characteristic of successful entrepreneurs was to be highly educated and have both conceptualized skills to form ideas and direct their thinking, and technical skills in terms of marketing, finance, business administration and practical experience. Secondly, it was important to obtain the involvement of employees. Thirdly, they should be initiators to introduce new ideas, have competitive endeavour to accomplish objectives, be confident and certain of what will happen and that it will follow a defined direction, and be passionate that the business will positively influence people's lives and bring financial rewards to the enterprise, as well as dealing with problems openly and honestly in order to create organizational trust and make employees feel that they are of value to the firms. Fourthly, the interviewees also observed that the entrepreneurs were to be clear about what they expected to do, be ready to take immediate decisions and take risks in the event of either pleasant or unpleasant unexpected events. Listening to the customers certainly helped the entrepreneurs to adapt their service to satisfy customers' needs too. However, surprisingly, even though it is largely known that the business operation would not be able to achieve its goals without the contribution of employees, entrepreneurs neither prioritized skill development of employees nor planned to reward employees for their performance enhancement appropriately.

### ***Benefits, Constraints of SMEs and Problems Solving***

Several entrepreneurs observed that they obtained many benefits from their businesses operations. Primarily, they absolutely held the entire decision making themselves, while the earnings gained from these ventures helped generate household income for family members and also contributed to an increase in national employment. Operating their own businesses was more enjoyable and they felt relaxed and flexible enough to change quickly or adapt to different circumstances and develop new skills at the same time. Besides, some interviewees pointed out that they had an independent life style to deal with their own businesses and had more opportunities to meet and get to know other people. However, even though it was acknowledged that starting a new venture was expensive, these ventures more or less helped entrepreneurs to gain moderately satisfying returns. The entrepreneurs' skills and abilities furthermore improved, and they undoubtedly had time to stay with their families and directly communicate with customers and suppliers. Not only did entrepreneurs acquired these advantages, but the SMEs also contributed to poverty alleviation in terms of unemployment rate reduction, household income generation and national income contribution through taxation and other supporting fee payments as defined by the law. Hence, if the GoL attempted to boost the performance of the SMEs, they should facilitate and strengthen the competence of entrepreneurs. To gain high return or sustain the business was not an easy exercise as a number of recurrent constraints were confronted, in particular many substitute products/service and plenty of competitors, which gave customers more bargaining power. The technology development and economic dimensions were further constraints to business growth, while the inflation and exchange rates had strong influences on product/service prices. Social and geographic phenomena are also important, including the climate and the fact that 80% of the population live in the countryside, which have negative business effects because the number of customers is reduced (the customers in these SMEs are chiefly regular customers). In brief, these constraints possibly made some businesses close down after a few years of operation. Apart from these constraints, other restrictions included inadequate capital for business expansion and development, lack of management skills and limited experience, as well as unfair support from relevant authorities, for instance, slow processing of documents.

In terms of dealing with these problems, many entrepreneurs chose just to let things be, while others preferred cautiously to study the customers' needs and provide a variety of products or offer more choices to meet demand, as well as continually adjusting the business strategies in response to the market environment. Some ventures used strategies of price discounting, sales promotions and giving extra gifts, coupons etc. In the education business, for example, the business owners opted to recruit skillful and qualified teachers, adapt the teaching curriculum, set appropriate rules and regulations, and facilitate targeted customers to

ensure the quality of products/services. Providing a variety of products/services and expanding new branches to different markets in combination with suitable location selection were other techniques that had been applied to develop business performance. It is not surprising that very few ventures planned to go to international markets such as Europe, Japan, Vietnam markets and others because the products to be exported were required to meet international standards. Additionally, most of the products available in Lao market are imported from neighbouring countries and suffer from the limitation of logistic channels, knowledge and capital capacity as well as high labour cost in other countries; it is difficult to expand the business in regional/international markets. The new potential entrepreneurs of SMEs were initially suggested to be clear first of all about what their target market would be, obtain adequate capital and be ready to cope with potential challenges. Shop decoration and convenience-focus organization of stores was observed in almost every venture. In addition, new entrants were also advised to be tolerant and brave to invest and take risks, to love their jobs, and have good connections with others in society. These attributes were required for success because experience alone was insufficient.

Briefly, Lao SME performance is highly associated with the assistance of GoL agencies, NGOs and international organizations, and predominantly to the strong endeavour and capacity of venture owners. The entrepreneurs, therefore, are required to understand precisely what they are doing and where they are for the moment in order to bring their own capacity to bear and to minimise risks.

### ***4.2 Case Study of Cambodia***

#### ***Entrepreneurs Profile and Issues Challenging SMEs***

Fifteen Cambodian interviewees from Phnom Penh agreed to give interviews in regards to this project. All of them are Buddhists. Two-third of the interviewees are male; 8 are single; 10 are between 21 to 30 years old; 3 are in early middle age (31-40) and the remaining 2 are between 41 and 50. Among the 15 interviewees, 1 used to study in primary school, 1 in lower-secondary school, 3 in high school, 1 in vocational school, 5 in university and the remaining 4 are pursuing Masters' degrees in the field of management and business administration. Six of the businesses were home-based business, 2 were family businesses, 2 were sole proprietorships and 5 were partnerships. Partnerships were important because most of the relevant interviewees were young university graduates and they did not have enough capital, skills and experience to set up business alone. Eight of them said that, at first, they had the idea to run a sole proprietorship business but it seemed very risky for them to invest their entire capital alone. They decided to ask their close friends and relatives to share part of the business. To do this, they made sure that many people can help each other to make decisions concerning the investment in this or that type of business activities. It is true that partnership provides a lot of benefits such as sharing the risk, providing a larger pool of capital and complementary skills [14]. For the young university

graduates to start SMEs, partnership would be the best choice for them. In regard to the financial source, one third used their own money, one third from the family and the remaining third from other partnership members.

Owing to business secrecy, six interviewees preferred not to reveal the source of their investment capital when starting their business or even the revenue earned per year. Others claimed that their investment started from US\$3,000 up to US\$40,000 for starting up the business and the capital was keeping growing because they tried to expand their business by adding more products and other modern equipment. Most of the businesses in this study were created during the early 2000s, when the economy of Cambodia was starting to grow. According to the National Institute of Statistics, the GDP in 1999 grew by 11.9% and the rate of growth declined to 6.5% in 2002 and then started growing again to 13.5% in 2006 [15]. This shows that economic growth has a strong impact on business. The majority of the interviewees strongly agreed that the political situation, economic situation, technology, social and geographical issues represent direct constraints for their businesses. Examples of this included the following: during the election, where political stability was uncertain, buyers tended to save more money, thus spending less because they were afraid that they would not have enough reserves for their family, since things can change in just a blink of the eye. This is part of the trauma suffered by the people of Cambodia. Another issue related to technology, interviewees who operated business activities needing new technology to produce products claimed that the customers' buying decisions were also related to what type of technology they were using to produce the product. For example, in the construction service business, the customers would look at what type of new technological equipment or machine that the service providers used because they considered that new technology could build higher quality buildings or houses in a shorter period of time. This issue shows that customers nowadays have high bargaining power due to strong competition in the market. It is one of the challenges that SMEs in Cambodia now face. According to the interviews, the difficulties that the SMEs face in this globalized and competitive world are price fluctuations caused by inflation, which generates low profits, competitive pricing, customers' bargaining power, high technology, time and human resource management. In order to solve the aforementioned problems, interviewees declared that they have to be patient, follow up market pricing, make good relationships with customers aiming to keep a good image and lifelong relationships, provide good quality product and on time delivery and finally satisfy the needs of customers.

In order to obtain a slice of the market, SMEs have to compete with domestic and international competitors. The majority of domestic SMEs fail to perform well due to high costs and uncertain business environment [16]. The annual report of SME Sub-Committee<sup>1</sup> [16]

classified the reasons for failure into four categories: (1) High regulatory compliance costs. The cost of establishing a business is about three times higher and takes more than 15 times longer than in Australia; (2) Lack of clear and market-oriented framework for SME development. Despite the importance of the SME sector, the government has been unable to develop a framework for its development. As a consequence, various agencies and line Ministries are developing their own SMEs programs, which are at times redundant and even contradictory; (3) Limited Access to Finance. Local banks provide only 1% of working capital and 1.7% of investment capital overall. Despite the liquidity of the banking system, it is difficult for banks to lend due to weak financial infrastructure, which makes the loan and collateral system uncertain. This is due to the lack of financial information resulting from the weak accounting standards and absence of a credit information sharing system; and (4) Poor market access infrastructure and information. It is difficult for local producers to meet both domestic and foreign market demand due to poor road conditions, limited internet and other telecommunication services and a lack of associations to assist in gathering information about quality and design requirements.

#### *Successful Characteristics of Entrepreneurs in SMEs and Some Suggestions*

The majority of the interviewees strongly agreed that entrepreneurs should, firstly, have clear vision and specific goals and objectives in doing business because if they do not know what they are going to do, they would not be successful in their businesses as well as in their lives. Secondly, they should have at least some educational background, experience, some management skills such as marketing, accounting, finance and talent for the business activities that they are exercising. This means that if they sell books, they should at least know how to read the title of the books (in Khmer, English, French or Japanese languages). If they are not able to read, they will not know which books they should buy to keep in their stores or which books will appeal to customers. The respondents suggested to potential new entrepreneurs to take into consideration what they are going to sell and they should know in detail about those things in advance before starting the business. Thirdly, entrepreneurs have to be initiators, innovators and not followers because the environment can change at any time without notice. Since it is impossible to escape these changes, it is recommended to keep changing product/service quality, price and design, as well as including other innovative ideas about products or services in order to create value added. Fourthly, entrepreneurs should be decisive decision-makers and

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as chair, Ministry of Commerce as vice chair, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy and Finance, Ministry of Tourism, Ministry of Women's Affairs, Ministry of Labour and Ministry of Rural Development as members) working with the Phnom Penh Chamber of Commerce and other private sector representatives with the responsibility of implementing the SME Development Framework.

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<sup>1</sup> The SME Sub-Committee was created in August 2004 and is composed of eight Ministries (Ministry of Industry, Mines and Energy

risk takers. Nine interviewees agreed that it is important that the investment decision should be made quickly when the opportunity emerges and not wait in case the opportunity disappears. Sometimes, they know that the investment comprises many risks but the competitive situation urges them to take those risks in order to keep updated with changes.

Additionally, hiring the right person for the right job is very crucial for the success of entrepreneurs. Most of them preferred to hire people whom they already knew such as their relatives, friends and neighbours. The people concerned have to be honest, have good interpersonal skills and abilities, high levels of responsibility and be creative, although experience and skills are viewed as less important because most SMEs employees work in less skillful jobs which required them to use basic labour only. Business activities such as book shops, grocery shops, car spare part supply and hairdressing, are more likely to employ women rather than men since those jobs do not required physical strength to perform the needed duties. By contrast, in construction materials selling, construction, repair and maintenance service providers, male employees are preferred. Seven respondents noted that they gave rewards to employees who have achieved and performed well in their jobs. Most rewards were in the form of cash, materials and holidays. Finally, successful entrepreneurs have to be competitive, confident and passionate about what they are doing, as well as being good listeners to both customers and employees.

In brief, existing entrepreneurs recommended to new entrepreneurs to study supply and demand in the market, find good locations, employ new technology, provide good services and products at reasonable prices (as well as respecting quotations given) in order to build trust and long-term relationships and, finally, create a good image and keep monitoring and responding to changes made by competitors.

They mentioned that their success could not stand alone without the support of the government. Some suggestions were made during the interviews to the government. The majority of them pointed out the importance of access to credit in order to help them establish their business. This means that some of them have plans to expand their business to other markets or to extend their branches to many other provinces but their wishes could not be realized due to the lack of finance. If the government can help to set up some policies which allow them to obtain loans, their future plan could be realized. Other suggestions referred to support requests in building basic infrastructure such as water supply, electricity, road installations and others. Nowadays, some SMEs are located in rural areas producing agricultural products and they could not bring their product to sell in the centre of the city because of the bad road conditions and transportation systems. They can only sell their product in nearby villages. The profit is very low compared to those people who can bring their products to sell in the city. Furthermore, they need some training and development courses such as marketing, accounting and decision making, in order to improve their skills and knowledge in doing business in a

competitive environment. They even suggested that these skills should be included in the formal education curriculum. Some people could not continue their studies the family businesses need their help. They suggested that some vocational skills in the lower secondary school curriculum should be included. Twelve of the interviewees gave the importance to government policy and law reinforcement in SME promotion and development because it seems that there is no clear framework, rules or regulations for SMEs. However, the remaining interviewees said that the law was already issued but the ones who implemented it do not exercise their duties properly. They used those laws and regulations to obtain bribes because most SME entrepreneurs do not have knowledge about legal issues.

### ***SME Contributions to the Economy and Poverty Reduction***

Cambodia has a population of approximately 13.5 million people. Over 80% of the population lives in rural areas and agriculture, which accounts for over 70% of employment [17], is where most poverty is found. Over five million people or 36% of the population live below the poverty line<sup>2</sup> with 90% of these were found in the rural sector [18]. 99% of the firms, and 45% of total employment are dominated by the SME sector in Cambodia's economy [16]. They playing various critical roles not only in enhancing regional development but also in boosting the free market economy. The important roles of SMEs are summarized as following: (1) Generate employment opportunities, raise income levels and living standards, especially in the regions, poverty reduction; (2) Create an entrepreneur class, which is so necessary for industrial development; (3) Increase raw material supplies, especially to manufactured exports, which boost economic growth; and (4) Create self-employment, which would enable people to live and work with dignity.

Small-scale enterprises dominate economic activities and account for a substantial part of employment<sup>3</sup>. In 2005, the Ministry of Industry, Mines and Energy (MIME) [4] determined that there were 29,297 small industrial establishments with fewer than 50 employees<sup>4</sup>. This represents an approximate 21% growth in the number of establishments since 1999. Food, beverages and tobacco manufacture represent the largest number of small industrial establishments. Among these, approximately 90% are rice milling enterprises.

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<sup>2</sup> The definition of the poverty line is based on the cash value of what it take to consume 2,100 calories and 58 grams of protein per day per person and to cover basic items like clothing and shelter. This is equivalent to US\$0.45 per day.

<sup>3</sup> Accurate figures are not available. The dominance by small-scale enterprises incorporates economic activities in all three sectors-agricultures, industry and services, and includes enterprises based on the household and micro-enterprises.

<sup>4</sup> Data on small industrial establishments is provided by the Ministry of Industry, Mines and Energy. The Ministry, through its municipal-provincial departments, gathers information on small industrial establishments nationwide, including the number of establishments, capital investments, capital investment, labour, permit status and output.

Registered private enterprises constitute what is referred to as the formal private sector and number approximately 12,000. These enterprises acquire legal status as companies and sole proprietors through registration with the Ministry of Commerce (MoC) and are required to pay profit tax based on the real regime system, which relies on the submission of financial statements.

It is difficult to estimate the exact number of small enterprises, because there are so many unlicensed industrial establishments. According to MIME [4], there were a total of 21,516 small rice-milling enterprises of which over 10,000 had not obtained operating permits and were operating informally. These small rice milling enterprises accounted for 73% of all small industrial establishments and employed over 47,500 people. Food processors accounted for 81% of all small enterprises or 23,727 in number. Almost 12,000 of them did not have operating permits.

Regarding the interviews, the respondents answered the question of how can they contribute to the poverty reduction policy of the government by pointing to three major issues: firstly, SMEs provided employment opportunities to people who had little experience and skills and had low educational backgrounds, which resulted in household income generation for each employee; Secondly, they paid income tax and Value Added Tax (VAT) of 10% to the government, so the latter generated the revenue to pay national expenses such as civil servant salary payments. Some interviewees claimed that they had contributed to charities such as the Cambodian Red Cross and some orphanages as well. The entrepreneurs in the study were optimistic about their contribution to the economic growth and the poverty reduction policy of the government.

## **5. CONCLUSION**

To conclude, the performances of SMEs in both Laos and Cambodia have gradually improved due to the fact that the number of SME entrepreneurs keeps increasing yearly. However, the main challenges that SME development in these two developing countries face are the unclear legal framework, the uncertain rules and regulations for SME establishments, lack of accessible credit, shortage of entrepreneurial and managerial vocational training centres, competition in terms of price and quality and the need for other support from the government and relevant agencies. To be successful entrepreneurs, they should be knowledgeable and tolerant, have experience, obtain adequate capital, and of course they should precisely understand the nature of the market and their target customers. However, it appeared that very few entrepreneurs had a focus on developing and strengthening employees' skills and performance even they recognized that the employees are the ones who most closely work with customers. To sustain the development of business, both entrepreneurs and government agencies are the main stakeholders to intervene and contribute support in all capital investment efforts and regulation reinforcements.

Apart from these similarities, some differences between the entrepreneurs of SMEs of Laos and Cambodia have been identified; they are summarized as in Table 1.

Laos retains the monolithic state mentality that means rules and regulations are created and enforced for all kinds of economic activities, even though technical capacity of state agencies often tends to be very limited in practice. Cambodia, on the other hand, has been more exposed to capitalist society and Cambodian entrepreneurs seem to have a more intuitive understanding of the needs that entrepreneurs must manage, while at the same time operating in something of a vacuum in terms of government support and, indeed, regulation.

## **6. RECOMMENDATIONS**

To enhance the promotion and development of SME entrepreneurs of Laos and Cambodia, government agencies and other relevant stakeholders are suggested to (1) put strong effort into organizing a systematic training course for SME entrepreneurs in either management skills or rules and regulations enforcement; (2) support basic infrastructure such as water supply, electricity and roads improvement, together with convincing donors to contribute to SME development; and reinforce the regulations to avoid a special connection/biased treatment for particular operators; (3) develop the educational curriculum to meet the international standards and compete with other neighboring countries and encourage female entrepreneurs; (4) support accessible credit for business start-up; and finally (5) inspire entrepreneurs with disabilities to come forward to demonstrate their skills and even to establish their own businesses. Moreover, the tax rates should be decreased as their daily revenue was very low in comparison with annual capital investment; everyone should get an equal chance to access the credit unions; and the process for credit accessibility should consist of fewer steps; while government should urgently intervene in these issues and solve the disputes.

The recommendations explained above are strongly proposed for either entrepreneurs themselves or the relevant agencies in both countries. However, each country still acquires distinctive attention to improve its SMEs performance, as addressed in Table 2.

Laos already has certain institutions which might be used to help transmit necessary skills and competencies to entrepreneurs, perhaps in cooperation with NGOs. Cambodia, on the other hand, has very little institutional support and will need to rely, therefore, much more strongly on market-based provision of services. Managing these two different systems requires different types of skills and resources from the government systems in place and will be influential in structuring the relationships between government and entrepreneurs. More research is required into the issue of how, when and to what extent increased revenues will result from provision of the proposed services to entrepreneurs and whether government expenditure can be clawed back accordingly.

**Table 1: Differences of SMEs Entrepreneurs in Laos and Cambodia**

Nature of SMEs Entrepreneurs in Laos	Nature of SMEs Entrepreneurs in Cam
<ul style="list-style-type: none"> <li>- The definition of SMEs in Laos prevailing in the Decree on the Promotion and Development of Small and Medium Sized Enterprises (No. 42/PM), the small and medium enterprises are defined according to the an annual average number of employees, total assets and annual turnover.</li> <li>- Some attempts of the Lao government and other agencies towards the development of the SMEs entrepreneurs have been emergent among the SMEs entrepreneurs as some of them accepted that they had been invited to join some of the training programs in accordance to the interviews.</li> <li>- But surprisingly, the entrepreneurs in SMEs of Laos have not yet attempted either to enhance their employees' skills or plan appropriately to reward employees for their performance enhancement.</li> </ul>	<ul style="list-style-type: none"> <li>- Cambodia does not have a legal definition of what constitutes an SME. But according to Ministry of Industry, Mines and Energy, the definition could be based on employment and size of fixed asset values.</li> <li>- None of the respondents claimed that they received technical support and advice from government agencies, which demonstrated the shortcomings of the governmental agencies.</li> <li>- Many respondents had recognized important roles of their employees by rewarding them, especially, in terms of cash, materials and holidays, aiming at motivating their employees to achieve and perform well in their job. Most of the rewards were given in term of cash, materials and holidays.</li> </ul>

**Table 2: Different Recommendations for SMEs Entrepreneurs' Improvement in Laos and Cambodia**

Recommendations for Laos	Recommendations for Cambodia
<ul style="list-style-type: none"> <li>- Initially, the venture entrepreneurs themselves are suggested to be self-enthusiastic in innovation of their skills and acquisition of continuous-learning attitudes in order to diversify new products according to the market needs as well as satisfying the customers' needs.</li> <li>- Women should be encouraged to join as members of the Lao Business Women's Association (LBWA) as this association tries to unite all Lao women and to collect their wisdom and creative ideas to improve and promote Lao business women and their products and services.</li> <li>- For both small and medium enterprises, entrepreneurs urgently need to have a clear understanding of what they are doing, where they are now, and what they expect to achieve. At the same time, they provide specific needed skills of: accounting and finance management, marketing, implication of Total Quality Management (TQM), Balance Score Card (BSC), Innovation and Development, and have on-going update market information if they expect to sustain their business where there are high rates of new entrants, substitute products, and high bargaining power of the customers [12].</li> <li>- It would be great if an e-commerce platform for products and services of SMEs group were introduced in order to develop the Lao product and services directory, and link them to the GMS region to support for the regional transactions through GMS e-commerce portal but based on the basic rules of each individual country. It would be even more beneficial if the logistic, supply chains and payment system (through e-finance and banking) for each professional business association of Laos are officially and securely developed and linked with other GMS countries.</li> </ul>	<ul style="list-style-type: none"> <li>- It is necessary for entrepreneurs to have basic knowledge and skills about the products and services provided management skills such as basic accounting, finance, human resource management, quality control management, decision making analysis and to register their business in order to get some rights to access government support.</li> <li>- Additionally, entrepreneurs need to have clear vision, goals and plans for their business; to know what they are doing and encourage and reward employees for good performance and contributions; to employ new technology, and finally entrepreneurs must be risk takers, immediately decisive, patient, passionate and good listeners to customers as well as employees.</li> <li>- As strong competition arose domestically and internationally, SMEs are recommended to build up good brand names supporting high quality products. This issue could not be done without the technical and advisory support from the SME Secretariat committees and the related civil society working in the field.</li> <li>- Last but not least, to respond to the foreign competitors, the local producers and the service providers who have the same or substitute products to work in team by set up an association in order to reduce domestic competition and to concentrate the power. Thus associated members have stronger bargaining power over the suppliers as well as customers.</li> </ul>

### ACKNOWLEDGMENT

Initially, the authors would like to express their sincere gratitude to Shinawatra University which supports the scholarships for their PhD studies as well as for the development of this research study. Last but not least, the authors gratefully acknowledge the all the interviewees, government officials working in SMEs, friends and families in Laos and Cambodia, who spent their precious time in contributing to this paper.

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