

Firm Performance in Cambodia: Key Drivers and Strategies from Survey Data

Naron Veung & Chanmony Sean

Cambodia Development Resource Institute (CDRI)

Research objectives

- To examine firm performance and key elements of business aspects like expenditure, investment, skills development, managerial and innovation strategies
- To investigate external enabling conditions of the business environment – such as regulatory and legislative elements, infrastructure, business networks and access to finance

Sampling and characteristics

- The sample size was determined using Yamane (1973) sample size determination formula as follows:

$$n = \frac{N}{1 + N(e)^2}$$

where n =sample size, N =sampling frame of 4061 firms, e =margin of error at 0.05. Hence, $n = \frac{4061}{1+4061(0.05)^2}=364$

- The sample size was stratified along three dimensions: sector, size and region.
- Final surveyed firms: 361
 - 235 small, 31 medium and 95 large firms in services (178) and industry (183) in the five regions as shown in Figure 1.

Figure 1: Surveyed firms by location, sector and size

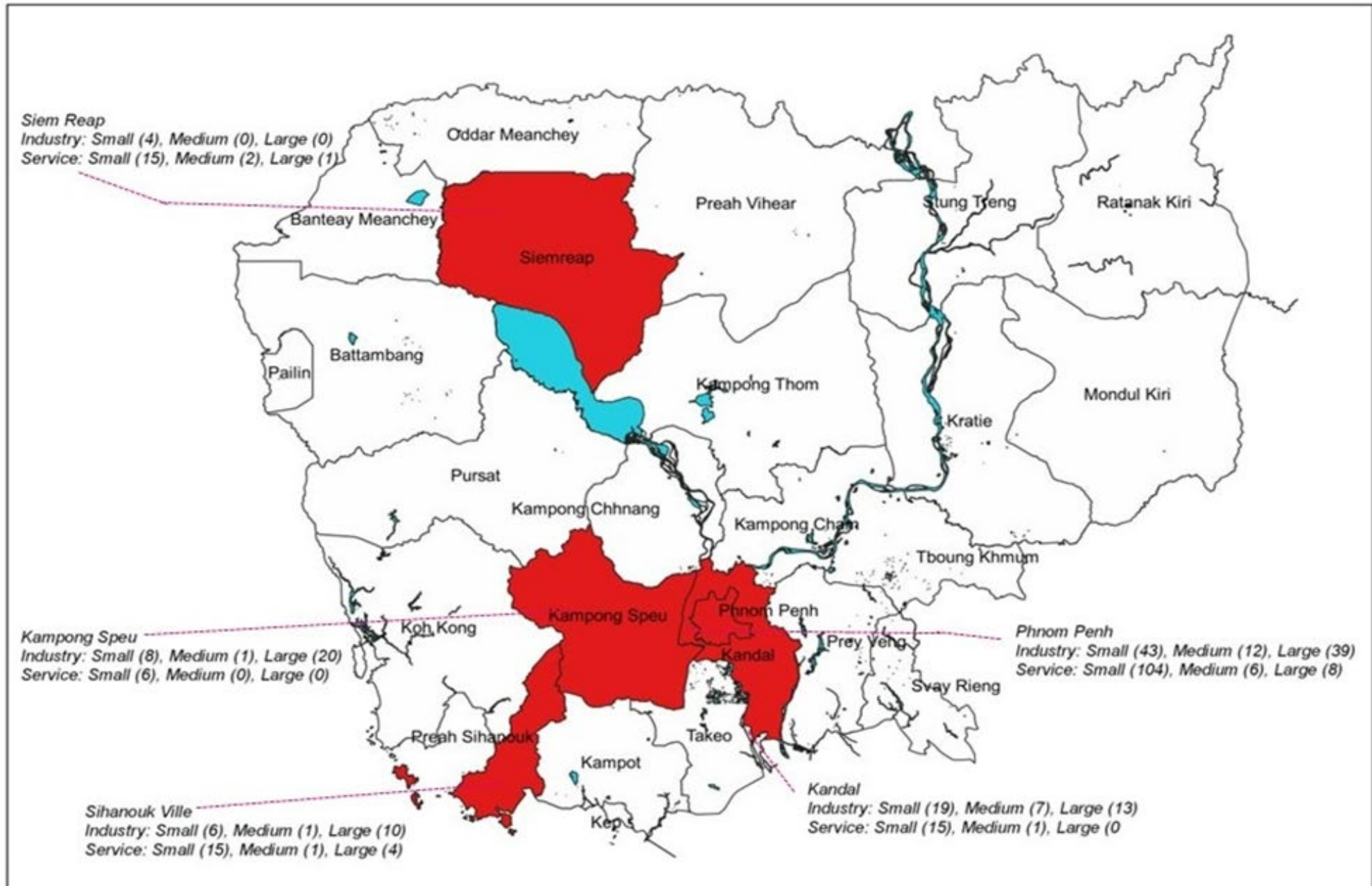


Table 1: Characteristics of the surveyed firms

		Service (N=178)	Industry (N=183)	Total (N=361)
Gender of firm owners	Male	75.3%	82.0%	78.7%
	Female	24.7%	18.0%	21.3%
Type of ownership	Khmer	78.1%	41.0%	59.3%
	Foreign	21.9%	59.0%	40.7%
Type of firms	Export	2.2%	38.3%	20.5%
	Non-export	97.8%	61.7%	79.5%
Education of owners	PhD	7.9%	7.7%	7.8%
	Master	23.6%	9.3%	16.3%
	Bachelor	19.7%	29.0%	24.4%
	Associate Degree	2.8%	0.0%	1.4%
	C1-3 certificate	0.0%	1.1%	0.6%
	Upper secondary education	11.2%	11.5%	11.4%
	Lower secondary education	6.2%	8.2%	7.2%
	Primary education	1.1%	4.9%	3.0%
	Illiterate	0.0%	1.1%	0.6%
	Don't know	27.5%	27.3%	27.4%
Firms' age group	3-5 years	42.1%	46.4%	44.3%
	6-8 years	23.6%	14.8%	19.1%
	9-11 years	11.8%	14.8%	13.3%
	12-14 years	7.3%	7.1%	7.2%
	15-17 years	5.6%	7.1%	6.4%
	18-20 years	3.4%	3.8%	3.6%
	21 years and over	6.2%	6.0%	6.1%

Research findings (internal elements of business aspects)

Firm performance: Revenues and employment

Figure 2a: percentage of firms' revenue change in 2021 by sector

Figure 2b: Average percentage of revenue change in 2021 by location

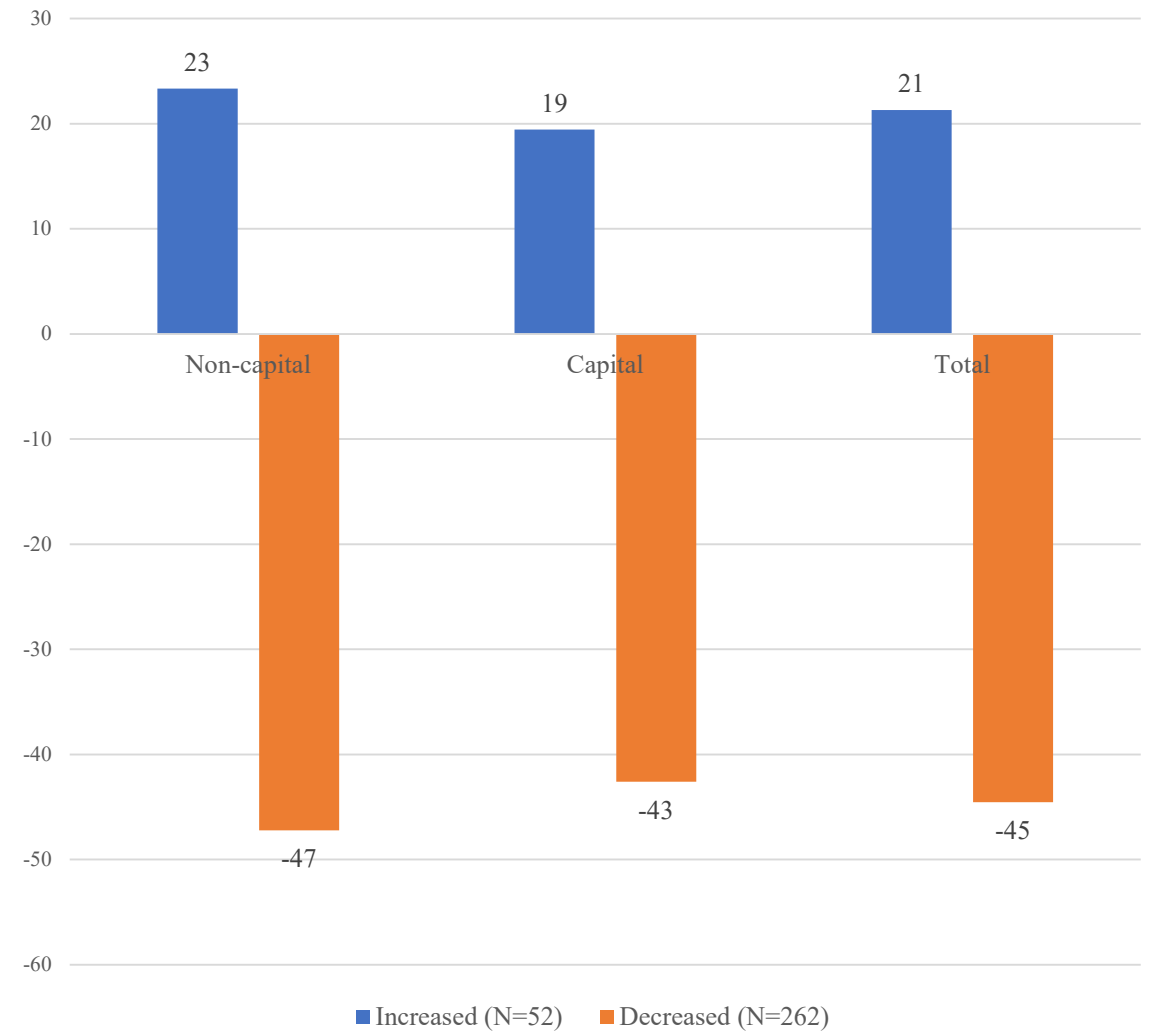
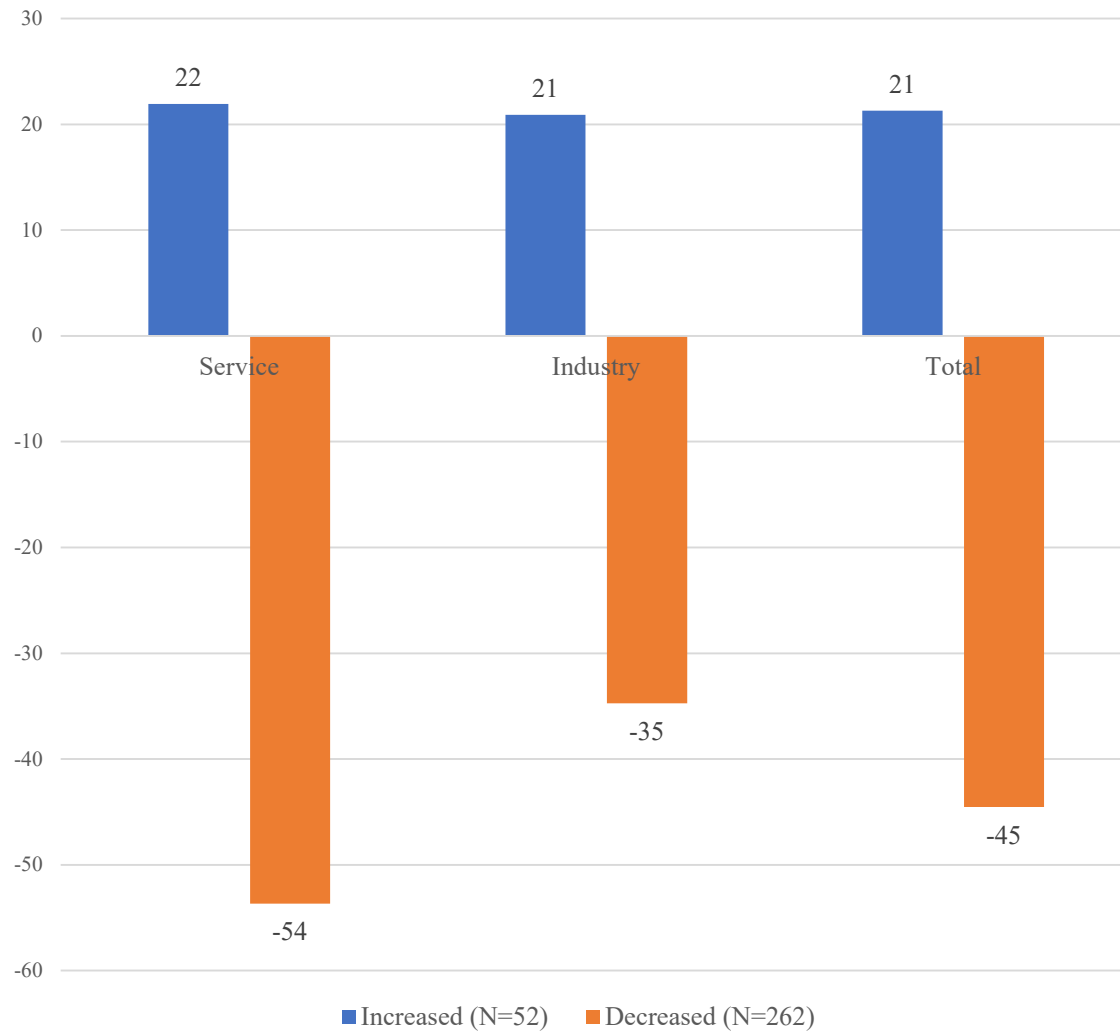


Figure 3a: Average percentage of change in total employment (2019-2022) by sector

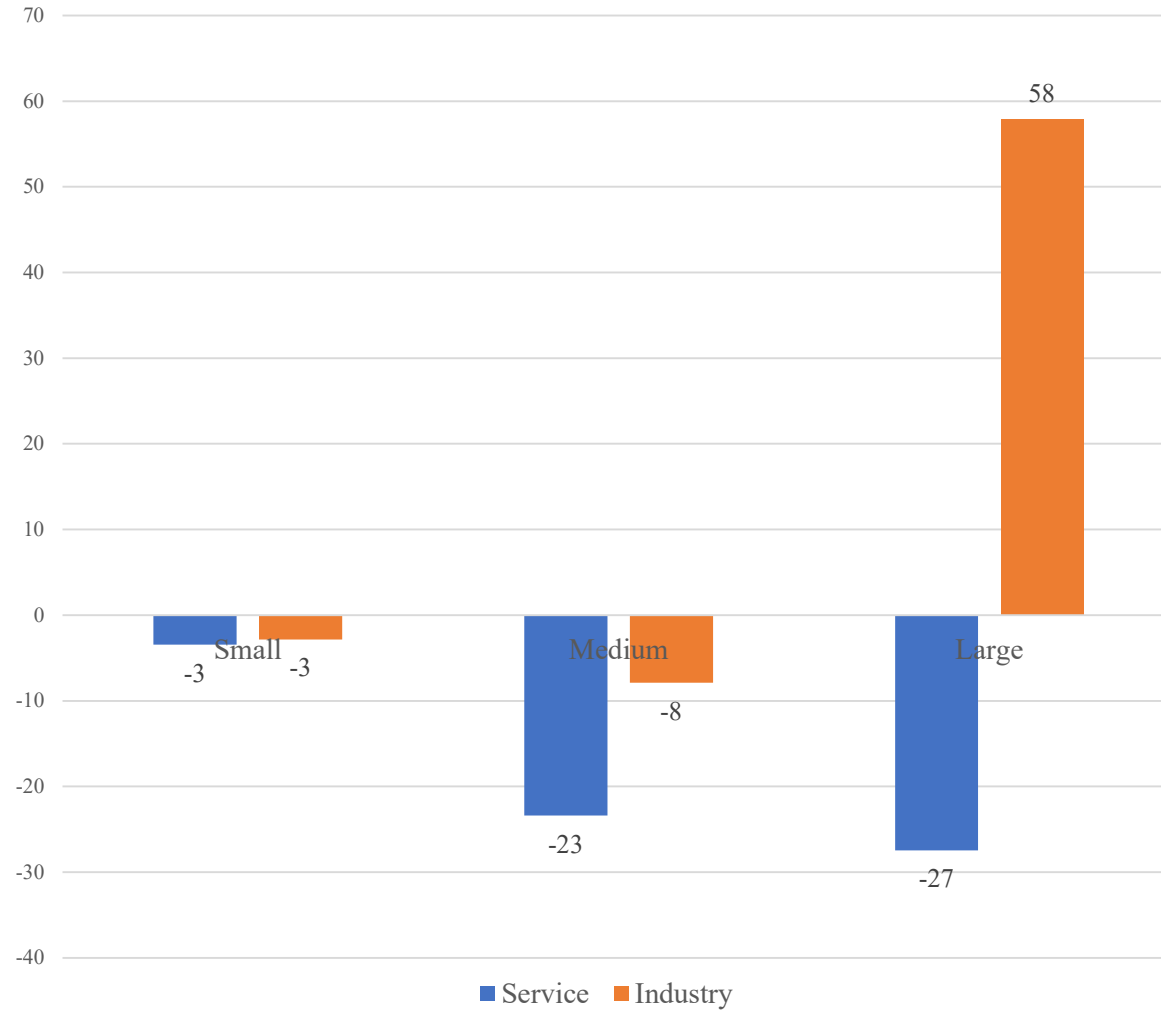
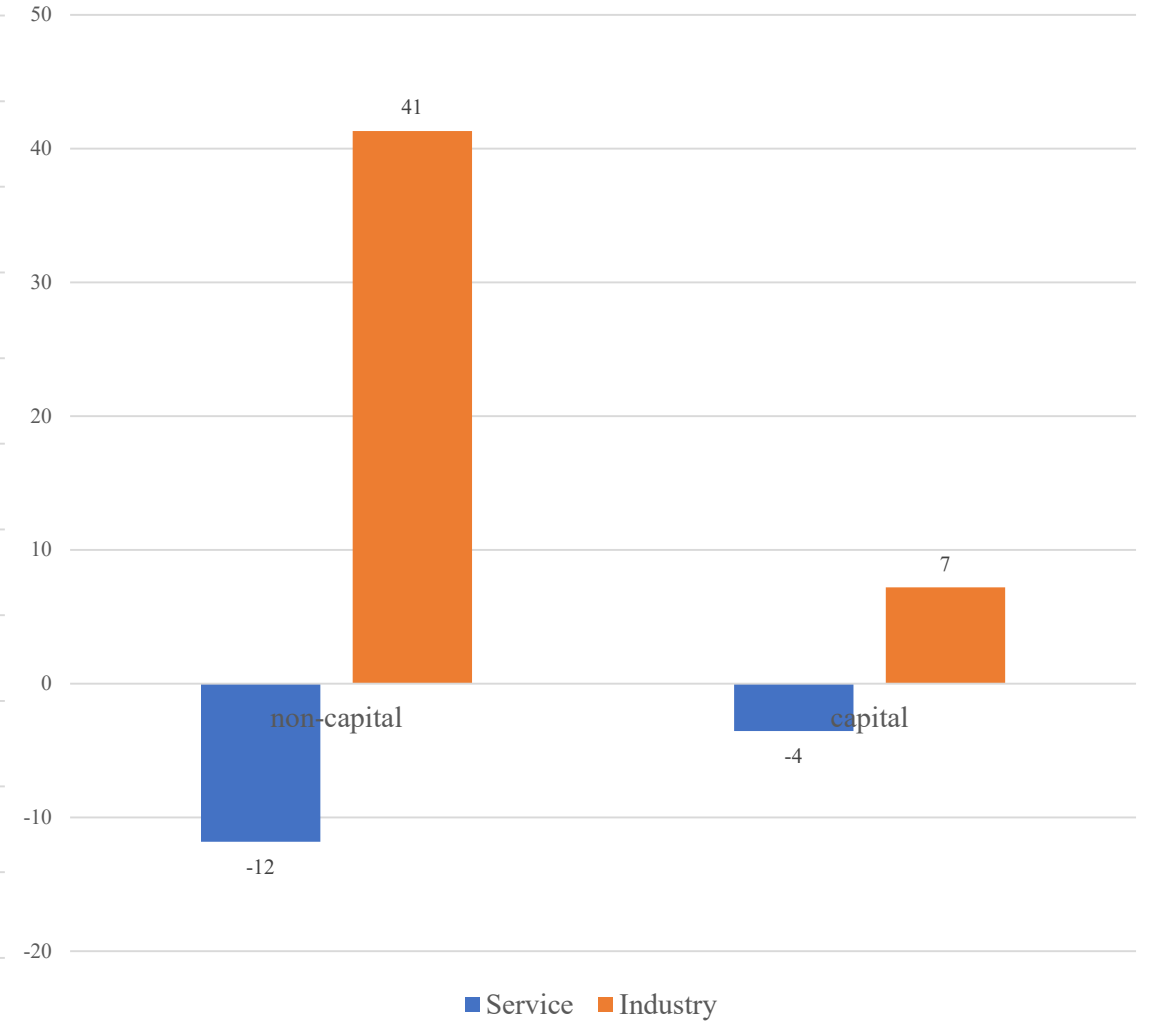


Figure 3b: Average percentage of change in total employment (2019-2022) by location



Firm expenditure and innovation investment

Figure 4a: Average percentage of firms' expenditures in 2021 by size

	Small	Medium	Large	Total
Raw materials and intermediate goods	34.9	25.4	31.8	33.3
Labour (salary, benefits etc.)	29.4	36.5	36.9	32.0
Land, building/office space	11.1	8.8	7.6	10.0
Utilities	9.4	11.8	6.4	8.9
Delivery and logistics	3.5	3.8	6.5	4.3
Machinery, equipment, and vehicles	3.2	3.1	4.5	3.5
Loan and interest	3.7	6.2	1.7	3.5
Training for employees	1.0	1.2	0.9	1.0
Others	2.4	1.7	1.2	2.0

Figure 4b: Types of innovation investment in 2021 by sector

Type of investment	Non-capital (N=149)		Capital (N=212)		Total (N=361)	
	Yes	No	Yes	No	Yes	No
Research and Development	10.7%	87.9%	12.7%	86.8%	11.7%	87.4%
New software/application	6.7%	93.3%	12.3%	87.3%	9.5%	90.3%
New advanced machinery or equipment	33.6%	66.4%	38.7%	60.8%	36.1%	63.6%
Purchase of intellectual property right	26.8%	73.2%	17.0%	81.1%	21.9%	77.1%
Changes to product or service design	9.4%	90.6%	20.8%	79.2%	15.1%	84.9%
Market research, changes to marketing me	19.5%	77.9%	25.0%	74.1%	22.2%	76.0%
New methods of organising work responsib	12.8%	87.2%	22.2%	77.4%	17.5%	82.3%
New methods for accounting or other admi	2.0%	98.0%	10.4%	87.7%	6.2%	92.9%
New methods of logistics, delivery or di	5.4%	94.6%	9.0%	88.7%	7.2%	91.7%

• Firm strategies: Skills development

Figure 5: Average percentage of employees participating in training in 2021 by sector, location, type and size

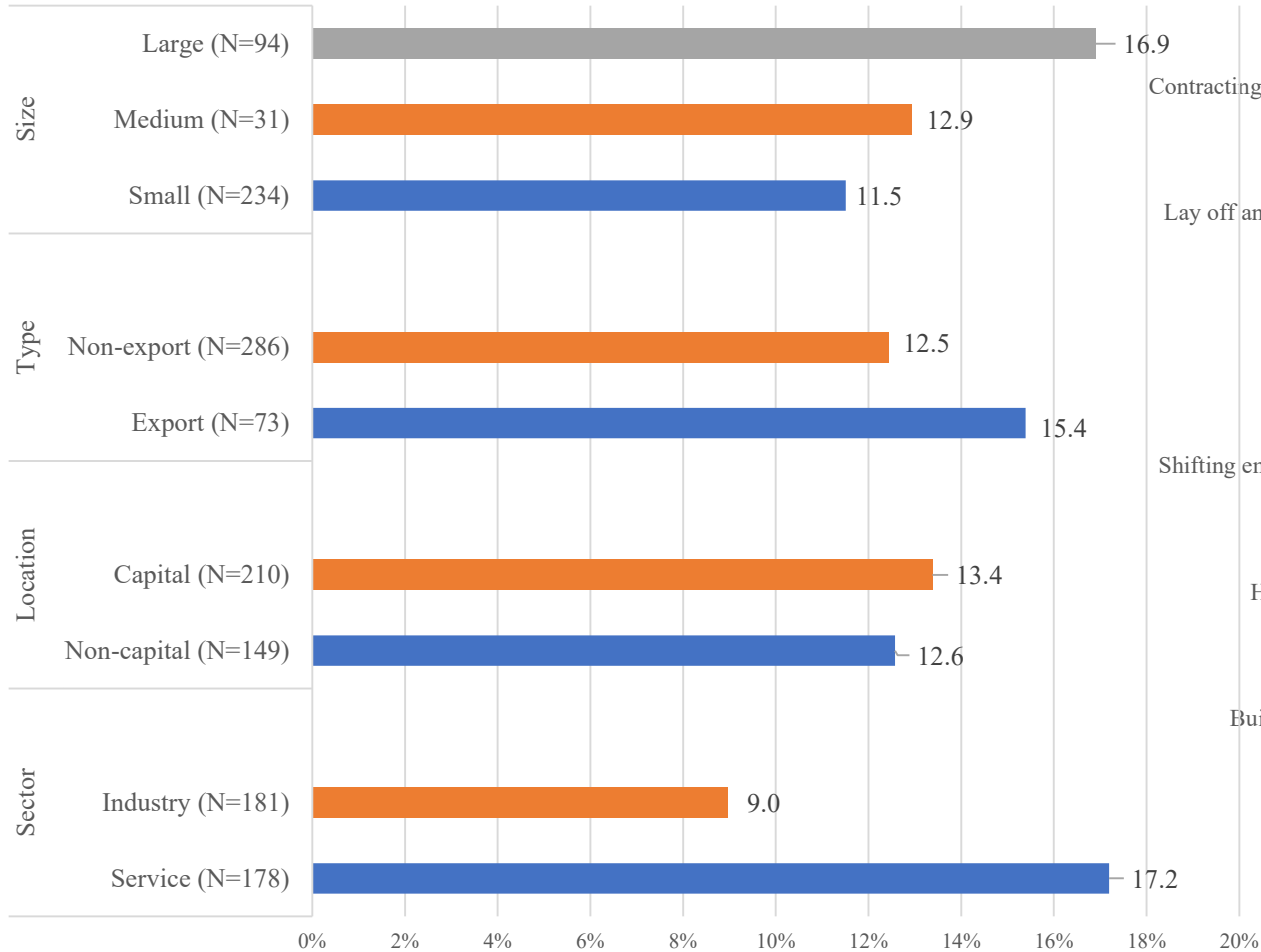
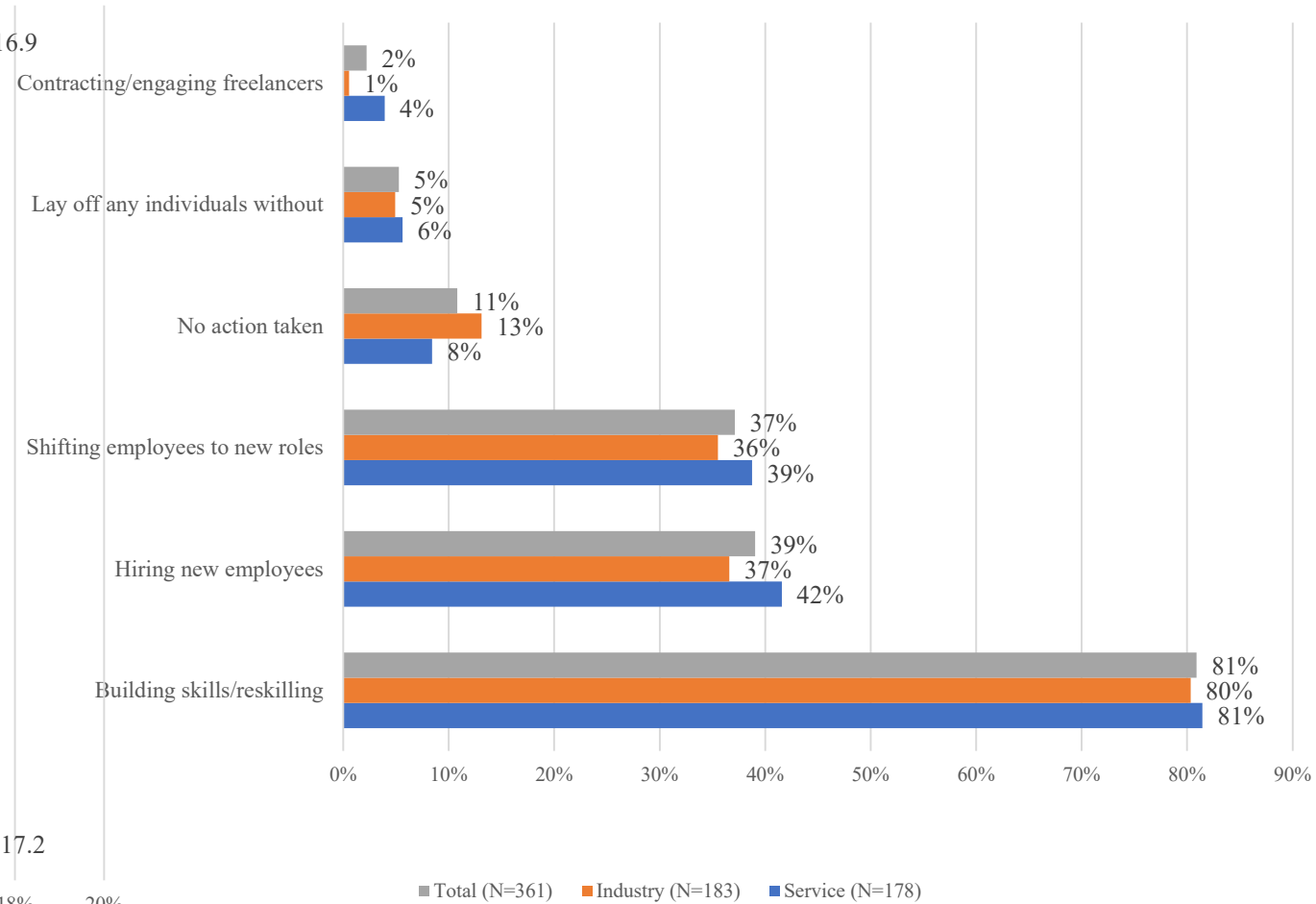


Figure 6: Strategies/methods for solving potential skills gaps by sector



Firm strategies: Business resilience

Figure 7a: Alternative worksite for employees by sector, location and size

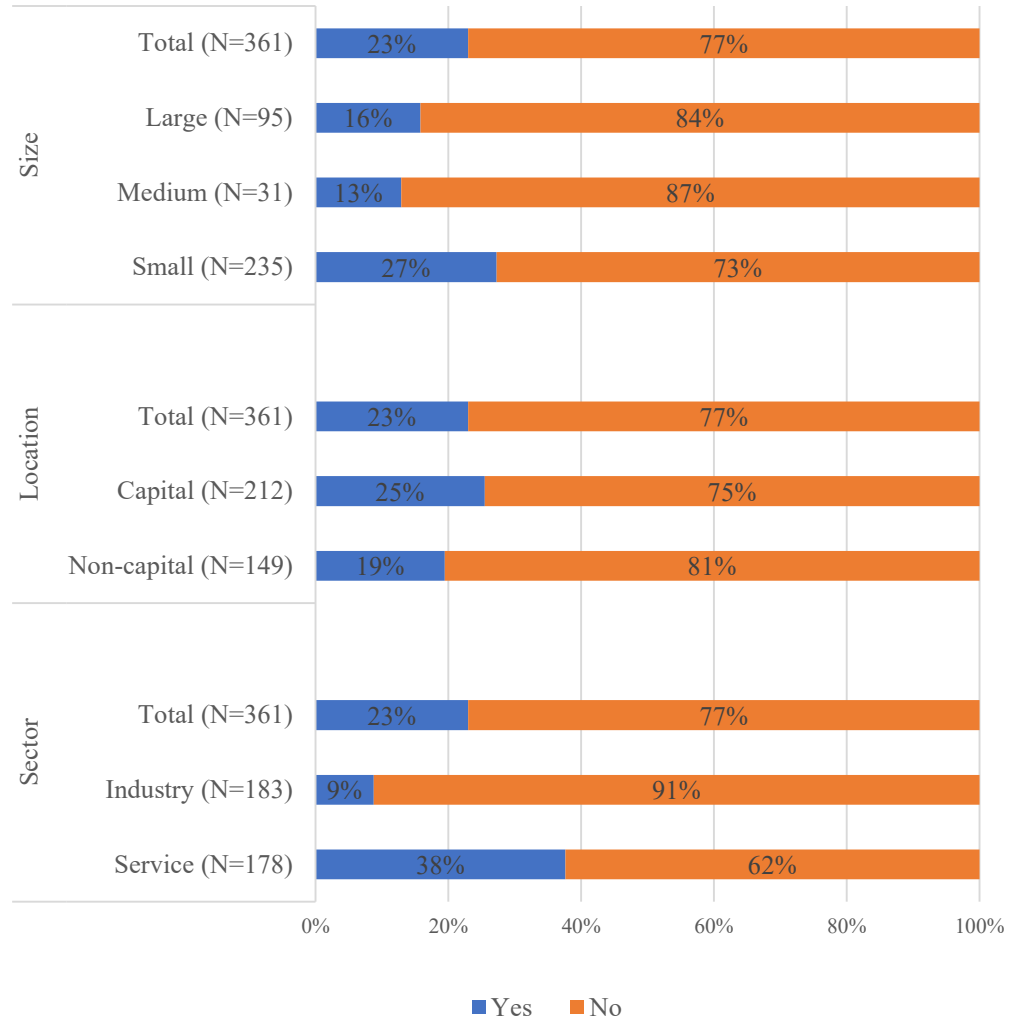


Figure 7b: Availability of technology resources by sector, location and size

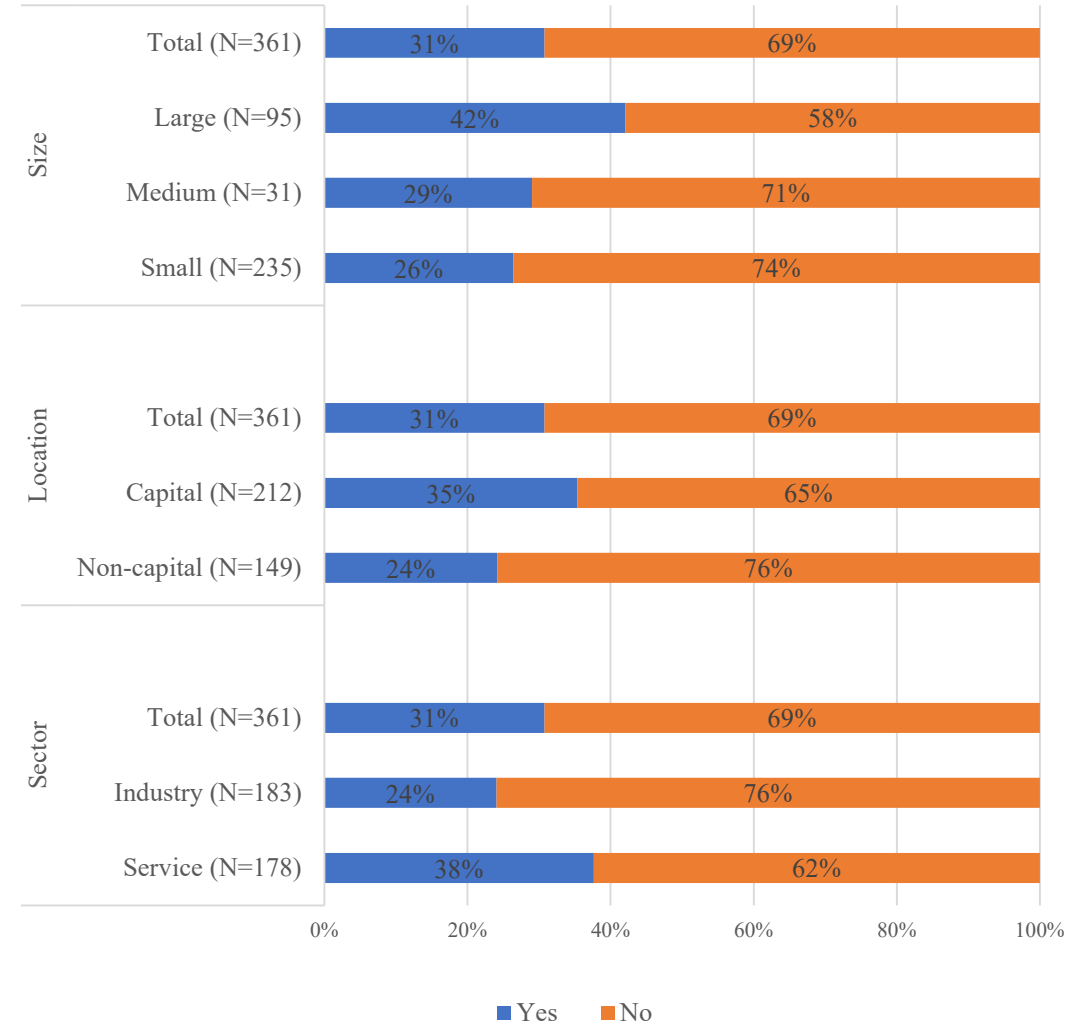


Figure 8a: Share of firms having plans for financial resilience for future crises by sector, location and size

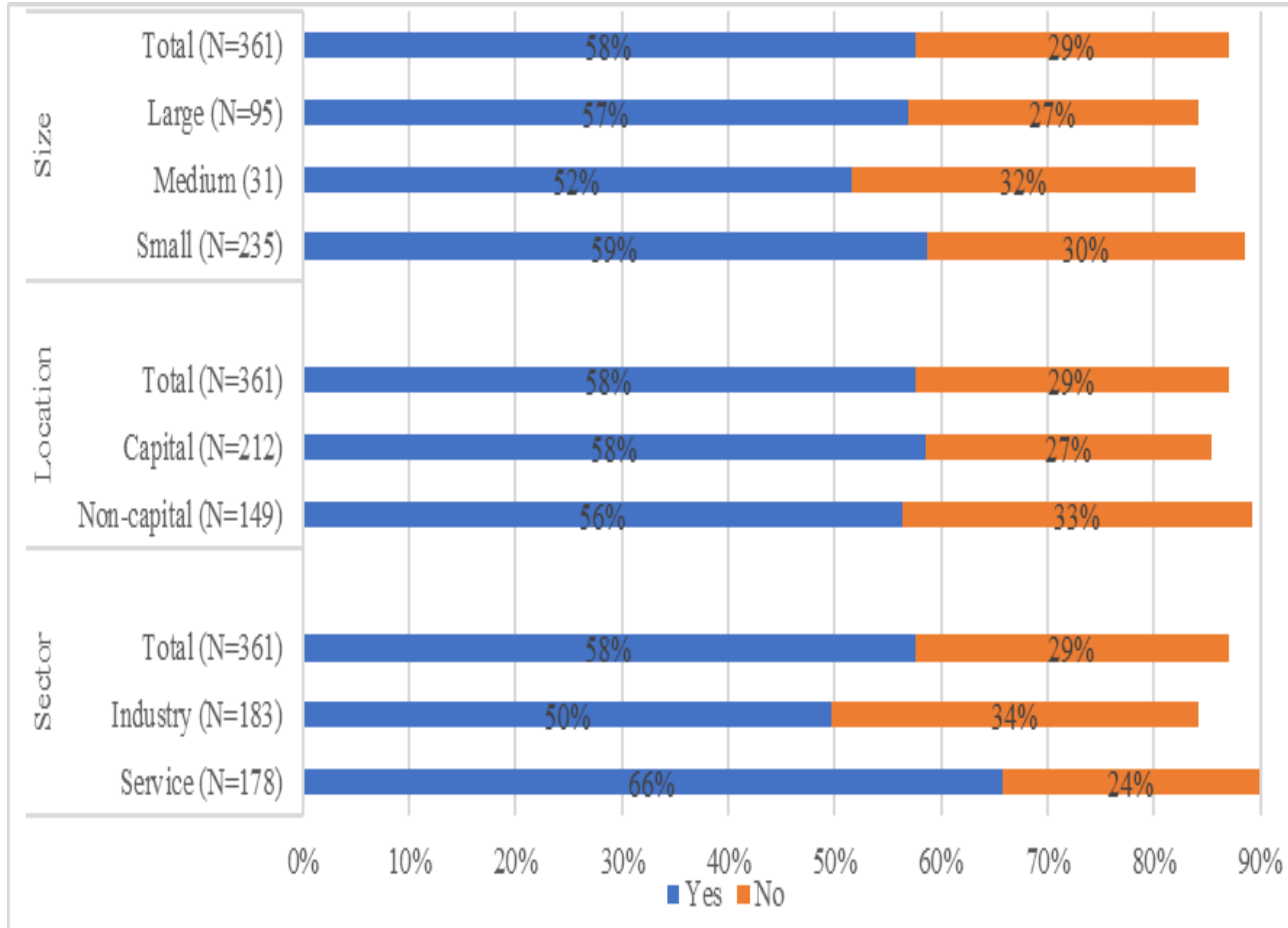
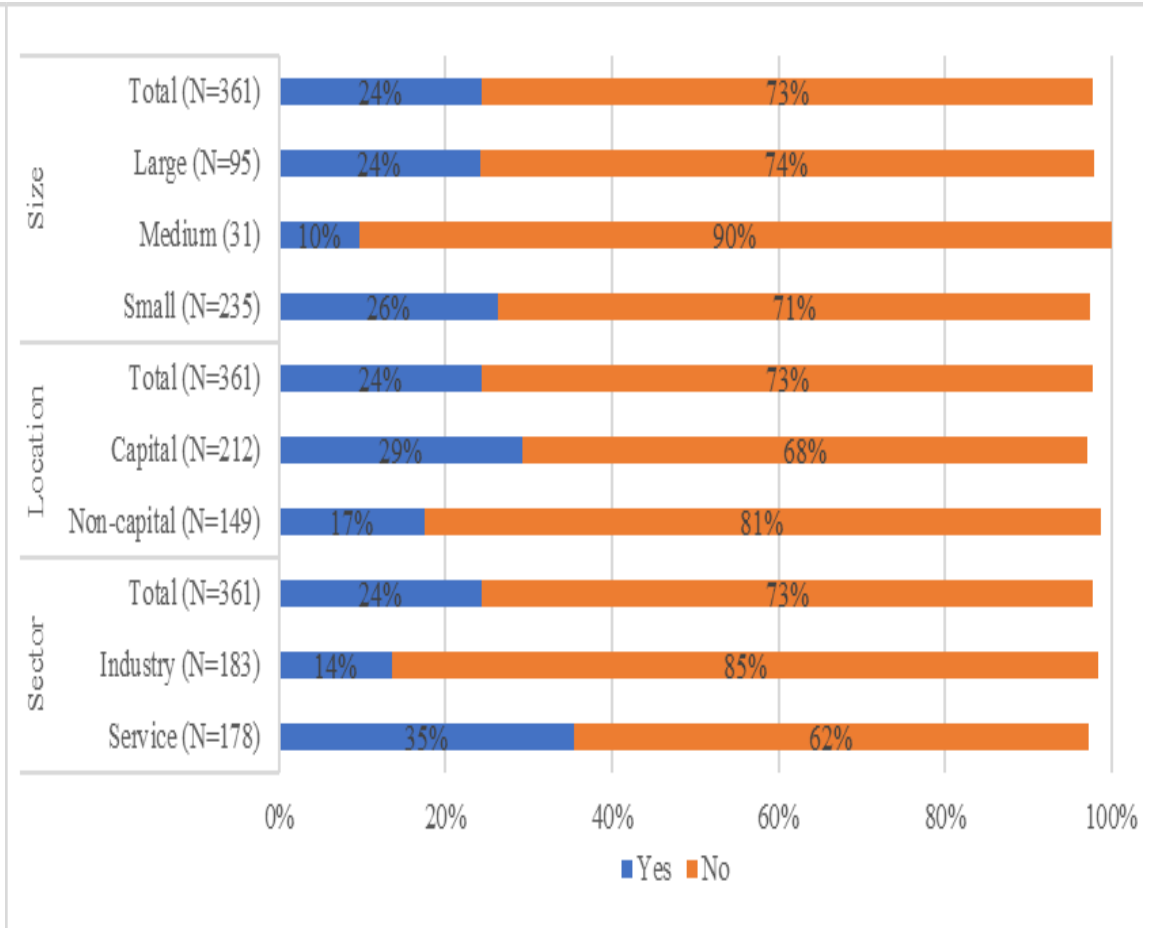


Figure 8b: Share of firms having diversification strategies for crisis times by sector, location and size



Research findings (external business factors)

Legal framework factors

Figure 9a: Perceptions of firms of current legal framework by location

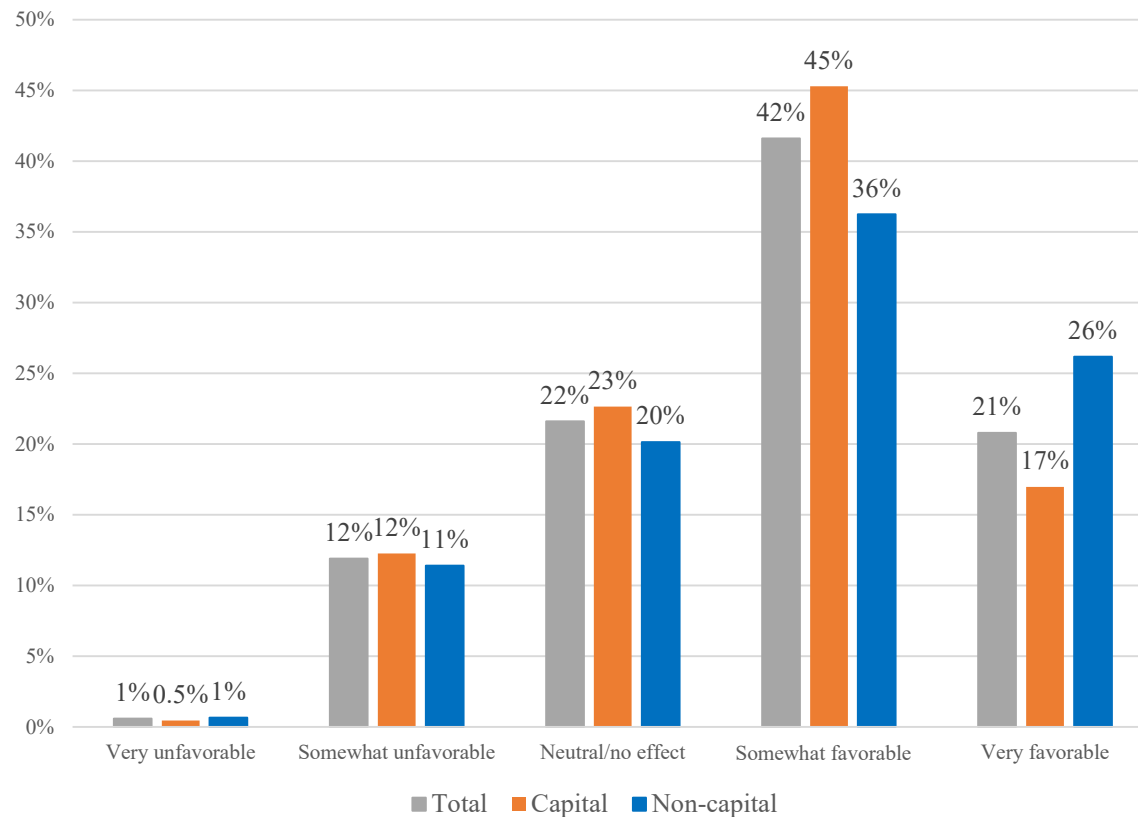
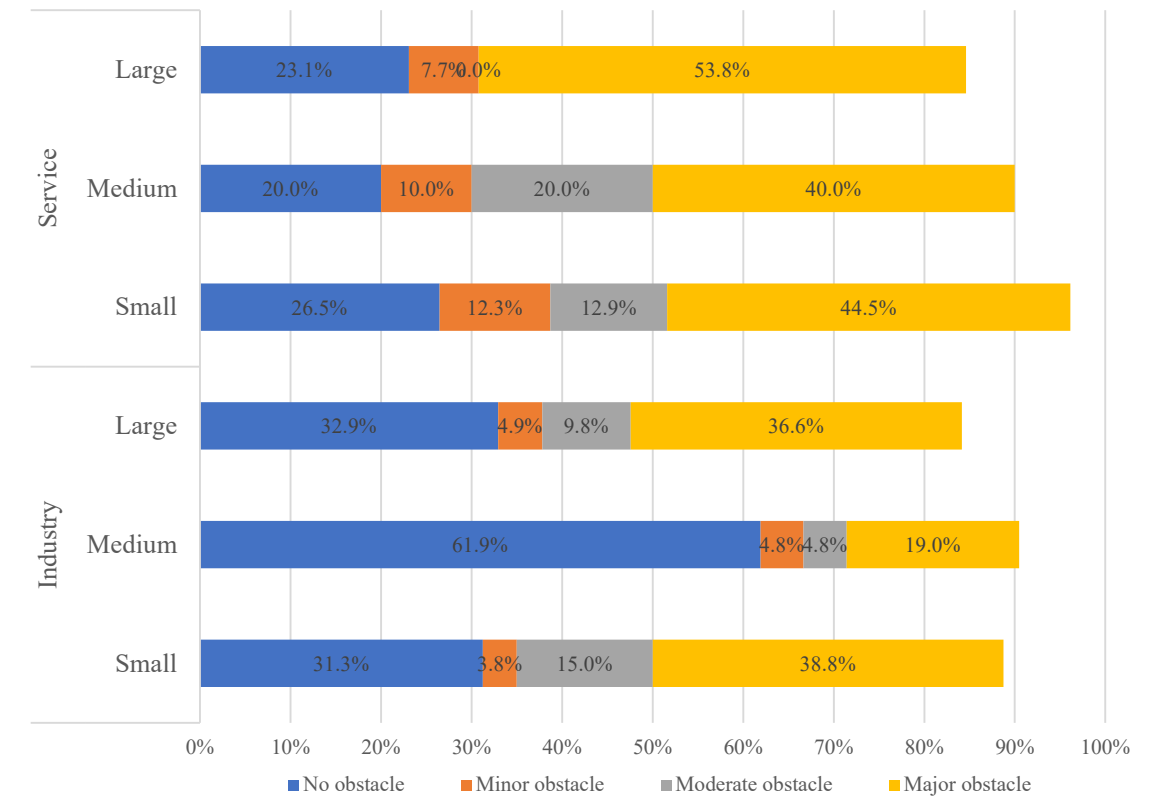


Figure 9a: Perception of firms of infringement of IPR by location



Infrastructure factors

Figure 10a: Firms' perceptions of obstacles to the current operations

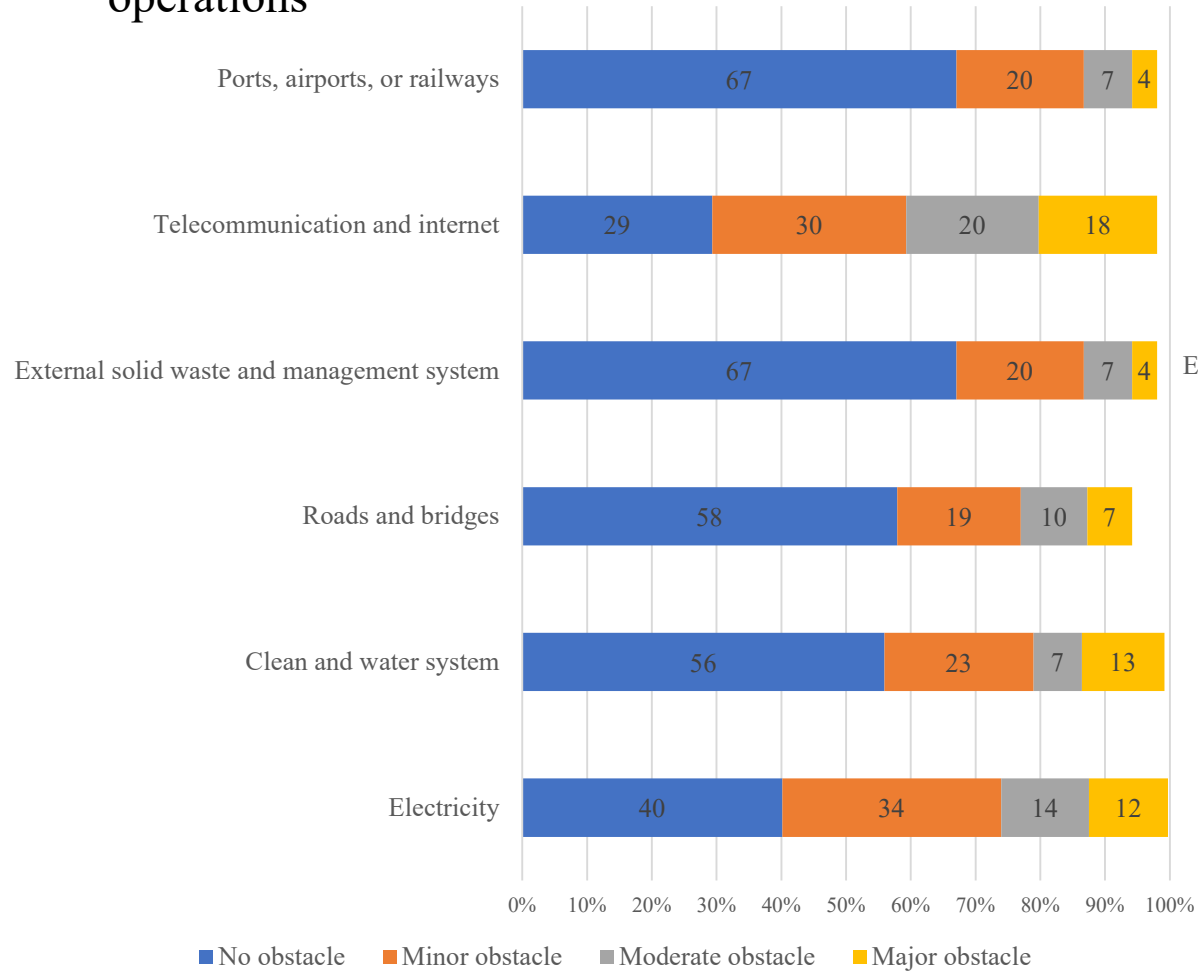
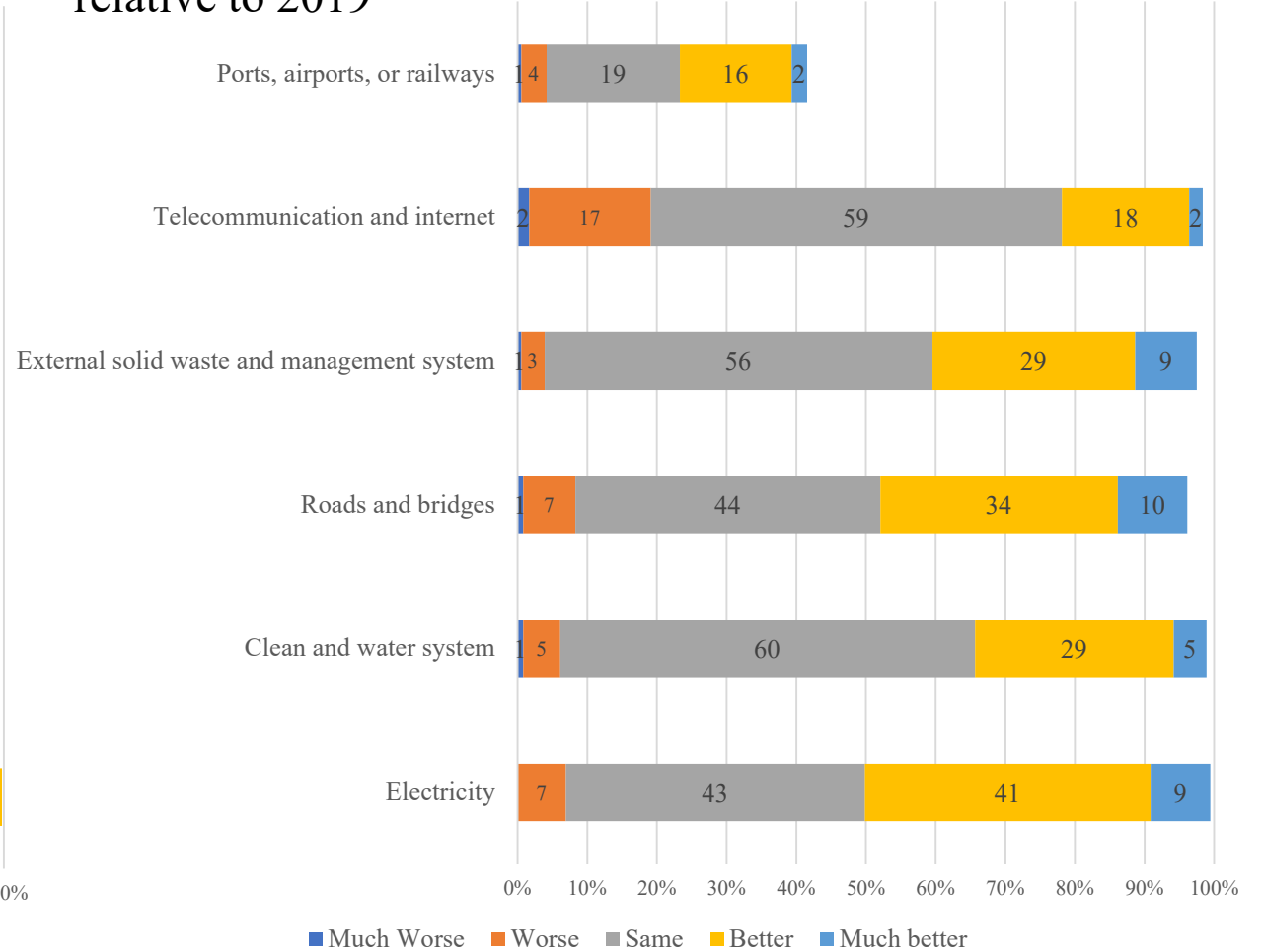


Figure 10b: Perception of infrastructure quality changes relative to 2019



Business network factors

Figure 11a: Share of firms being a member of business network/association

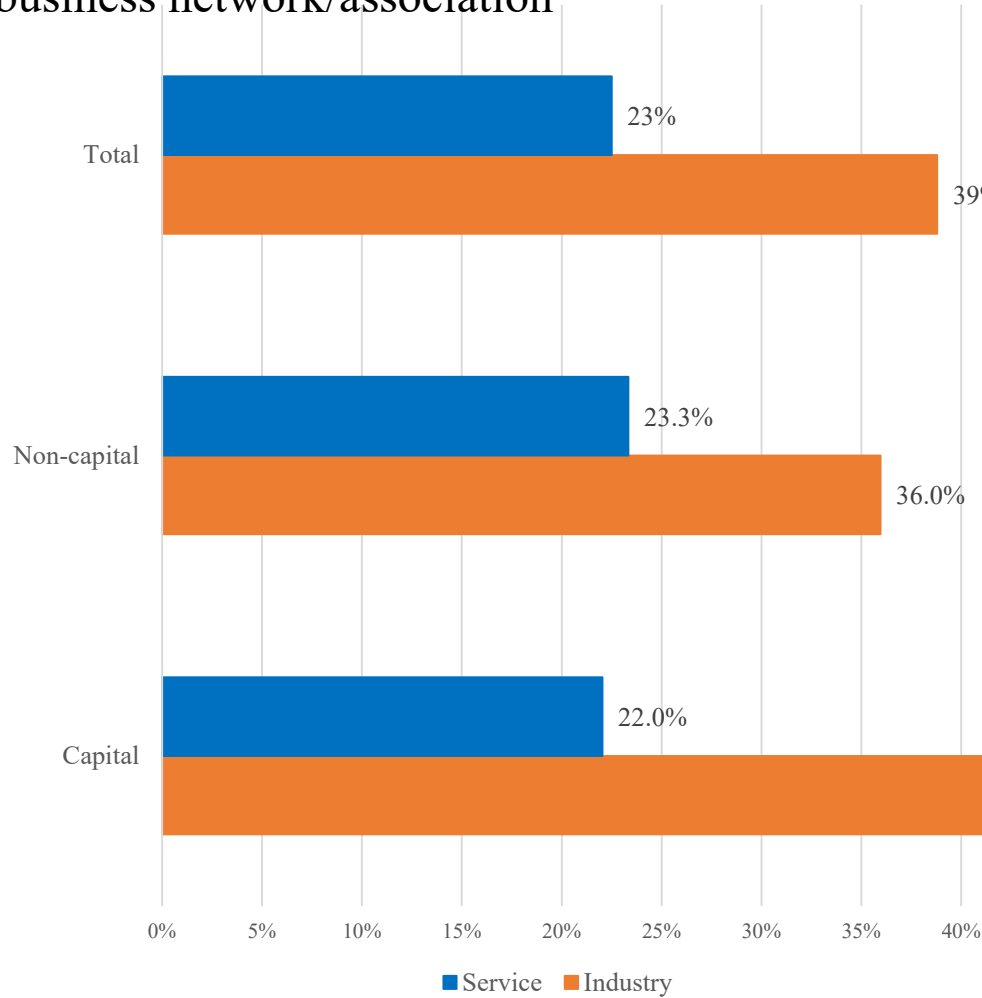
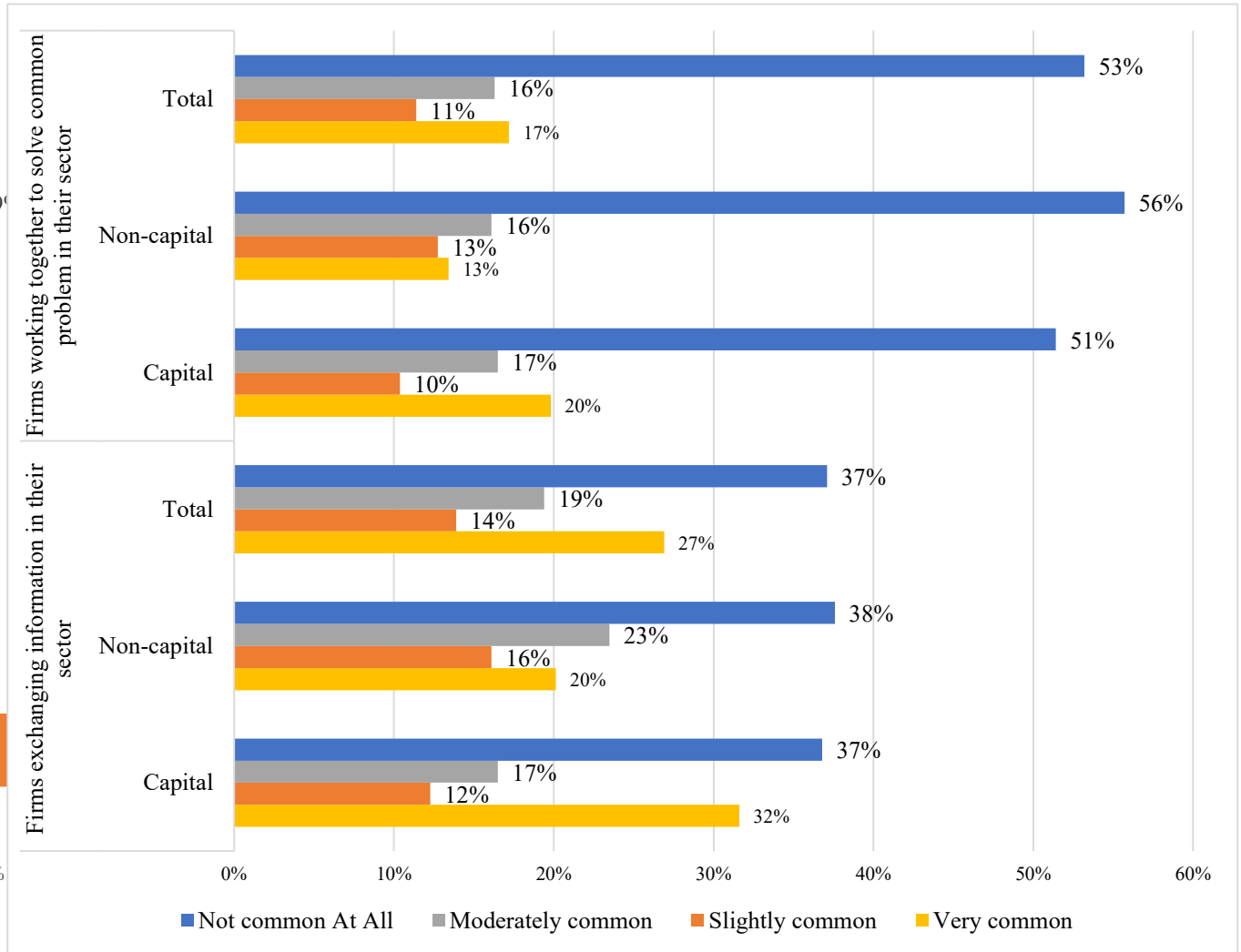
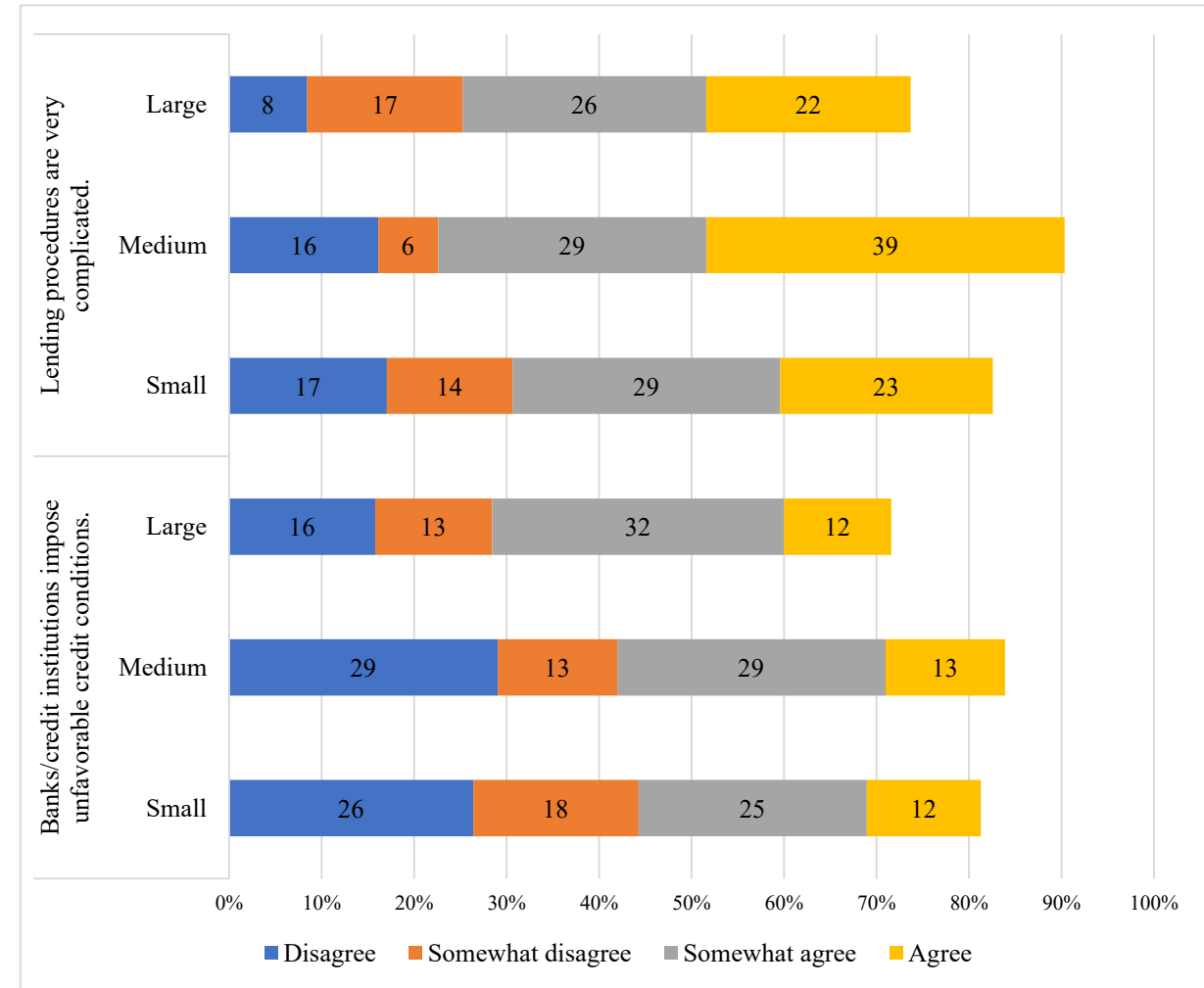
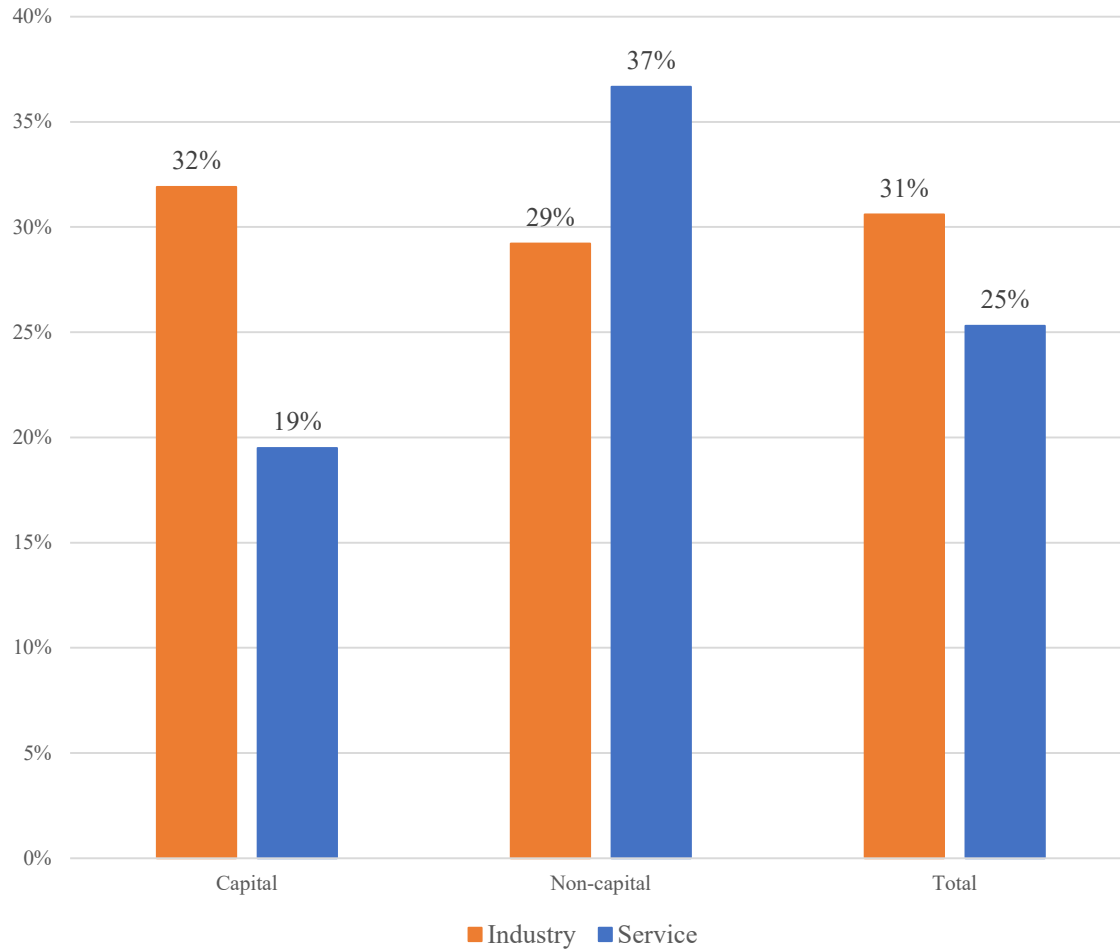


Figure 11b: Share of firms exchanging information and working to solve problem in their sector



Access to finance for business

Figure 12a: Share of firms having loan with banks/financial institutions by sector and region
 Figure 12b: Lending procedures are very complicated



Concluding summary

- Most surveyed firms, and especially firms in services, performed badly in terms of revenues but they recorded an increase in total expenditures.
- The very little investment in employee training is likely to be behind losses of productivity and firm performance.
- The small share of firms investing in innovative activities, across sectors, sizes and locations, reflects a rather weak innovation capacity of the business sector in general.
- Preparation of alternative worksites and/or technology resources for unexpected events in the surveyed firms were relatively low across sectors, locations and sizes.
- Furthermore, most firms did not have diversification strategies, with firms in the capital showing a slightly lower propensity to engage in diversification strategies for management of crises.

- Only about 12% firms said that the regulations were somewhat unfavorable to them, showing improvements in Cambodia's regulations, while infringement of IPR is seen to be a major obstacle for a large proportion of surveyed firms.
- A significant share of respondents perceived that especially telecommunication and internet networks were a major obstacle to their activities: this was a more significant factor outside the capital.
- Firms in the industrial sector, regardless of location, were more engaged in formal business networks than service firms, gaining advantages mainly through information about changes in government policies/legislation, collaboration to solve common problems, and training or technical support.
- A relatively high share of surveyed firms outside the capital, and particularly SMEs, was more inclined to assess lending procedures as complicated and credit conditions as unfavorable to their businesses.