



**DRAFT FOR COMMENTS & DISCUSSION – NOT FOR QUOTATION**

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**Impact Assessment of Business Association Membership on Small and Medium  
Enterprises' Growth Performance: Evidence from Enterprise Survey of  
Cambodia**

*Drafted report*

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## ABBREVIATIONS AND ACRONYMS

ATT	Average Treatment on the Treated
BA	Business Association
CAMFEBA	Cambodian Federation of Employers and Business Associations
CDC	Council for the Development of Cambodia
CEFP	Committee for Economic and Financial Policy
CoC	Chamber of Commerce
DID	Difference-in-Difference
FASMEC	Federation of Association of Small and Medium Enterprises of Cambodia
GDP	Gross Domestic Product
GSO	General Statistics Office
ICS	Investment Climate Assessment
LE	Large Enterprise
MIME	Ministry of Industry, Mines, and Energy
MoC	Ministry of Commerce
MoP	Ministry of Planning
MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organisation
NIS	National Institute of Statistics
NNM	Nearest Neighbour Matching
NSDP	National Strategic Development Plan
OLS	Ordinary Least Square
OSMEP	Office of Small and Medium Enterprises Promotion
PBES	Provincial Business Environment Scorecard
PSM	Propensity Score Matching
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
UNIDO	United Nations Industrial Development Organisation

## EXECUTIVE SUMMARY

Arguments that small and medium enterprises (SMEs) need direct and indirect support are ubiquitous. In Cambodia, SMEs are believed to be vulnerable to competition and less advantageous due to growth constraints: small size, informal status, low bargaining power, difficulty obtaining long-term finance, and low competitiveness due partly to high cost of administrative compliance. This study investigates how firms, in general, and SMEs, in particular, can benefit from an intermediary support programme such as a Business Association (BA) or Chamber of Commerce (CoC). Two strands of thought—the pluralists and the public choice theorists—dominate the debate on the pros and cons of such associative organisations. The former argues for the existence of such collective bodies, while the latter argues against it.

Within the framework of pluralist theory and using propensity score matching (PSM) and PSM and ordinary least squares (OLS) regression with firm-level cross-sectional data in 2007, we examine characteristics of firms currently participating in BAs or CoCs and evaluate average treatment effects on the treated (ATT) of membership on a number of firms' performance indicators: production, turnover, labour productivity, cost of labour, labour cost per worker, and other costs of production. PSM is used to minimise selection bias and the fact that other advanced approaches to address the issue of omitted variable bias—difference-in-differences (DID) or instrumental variables (IVs)—are not compatible with the existing dataset.

Logistic regression of the pooled sample suggests that large firms (with 99 plus employees), foreign and joint venture firms, manufacturing establishments, firms with large national marketshare, firms where majority of workers are union members, firms that have more foreign competitors, firms that have term loans with financial institutions, firms aware of special economic zones (SEZ), and firms faced with complicated administrative compliance required by government such as licences, permits, and registration have a high probability of participating in a BA or CoC. Regression on the SME sub-sample also indicates similar firm characteristics as mentioned above. Lobbying government (96 percent), resolving disputes with officials, workers or other firms (68.4 percent), and getting information on government regulations (81.3 percent) are three services BA members perceive as important.

With pooled and SME sub-samples, our ATT models using nearest neighbour (NN) and kernel matching methods indicate that membership in BA or CoC has positive impacts on a firm's performance, though statistical significance could not be achieved in all outcome variables. In other words, the benefits of membership in BAs or CoCs become evident in a firm's sales, production, costs of labour and other costs of production. Nonetheless, membership has very little and statistically insignificant impact on labour productivity and expenses per worker. Sensitivity analysis of the findings reveals similar results. Participating firms could gain more information on local and foreign markets through membership; however, given the insignificant enhancement of labour productivity they were unable to improve their longer-term competitiveness simply through becoming a member. Using membership to build "social capital" (trust and collective work) is still an area for further improvement.

The study argues that strong government efforts and commitment are required to: (1) enact concrete policies and strategies for exports to assist exporting firms in the process of learning and acquiring new ideas to improve productivity and profitability, (2) initiate policies and procedures to assist informal enterprises, especially micro, small and medium enterprises (MSMEs), to operate in a much more formal status, (3) continue reducing regulatory and

administrative burden to enhance firms' competitiveness and growth, and (4) continue to facilitate the financial market to help MSMEs access long-term loans and to reduce the high demand for collateral from financial institutions.

Given that the issues facing SME growth and respective support programmes are multi-faceted demanding committed and continuous attention from all involved stakeholders, future studies can examine the following aspects: rigorous and empirical study of the benefits of various BA services that members are entitled to; the role and benefits a recently established Federation of Association of SMEs (FASMEC) provides to its members; roles and benefits of industrial clusters; and the impact of SME training programmes on firms' performance.

DO NOT QUOTE

## 1. INTRODUCTION

Growing attention in academic circles as well as in the policy arena has been paid to the significance of small and medium enterprises (SMEs) in the last couple of years. It is widely argued that SMEs play a vital role in enhancing economic growth and competitiveness and help reduce poverty in both developing and industrialised economies. The effects are particularly profound in developing countries where SMEs represent a substantially large portion of domestic production and employment (Ayyagari *et al.* 2011).

In 2008, for instance, SMEs employed 9.7 million people, or 30.5 percent of the total workforce in the UK, and had a combined turnover of approximately GBP1200 million, or 44.0 percent of UK private sector enterprises' total turnover of GBP2800 million (Williams & Cowling 2009). In the US, micro, small and medium enterprises (MSMEs) [with employment ranging from 0<sup>1</sup> to less than 500] accounted for 99.7 percent, or 5.9 million of the total enterprise establishments in 2008, and made up almost half (49.4 percent) of total employment. MSMEs paid approximately USD2.2 trillion or 43.4 percent of the annual payroll (Statistics of US Businesses 2008). In Vietnam, SMEs represent on average 96 percent per year of new enterprises established between 2000 and 2008. In 2008, by employee size, out of 205,689 enterprises—state-owned, non-state-owned and foreign-invested—there were 201,580 SMEs compared to 4109 non-SMEs (GSO 2010). From 2004 to 2006, SMEs in Thailand contributed on average about 39 percent of overall GDP, providing about 76 percent of all employment. In the same period, SMEs accounted for about 30 percent of exports and 33 percent of imports (SME White Paper 2006 cited in OSMEP 2010).

It is often propounded, however, that SMEs face a number of constraints to growth: small size, relatively low bargaining power, difficulty obtaining investment loans, vulnerability to idiosyncratic risks resultant of vertical and horizontal competing forces, high costs of administrative compliance and weak legal enforcement (see, for example, Sukiassyan & Nugent 2008; Beck *et al.* 2008; Stephanou & Rodriguez 2008; Aterido *et al.* 2009).

To tackle these problems wholly or partly, there is widespread belief that SMEs need specific direct and indirect assistance from all involved stakeholders to make them more competitive and to ensure high survival rate. Support programmes from training, advice, subsidies to SME-tailored policy have been availed for SME owner-managers to take advantage of (Wren & Storey 2002; Batra & Mahmood 2003; Bennett 2008; Zecchini & Ventura 2009; Han & Benson 2010; Czarnitzki & Hottenrott 2011; World Bank 2010; Chheang *et al.* 2011). In addition to programmes designed to fit the needs of individual SMEs, more concentrated and associative forms of programmes have also been implemented to mobilise of collective efforts and pooled resources to address common constraints. Examples of such associative networks include business and trade associations, professional and employer associations, federations, networks, and clusters.

Associative organisations are numerous and vary greatly in dynamism and diversity in almost all countries. They span enterprise networks at regional, national, local and sectoral levels aiming to undertake advocacy works and represent the interests of their members with external parties to help members be more competitive and involved in overall business activity. Mr. Thomas R. Kuhn, president of Edison Electric Institute, for instance, once said “it’s a powerful benefit to have the entire business community under one roof. This is why Edison Electric

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<sup>1</sup>An establishment with zero employment is one that reports no paid employees in the mid-March pay period, but paid employees at some time during the year.

Institute is a US Chamber member. It's an absolute must."<sup>2</sup> Considerable literature has argued that business associations (BAs) provide more benefits to SMEs than to large firms whose economy of scale and scope enable them to overcome size constraint and stay competitive even without assistance (Bennett 1998; Bennett & Ramsden 2007; Perry 2007). Yet, there are theoretical and empirical variations to this claim.

In Cambodia, SMEs have contributed significantly to overall macro-economic growth, job creation, innovation and technology adoption. The policy agenda and support programmes are not very much different from those commonly observed in other economies. SMEs<sup>3</sup>, particularly manufacturing establishments, are important to economic growth and business competitiveness. Cambodian manufacturing SMEs have gradually grown in number: 33,195 manufacturing establishments in 2007 made up 98.3 percent of the total number of SMEs, with large enterprises (LEs) accounting for just 1.7 percent (NIS 2008). Recently released preliminary results of the 2011 economic census conducted by the NIS report that MSMEs account for 502,372 (99.9 percent) of the total 503,008 establishments across the country with most firms being concentrated in Phnom Penh and in major economically active provinces such as Kampong Cham, Siem Reap, Battambang, Kandal and Takeo<sup>4</sup>.

The number of SMEs has risen at an annual rate of about 3.5 percent since 1998, reaching 32,619 establishments operating across the country in 2007 (Annex Table 2). Of the total establishments in 2007, SMEs involved in food, beverages and tobacco comprised the largest proportion (80.9 percent), followed by those dealing in fabricated metal products (8.8 percent) and textiles, wearing apparel and leather goods (4.5 percent). In the same year, the number of SME employees increased by 9.0 percent compared to a year earlier, from 87,072 workers to 94,835. This represents an 18.9 percent share of total employment (Annex Table 3). The total volume of production generated by SMEs also constantly went up at an annual growth rate of 30.2 percent between 1998 and 2007, reaching USD 636.2 million in 2007. Food, beverages, and tobacco continued to comprise the biggest proportion of total generated value (Annex Table 4).

Cambodian SMEs, however, are still in their initial stages of development even with the completion of the first five-year SME Development Framework (2005-10). Initiatives in the previous plan were designed to tackle issues and challenges SMEs face; yet, rigorous implementation has been lacking and unsatisfactory. Also, as far as SME policymaking is concerned, there is obviously a need to systematically study and evaluate whether the proposed policies and other related interventions are having positive impacts on SMEs' operation and competitiveness. This is what Cambodia has lacked.

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