

# THE CHALLENGES OF SMALL AND MEDIUM ENTERPRISES (SMES) IN TOURISM SECTOR: A CASE STUDY ON SIHANOUKVILLE, CAMBODIA

Dena SEAB<sup>1</sup> and Watcharapong RATISUKPIMOL<sup>1</sup>

<sup>1</sup> Faculty of Economics, Chulalongkorn University, Thailand; seabdena7@gmail.com  
(D. S.); watcharapong.r@chula.ac.th (W. R.)

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## ABSTRACT

This research aims to study the challenges of Small and Medium Enterprises (SMEs) in Tourism Sector in Sihanoukville of Cambodia. The population of this study were from 187 business owners or managers of SMEs in tourism sector mainly hotels, guesthouses, restaurants, massage parlors, tour agencies, tour operators, and transportation companies. The quantitative method was applied using questionnaire. The quantitative data collected from the survey were analyzed by using SPSS 16. Besides, the government officer who specialized in the field were interviewed for qualitative method. The content analysis utilized. The result of this result shows that the decrease in tourists in Sihanoukville as the major constraints to the growth of their business followed by the rise of informal competitors. Cost of doing business ranked as the 3rd major constraint to the growth of SMEs. Also Access to finance and followed by unskilled worker are the problem accordingly. Law regulation and technology infrastructure were also the challenges for their growth. This study concludes that the informal competition, cost of doing businesses, access to finance, and compliance cost have the most negative effects on SMEs development. Addition the lack of human resources and technology infrastructure play roles in enhance and increase the productivities in operating SMEs.

**Keywords:** Informal Competition, Cost of Doing Businesses, Access to Finance, Compliance Cost, Tourism, Small and Medium Enterprises, Challenges, Sihanoukville

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## INTRODUCTION

Tourism plays a crucial role in economic growth in Cambodia, which is a significant earner in foreign exchange, a source of income, and especially with employment opportunities for the country's formal and informal sectors. The government has experienced the expansion of hotels and restaurant businesses, not to mention other businesses in other industries such as wholesale and retail trade, transportation, and communications, thanks to many international tourist arrivals. In 2012, it contributed about 11.5% to gross domestic product, generated tourism receipts equivalent to \$2.2 billion, and provided 782,500 jobs (12.4% of total employment in the country) (Hin, 2018). In 2020, the contribution of travel and tourism to GDP was 11.4% and would rise. The sector has the potential to develop further by providing opportunities to increase foreign exchange earnings, diversify economic growth portfolios, and create jobs opportunity for local people. On a global scale, it is known to be a resilient industry, recovering quickly from crises, and growing, particularly in Asia.

Sihanoukville is the country's leading seaside destination and acts as a gateway to close-by idyllic developed islands such as Koh Rong and Koh Rong Sanloem. In 2008, the province received more than 1.3 million tourists during the first quarter of this year. One million were domestic tourists, and the rest were foreign tourists, with Chinese accounting for 84,664 (Pisei, 2018). Due to COVID-19, the tourist arrival in Sihanoukville decreased rapidly to only 248,849, including both domestic and foreign tourists. However, with suitable policies protecting the government of Cambodia from tackling the pandemic, the number of tourists arriving in Sihanoukville increased to about 372,921 in February of 2022. According to the Tourism Statistics Department (DOT), the number of tourists will keep rising as the pandemic has slowed down significantly (DEPARTMENT, 2022).

Tourism plays a crucial role in developing Small and Medium Enterprises (SMEs) in this potential province. This sector enables local entrepreneurs to start tourist establishments by encouraging local activities. Not only does it raise the tolerance limits of host tourists' actions, but the industry will also enhance community stability by motivating local people to involve and take advantage of the tourism development. Tourism products can be considered an attraction to the local community that exists in the micro-destination. Business activities include development and promotion aspects of attractive and sellable of local community, non-native people transportation into local society, hospitality management and directing the movement of visitors and providing goods and services for tourists to purchase goods during their residence. However, the path to developing its economic growth is not easy, and there are many challenges that the countries are facing, especially before and during the pandemic. Nearly half of tourism-related businesses in Cambodia have decided to suspend their business during the COVID-19 pandemic. Those businesses include hotels, restaurants, travel agents, and karaoke bars. A lack of customers is the main reason local businesses suspend or close their operations permanently. Strict lockdowns negatively impact enterprises with the sharp drop-off in international visitors (Strangio, 2021). More importantly, the main constraints included the lack of access to finance, limited technical knowledge and skills, inadequate support, and facilitation by relevant government institutions, rising competition in regional and international markets, and a high level of informality.

The study aims to (1) to study the development of Small and Medium Enterprises (SMEs) in the Tourism sector in Sihanoukville of Cambodia, and (2) to explore the current situation and factors that challenge the development of Small and Medium Enterprises (SMEs) in the Tourism sector in Sihanoukville of Cambodia during COVID-19.

## LITERATURE REVIEWS

### **The factors that affect SMEs performance before and during Covid-19**

There are two critical capitals in Cambodia for developing her SMEs. The first capital is called physical capital, which is often old and inefficient compared to neighboring countries. Firms cannot upgrade with an under-developed financial market. Many lenders try to increase their cost of credit to compensate for the perceived risks. Investment is further challenged by a weak rule of law and weak institutions in the country. It is considerably more costly than a loan's value for a lender to seek legal recourse following a default. For human capital, the government is still limited to informal educated and training and has few opportunities to enhance its human capital. According to the World Bank reports in 2003, nearly 97 percent of the country's manufacturing workers were unskilled, and less than a quarter of Cambodian firms provided formal training to workers. Some people could not access primary education. Furthermore, there is a significant shortage of qualified teachers, and less than three percent of the country's GDP is spent on public education. Although primary and junior high school education is officially free and compulsory, low official wages lead to teachers demanding fees from students. Families often want their children to drop out of school to help harvest and prepare family plots of land. The unresolved business climate causes the problems of low levels of physical and human capital available to Cambodia SMEs. Corruption, poor governance, weak courts, and poor infrastructure drive high costs and uncertainties for Cambodian enterprises (Baily, 2008).

The COVID-19 pandemic has significantly impacted the tourism businesses and sector when the international flights have declined dramatically since early 2020. To stop the spread of the virus, the government has imposed various preventative measures and taken policy actions necessary for the safety and health of communities, yet which have a strong negative impact on small businesses with limited capacity for business continuity (BRIEF, 2021). The negative effect of the pandemic on registered SMEs has been much more severe. Since the steep outbreak of the virus, the negative impact on businesses' revenue has been much more concerned, and it happened across all main zones in Cambodia (UNIDO, 2021). Based on the survey, most business owners stated that their revenue had stopped completely, and their income had decreased in some businesses. When the government-imposed regulations to ban travel and the curfew to prevent the spread of COVID-19, smaller businesses became the latest victims of the pandemic, among other business types. For instance, 40% of street food vendors, small vendors (25%), and tuk-tuk drivers (52%) reported that they didn't receive revenue at all. The rest of the small businesses said that their income had decreased steadily. Moreover, most business owners saw the pandemic as a more severe threat to the survival of their business in April 2021. The percentage of concerned business owners had risen, not only for registered businesses but also for non-registered companies in Cambodia.

### **The importance of Government policy Before and During COVID-19**

To enable a business environment for tackling the problem of the low level of physical and human capital available to Cambodia SMEs. Corruption, poor governance, weak courts, and poor infrastructure could cause high costs and uncertainty in Cambodia. Over the last decade, Cambodia's government has announced various laws implemented to promote this sector. They are financial sector law, a land law to strengthen land rights and encourage the use of the property for collateral, and amendments to the Law on Investment to facilitate purchasing productive capital. At the very first step, the Law on Enterprise Accounting and Audit was introduced to improve accounting standards. The law on Commercial Enterprises and the law on Commercial Arbitration have successfully been passed to implement risk reduction associated with trading. During the last few years, the government has mainly concentrated on removing barriers within the SME sector. However, no single ministry aimed to moderate and control SME promotion policies. 25 ministries and non-governmental organizations have

implemented their own SME promotion strategies, regulations, and guidelines focusing on various outcomes. This situation led to increases not only uncertainty regarding requirements and government assistance but also the compliance cost to the development sector. In the worst scenario, the policies designed to promote SME development can contradict each other. Until 2004, the SME Sub-committee was formed to coordinate and promote policies to develop SMEs. Blending the SME policies of different government departments and associations is hoped to avoid duplication and contradiction policies. In July 2004, the Rectangular Strategy was announced by the Royal Government of Cambodia, with thirteen approaches to encouraging Cambodian commercial development (see Table 5). The first strategy was aimed to promote economic growth, generate employment opportunities, and efficient competition. The result of Cambodian SMEs was one of the main focuses of the strategy.

The Rectangular strategy Phase IV, Industrial Development policy (2015-2025), and SME Policy, and the promotion of SMEs and entrepreneurship is viewed as tool for economic diversification and sustainable growth in the long term. Policies and regulatory supports initiatives have been implemented to help with the creation of SMEs and enhance their competitiveness and especially production capacity to ensure they can survive and reach their full potential to support the economic growth in the country. For instance, the Ministry of Economy and Finance (MEF) has provided many kind of support to the SME sector such as: (i) domestic tax incentives and customs tax incentives; (ii) building entrepreneurship ecosystems for potential SMEs and innovative start-up business incubators, and promoting an entrepreneurial culture through the Entrepreneurship Development Fund (\$5 million/year); (iii) sourcing finance for SMEs from the SME bank (capital of \$100 million); and (iv) co-financing grants for skilled labor training through the Skills Development Fund (\$5 million per year from the government and \$9.6 million from the Asian Development Bank).

Other government institutions also has been provided SME support to build capacity and research and development in the ICT sector through the Capacity Building Research and Development Fund (CBRD) (\$12 million from the Ministry of Posts and Telecommunications); providing startup development mentorship, technical assistance, and talent accelerators linked to investment by the Techo Startup Center; providing a platform for SMEs to be listed on the Cambodia Securities Exchange's (CSX) growth board to raise funds from capital market; and promoting business inclusiveness by establish strategic mechanisms include coordination, awareness, accreditation, incentives, public investment, technical assistance, finance, monitoring and evaluation, and reporting through the inclusive Business Enabling Environment for Cambodia (IBeeC) strategy led by the Ministry of Industry and Handicrafts. Digital technology adoption will improve productivity and gain access to lager market by e-commerce and digital financial services. Not to mention, other regulatory frameworks have been adopted to provide protection and ensure fair competition, union rights, and the clustering of SMEs, including the Consumer Protection Law, E-Commerce Law, and Competition law, as well as the Sub-Degree on Union of SME Association of Cambodia, and lastly the prakas on SME clusters and SME policy.

Specifically, benefits have included: (i) income tax exemption from three to five years; (ii) minimum tax and prepayment tax exemptions; (iii) deductible expenses allowed up to 150%-200%; (iv) tariff exemptions on imports of production and construction equipment, and raw materials for SMEs producing clean water and exporting raw materials and goods for domestic consumption; (v) tariff exemptions for equipment used for research and development, and innovative ICT development; (vi) tariff reductions for the export of agricultural products; (vii) the launch of the SME bank (\$100 million from the RGC) to support potential SMEs for business expansion and employment generation, increased financial inclusion, and the formalization of the SME sector through increased registration;

(viii) the launch of the entrepreneurship development fund; and (ix) further provide incentive packages and the introduction of additional SME laws.

Higher Education Vision 2030 policy was developed and implemented by the Ministry of Education, Youth and Sports' (MoEYS) to build a quality higher education system that develops human resources and provides the level of knowledge, skills, and moral values necessary to work and live in an era of globalization and a knowledge-based society resulting from higher standards of education. The policy concentrates on upgrade curriculum that includes the provision of science and IT skills, improved teaching standards, and upgraded materials and facilities. For skills development, the National Policy on TVET 2017-2025 and the Skills Development Fund were piloted to overcome the labor market information issue, including supply-driven quality, planning and capacity challenges to reduce the current skills gap by putting in place the necessary action plans and M&E mechanisms (Narin, 2022).

### **Related Research papers**

A study on roles of Small and Medium Enterprises (SMEs) in Cambodian Economic Development and Challenges during Covid-19 by Kosalsereyvuth, Julien (2021), Cambodia has moved forward with supporting infant businesses which would improve Small and Medium Enterprises (SMEs). The study conducted through qualitative research method to figure out the issues and challenges. It found out that SMEs' business still facing hurdles include the difficulty in accessing financial support, and the struggle to compete with international and regional market expansion (Chhim & Lay, 2021).

Peter Baily studied the Cambodia Small and Medium Sized Enterprises: Constraints, Policies, and Proposal for their development in 2008. The study found that the country's SMEs have the barriers include the weak regulatory and legal framework, limited SME access to finance, and a lack of SME support activities from the government (Baily, 2008).

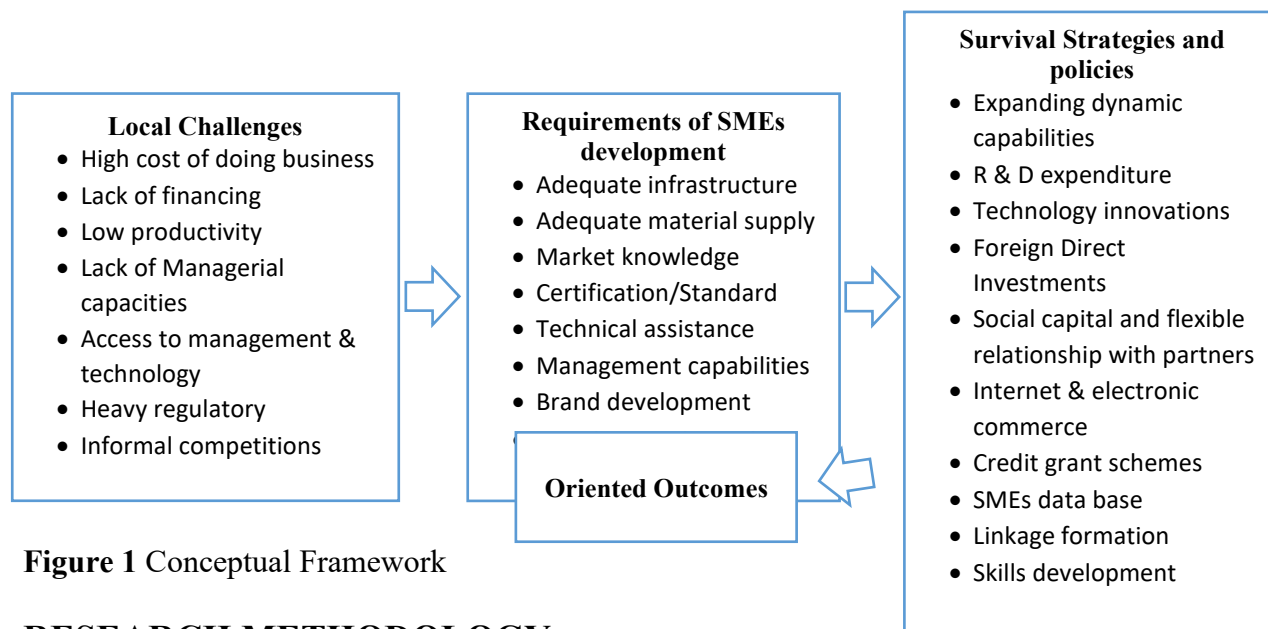
According to Nittana, Makararavy, John, and Pacapol (2008), they examined the development of Excellent Entrepreneurs in Small and Medium Enterprises in Laos and Cambodia. Both countries share many similarities, struggles, and started driving national development through a market-oriented economy. With the support activities, the number of SMEs' business were increased in various sector such as food processing, garments, construction materials, wooden furniture, tourism, trading, transportation, and so on within the country. This study use evidence from in-depth interview to explore its objectives. It found that there were many failures for SMEs to survive and expand the market with the high regulatory compliance costs, lack of clear and market-oriented framework for SME development, limited access to finance, and lastly poor market access infrastructure and information (Southiseng, Ty, Walsh, & Anurith, 2008).

A study on Moderating Effect of Government Policy on Entrepreneurship and Growth Performance of Small-Medium Enterprises in Cambodia by Mohd Noor Mohd Shariff, Chea Peou, and Juhary Ali in 2010 which aimed to examine the moderating effect of government policy on the relationship between entrepreneurial values, firm financing, management, market practices and growth performance of SMEs in Cambodia. The results of the study showed a positive relationship between entrepreneurial values, firm financing, management, market practice, and SMEs growth performance. The study also confirmed the important role of government policy to moderate in such relationships (Mohd, Peou, & Ali, 2010).

Constraints on SMEs in Cambodia and their Participation in Production Networks was examined by Vannarith, Oum, and Thearith (2009). The study showed the opportunities and challenges for Cambodia's SMEs in regional integration in Southeast and East Asia. Also, the challenges to participate in production networks such as lower productivities, business capacity and innovations. SMEs in Cambodia need support in the field of business linkages and networking and financing to allow themselves to be ready in integration in the regional level (Thanh, Narjoko, & Oum, 2010).

A study on SMEs access to finance in Cambodia by Luyna, and Sovuthea (2011) to find out the constraints for addressing. The result of the study found that firms that have high sales volume, high profit margins and are in the garment manufacturing sector are highly likely to obtain finance. Furthermore, this finding inferred that credit is rationed by the market, and the intervention should be needed to widen the access to finance in the country (Ung & Hay, 2011).

From the literature review, the conceptual framework can be drawn as shown in Figure 1.



**Figure 1** Conceptual Framework

## RESEARCH METHODOLOGY

For our research purpose, the accessible population will be included owners or employers of each business in Sihanoukville province. It is the portion of the population to which we have reasonable access; It may be a subset of the target population. 349 of tourism SMEs business which were given license by the Ministry of Tourism of Cambodia in 2019. After calculated the sample size by substituting the numbers into the Yamane formula, the sample number equal to 187. Two sampling method were used in the research. A stratified sampling method is obtained by independently selecting a separate group on SMEs business in the quantitative method. This method mainly focuses on the respondents who are the most knowledge and most likely to provide the necessary the information. Owners or managers were the key respondents of SMEs in tourism sector in Sihanoukville which were from hotel, guesthouse, restaurant, massage & spa, travel agent and tour operators. All the key representatives were contacted for permission to conducting the questionnaire manually and onsite. For qualitative method, a purposive sampling method was used with the official of the ministry of tourism to help in contributing their knowledge, firm experiences, and responsibility in Small and Medium Enterprises (SMEs) in tourism sector in Sihanoukville to answer for relevant questions with the study. The ministry of Tourism is the only key representative the tourism industry in Cambodia. All the informants related to thesis, the objectives and the permission letter were sent to the administrative department in the Ministry of Tourism to make the appointment for interview. The questionnaire consists of an open-ended question, checklist questions, and a five-point Likert scale and is divided into 4 parts. The first part of the questionnaire is the respondents' demographic information. Queries about the sample's data include occupation, gender, age, education, and marital status as checklist questions. The second part of the questionnaire is the questions on the information about the respondent's business. For this part, we also use checklist questions. In the third part, the questionnaire questions business owners or managers' satisfaction with the business environment in

Sihanoukville province. Using a five-point Likert scale with a questionnaire. Lastly, a part of the comments and suggestions. The topic of the interview included the overview situation of tourism sector in Sihanoukville, SMEs' situation in Sihanoukville, multi-stakeholder roles in SMEs' development, the government's policies toward SMEs, and rating the important elements of SMEs development in tourism sector in Sihanoukville.

Chulalongkorn University's ethics committee was requested and granted permission for data collection. The questionnaires were randomly distributed to owners or managers of hotels, guesthouses, restaurants & bars, and tour agencies. The respondents were approached and seek for permission to distribute the questionnaires. Then, they were given a short briefing by the researcher who emphasized the importance for all instructions in the questionnaire to be read carefully. The respondents were helped to answer questions and provide the clarification when there were blur in any questions. They will have sufficient time to answer the survey based on their own free time without time constraints. Typically, it took 20-30 minutes to complete the questionnaires.

Regarding data analysis, the data was computed and analyzed by using Statistical Package for Social Science (SPSS). First, the demographic background of the respondents and the background of each business would be analyzed and presented using descriptive statistics for Frequency and Percentage. The information on the different business owners or managers' satisfaction with the business environment in Sihanoukville province will be ranked and presented using descriptive statistics for Mean and Standard Deviation. The information on the business background and business environment that influence their sustainable development will be analyzed and presented using compare means statistics in the forms of t-test and F-test. Consequently, the scoring of questionnaire will be analyzed by using five - points rating scale or five - Likert scales. Lastly, the scale rating of class interval of Best (1970) is used to interpret the Mean score of SMEs' satisfaction with current situation in Sihanoukville province.

## **RESEARCH RESULTS**

### **Respondents' Profiles and Studied Variables**

The survey showed that most respondents were female who contributed 78.9% or 75 people and the rest of the people 21.1% or 20 were men. Most of the respondents were at the range of 40-46 years old and consisted of the largest group of employers, representing 43.2%. It was followed by the age range of 33-39 years old with 18.9% and the age range of 26-32 with 16.8% of all the respondents. The age range of over 47 accounted for 15.8% and age of 18-25 with 5.3% respectively. Most of the respondents 69 or 73% were in the position of business owners and 20 respondents were manager. There were 5 partnerships and other were 1.1% of all the participants. Most of the respondents were only consisted of three level. First, most of all the respondents were obtained only high school certificate about 35 or 36.8%. There were 33 respondents had bachelor's degree. Lastly, the respondents who had secondary school level were 27 or 28.4% of the total respondents. The result shows that the majority of 31 (32.6%) of respondents had 13-18 years of experience in businesses related tourism sector. While there were 28 (29.5%) of the total respondents had the range of 7-12 years of experience. For employer or manager of the businesses who had the range of 1-6 years of experience accounted for 20 or 21.1% of the respondents. For the business owner and manager who had more than 18 years of experience in doing business in Tourism sector were 14 (14.7%) of respondents. There were only 2 (2.1%) of the total respondents had less than 1 year or freshman in the business field.

The result, additionally, revealed that the businesses which are considered as established and stable accounted for 29 or 30.6% of all total businesses in the survey. The overall data illustrated that the businesses with profit and growing and businesses with established and

stress accounted for almost the same percentages, which were 29.5% and 28.4% of total percentages. There were 7 or 7.4% of all respondent's businesses were just start their businesses or in the start-up stage. And there were 4 or 4.2% of all businesses categorized as pre-profit. There were 29 restaurants, which were accounted for 30.6% of total respondent's business. As illustrated in the table 3, the guesthouse presented about 24 or 25.3%, which was followed by hotel with 18.9%. Pub or bar and Massage spa were accounted for the same number of 9.5% of total respondent's business. While karaoke, transportation, and travel agencies accounted only for 6 which were about 2% of each business. It showed that 44 respondents (46.4%) have operated their businesses for around 1-3 years. Another 32 respondents (33.7%) told that their businesses have established for around 4-9 years in Sihanoukville. The businesses which have operated for more than 10 years were accounted for 15 respondents (15.8%). While there were only 4 respondents (4.2%) just operated their business in 1 year. 15 of all businesses are having foreign owner or partnership, the rest of number are fully control by local people. The survey showed that most of the respondents accounted for 46 (48.4%) had 5 to 10 employees for operating their businesses. The businesses which only had less than 5 employees in their operation were 28.4% of total respondents. While businesses with 11 to 15 employees took 16 of respondents (16.8%). And the rest with 6 respondents (6.3%) had employees from 16 to 20 people. 91% of customers are local tourists, while only 9% are international tourists.

### Analyzing the opinion of the local businesses toward the business environment in Sihanoukville during the Covid-19 pandemic.

**Table 1** Local business's opinion toward business environment in Sihanouk Ville province on the following topics during Covid-19

Factors	1		2		3		4		5		MEAN
	F	%	F	%	F	%	F	%	F	%	
14. To what degree is Access to finance obstacle to the current operation?	34	35	31	32	17	17	13	13			2.1
15. To what degree is Access to land an obstacle to the current operation?	16	16	14	14	11	11	33	34	21	21	3.3
16. To what degree is Business licensing and permits an obstacle to the current operation?					23	24	28	29	44	45	4.2
17. To what degree is Corruption an obstacle to the current operation?			7	7	36	37	29	30	23	24	3.7
18. To what degree are Crime, theft, and disorder an obstacle to the current operation?	8	8	26	27	52	53	5	5	4	4	2.7
19. To what degree is Electricity and water an obstacle to the current operation?							22	22	73	75	4.8
20. To what degree are skilled workers an obstacle to the current operation?	5	5	46	47	29	30	15	15			2.5
21. To what degree is Political instability an obstacle to the current operation?			1	1	8	8	9	9	77	79	4.7

Factors	1		2		3		4		5		MEAN
	F	%	F	%	F	%	F	%	F	%	
22. To what degree is Competitors in the informal sector an obstacle to the current operation?	40	41	32	33	12	12	11	11			2
23. To what degree is Tax rate an obstacle to the current operation?			18	18	52	53	25	26			3
24. To what degree is Transportation an obstacle to the current operation?					22	22	64	65	9	9	3.9
25. To what degree is financial system an obstacle to the current operation?			9	9	43	44	26	27	17	17	3.5
26. To what degree is Technological development an obstacle to the current operation?	6	6	28	29	8	8	46	47	7	7	3.2
26. To what degree is national disaster an obstacle to the current operation?					22	22	56	57	17	17	3.9
26. To what degree is pandemic an obstacle to the current operation?	64	65	31	32							1.3

It showed that 37 people or 34.7 percentages of the respondents thought it is very difficult to access to finance and 31 people agreed that access to finance is difficult for businesses. There were 17 people with 17.3 percentages considered access to finance was natural. And 13 people would say access to finance in Sihanoukville was easy.

For the accessing of land in Sihanoukville, 16 and 14 of people of the respondents would select very difficult and difficult. 11.2 percentages of the respondents thought naturally on the access of land (mean=3.30). The highest percentages with 33 people or 33.7 percentages would think access of land is easy and 21 people or 21.4 percentages agreed that access to land in Sihanoukville is very easy.

The opinion of the respondents, 23 people with 23.5 percentages would say business licensing and permits in Sihanoukville is normal. While business licensing and permits is easy were selected by 28 people accounted for 28.6 percentages of total respondents. Most of the respondents thought there is no obstacle in business licensing and permits to the current operations at all.

For corruption, the least percentages of respondents (7.1%) agreed that there are still some corruption activities in the province. 36 of 95 respondents would rate corruption as the normal level. With the rest of 52 people agreed that corruption was not an obstacle to the current operation of business in Sihanoukville.

For crime, theft, and disorder, only 8.2% of respondents agreed that the mentioned issues were rated at the very difficult level. 26 people or 26.5% of respondents rated the difficult level on crime, theft, and disorder as the obstacle. Half of the total respondents (53.1%) rated normal for obstacles such as crime, theft, and disorder in the current operation. While only 9% of total respondents ranked easy and very easy on crime, theft, and disorder in the province.

There were only two rate level in the availability of electricity in Sihanoukville. Based on the questionnaire, we could see that there was no obstacle in access to the electricity in this

province. 22 people with 22.4% would rank easy on access to electricity. While the most of respondents with 73 people ranked electricity with very easy in accessing.

For skilled workers, 5 respondents agree that it was very easy to find skilled worker in doing their businesses. While most of the respondents, would rank easy as there were available skilled workers in Sihanoukville. Then, 29 respondents (29,6%) would just rank normal level on skilled workers. The rest of 15 respondents have opposite opinion on skilled worker, meaning that there was still lack of human capital in the province for operating businesses.

Most respondents (77 respondents) ranked Sihanoukville as the place with very high political stability that allow them to do business safety. The rest with 9 respondents had negative opinion towards the political environment. To sum up, Sihanoukville has maintained the political stability based on the figure from the respondents.

The rise of competition in informal sector has raised the concerns on businesses' operation. Most of business owner or manager shared the same perspectives toward the concern over business's competition. 72 of 95 respondents ranked very difficult and difficult in the rise of competition. While 12 respondents would rank only normal toward the issues of competition. Only 11 respondents had no concern over the competition in informal sector.

For tax rate, among 95 of respondents ranked only 3 level which include difficult, normal, and easy. 18 respondents agreed that it is difficult for local businesses to support the tax rate or tax rate is high, which make them pay more to the government. About half of all respondents rank normal in tax rate. While 25 respondents rated tax rate as easy for businesses and have no obstacle for them.

Transportation services have been growth rapidly across the country. The demand of transportation due to the growth of tourism sector. Most of respondents agreed that there is available transportation in the province. 73 respondents of the total respondents responded with easy on transportation and the rest would rank normal. Consequently, we can conclude that there were available of transportation services which allowed positive business environment in Sihanoukville before or during Covid-19.

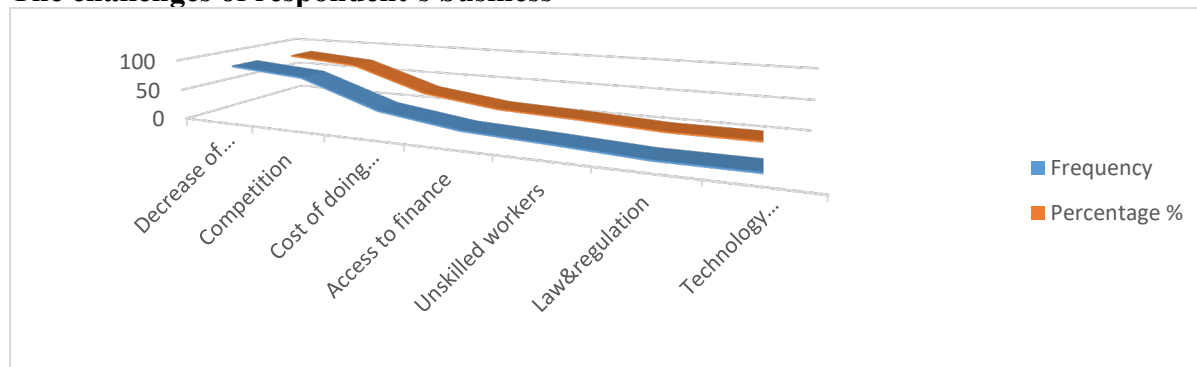
For financial system, 43 respondents in total respondents would rank in the normal level. And 9 respondents believed that financial system is available in Sihanoukville which allowed businesses to maximum their profits. In contrast, 26 of respondents would say it is difficult to access to financial system. And 17 of respondents (17.3%) categorized financial system in a very difficult level and one of the obstacles toward business environment in Sihanoukville.

As countries in the globe has transferred toward advanced technology, a developing country like Cambodia has still struggled to reach the level. Half of the total respondents (53 out of 95 respondents) would claim that Sihanoukville is still lack of advanced technology which remained as the obstacle for improve business operations. 8 respondents (8.2%) would rather choose to rank regular for technology. While 34 of respondents would agree that there is available technology for business activities.

Natural disaster such as flood, earthquake, storm and other which has never happened Sihanoukville before. From the history, the province never experiences with the natural disaster. As mentioned, more than half of the total respondents (73 respondents) agreed that natural disaster is in between easy and difficult. And the rest of respondents (22 respondents) would admit that natural disaster is not a problem for business environment in Sihanoukville during Covid-19.

For the last and crucial topic, the pandemic had slowdown the business activities in the globe. Cambodia also has suffered from the pandemic tremendously. No businesses could avoid from the loss due to the lock down policy by the government from preventing the spread of the Covid-19. Based on the survey, all respondents agreed that the pandemic really had bad effect for business environment in the province specifically.

### The challenges of respondent's business



**Figure 2** The challenges of Small and Medium Enterprises (SMEs)

The above figure shows participants rankings of the major challenges facing the development of small and medium enterprises (SMEs) in tourism sector. 87 of the total participants ranked the decrease in tourists in Sihanoukville as the major constraints to the growth of their business followed by the rise of competitors, which recorded 73 respondents. Cost of doing business ranked as the 3rd major constraint to the growth of SMEs. Access to finance had been chosen by 16 respondents and followed by unskilled worker problem with 10 participants. Law regulation and technology infrastructure were with just 3 participants thinking that they are also the challenges for their growth.

#### Interview Outcomes

Sihanoukville has experienced the tremendously change in term of infrastructure developments have rose across the province. The increase in number of businesses including restaurants, supermarkets, hotels & guesthouses, entertainment places, and others. A lack of eco-tourism, limited human resources, and no common standardization for tourism service promotion are the biggest challenges for tourism development in this potential province. During the Covid-19, there are many challenges of development of Small and Medium Enterprise (SMEs) in the tourism sector in Sihanoukville. Firstly, the Covid-19 has effects to both large, medium, and small enterprises. The lock-down mechanism by the government and decrease in local and international tourists have brought most of small and medium enterprises suspend their operation across the province. Second, once the Covid-19 is under control and getting better, most of medium and small businesses lack of fund of starting their operation. Since the cost of doing business remain high in the post Covid-19, it has become the struggles for those business. Lastly, during the suspend their businesses, most of employees started looking a new job to support their living. This situation created a shortage of labor for running their operation after the pandemic. Local people, relevant institutions (IGOs, NGOs), government play crucial roles in development small and medium enterprises. Additionally, the government of Cambodia has implemented policies and frameworks to promote Small and Medium Enterprises (SMEs). The creation of Cambodia Data Exchange or CamDX is a new business registration platform that combine at least four main relevant information system into a single portal to allow business owners to register and get the licenses to operate their business efficiently and effectively. The platform is backed by a Sub-decree and several Prakases to lower the registering time and cost. The government also cooperate with foreign investor to develop infrastructures to reduce time and cost on traveling such as Sihanoukville Express way. Not to mention, the government has tried to promote tourism service in this province tremendously. By cooperating with Multinationals corporation (MNC) to create the public events and privacy events to attract both international and local tourists. Furthermore, the government aims to improve security and stability to create a peaceful province, so that more people will come to visit Sihanoukville.

## DISCUSSION

In this section, the author analyzed the case in the same way presented the following. First, the author investigated selected challenges by using the data from the. The rank that obtaining from the result of survey has been used to test the theoretical framework stated in literature review. Furthermore, the author also used the data collected from the interview of Officers from the Ministry of Economy and Finance and Ministry of Tourism in Cambodia to verify the findings whether they confirm the theories or not.

### Access to Finance

Looking at the survey result, it can be confirmed that access to finance had been chosen as one of the challenges in SMEs development. As Table 1 indicates, 37 people or 34.7 percentages of the respondents thought it is very difficult to access to finance and 31 people agreed that access to finance is difficult for businesses. This result is in line with most of the related research have focused on. For instance, Kosalsereyvuth & Julien (2021), studied on roles of Small and Medium Enterprises (SMEs) in Cambodian Economic Development and Challenges during Covid-19. They found out that SMEs' business still facing hurdles include the difficulty in accessing financial support, and the struggle to compete with international and regional market expansion. In addition, studied the Cambodia Small and Medium Sized Enterprises: Constraints, Policies, and Proposal for their development by Peter Baily (2008). The study also confirmed consistent result that the country's SMEs have the barriers include the weak regulatory and legal framework, limited SME access to finance, and a lack of SME support activities from the government. Specifically, Luyna & Sovuthea (2011) conducted a study on SMEs access to finance in Cambodia to find out the constraints for addressing. Furthermore, this finding inferred that credit is rationed by the market, and the intervention should be needed to widen the access to finance in the country.

### Competition

The rise of competition in informal sector and unfair competition have raised the concerns on businesses' operation. According to the survey, most of business owner or manager shared the same perspectives toward the concern over business's competition. 72 of 95 respondents ranked very difficult and difficult in the rise of competition. Based on voting, 73 respondents viewed the rise of competition is one of the major constraints to the growth of their business. This is related to constraints on SMEs in Cambodia and their Participation in Production Networks was examined by Vannarith, Oum, and Thearith (2009). The study showed the opportunities and challenges for Cambodia's SMEs in regional integration in Southeast and East Asia. Also, the challenges to participate in production networks such as lower productivities, business capacity and innovations. SMEs in Cambodia need support in the field of business linkages and networking and financing to allow themselves to be ready in integration in the regional level. Looking at the empirical date from the interview, both interviewers agreed that the competition is one of the obstacles especially for new SMEs to operating, as the demand of services is not subtracted with the supply. Simply mean, the small and medium businesses have to compete with large businesses in order to survive. The officers also suggested for infant businesses to adopt digitalization working and doing businesses need to change their preferences and how they view digital platform as a tool to complete the tasks. Not to mention, all kind of businesses must improve their advertising on social media platforms if they want to survive and to take over the competitions. Services and promotion will go the same directions and improve accordingly. The rise of competition not only bring the negative effect, but this is an opportunity for all businesses to generate and renovate their services and product to be outstanding to meet the consumer demands.

### Operational and compliance costs

This is consisted of cost of doing businesses and compliance cost for operating businesses. Cost of doing business ranked as the 3rd major constraint to the growth of SMEs according to

the result of the survey. It is similar to what Nittana, Makararavy, John, and Pacapol (2008), stressed on the support activities, the number of SMEs' business were increased in various sector such as food processing, garments, construction materials, wooden furniture, tourism, trading, transportation, and so on within the country. This study use evidence from in-depth interview to explore its objectives. It found that there were many failures for SMEs to survive and expand the market with the high regulatory compliance costs, lack of clear and market-oriented framework for SME development, limited access to finance, and lastly poor market access infrastructure and information. Also, this is in line with a study on Moderating Effect of Government Policy on Entrepreneurship and Growth Performance of Small-Medium Enterprises in Cambodia by Mohd Noor Mohd Shariff, Chea Peou, and Juhary Ali (2010). It examined the 'moderating effect of government policy on the relationship between entrepreneurial values, firm financing, management, market practices and growth performance of SMEs in Cambodia. The results of the study showed a positive relationship between entrepreneurial values, firm financing, management, market practice, and SMEs growth performance. The study also confirmed the important role of government policy to moderate in such relationships. According to the interview with officers, the government of Cambodia has implemented policies and frameworks to promote Small and Medium Enterprises (SMEs). The government has cooperated with foreign investor to develop infrastructures to reduce time and cost on traveling such as Sihanoukville Express way. In such a critical event, the government reduce time on inspections since it will be costly and make use of time. The government also temporarily free for business registration and extra fee for all kind of businesses. In order to help reduce the burden salary on businesses' owners, the government provide 40\$/person for all employees, who temporarily suspend from works. For business owners, they temporary don't have to pay for monthly fee with the General Tax department and more.

## **CONCLUSION & RECOMMENDATIONS**

After addressing the study objective studied the challenges of Small and Medium Enterprises (SMEs) in tourism sector in Sihanoukville, the finding selected and summarized the informal competition, cost of doing businesses, access to finance, and compliance cost to comply with law regulations have negative effects on SMEs development. Even though there are many challenges facing entrepreneurs, they are still those who have new and innovative ideas who are looking to set-up their own companies with the aim of improving society and the livelihood of others. With the help from the government in providing access to finance by having banks that specifically cater to SMEs, allowing new and existing entrepreneurs to make it attractive where the outcome of their success outweighs the obstacles. As the world progress further to become more globalized and digitally connected, SMEs are crucial in coming up with new ideas and solutions to tackle current issues and be better prepared for the future. Moreover, SMEs tend to be able to tackle issues much more effectively and efficiently by contributing to society both financially and socially together with competitive pricing and approach.

The first recommendation is reducing tax since those enterprises were having cash-flow issues. Entrepreneurs need additional financial support, as SMEs need market protection measures. Second, it is necessary to facilitate peer exchange and mentorship as they will help in generating opportunities between peers and mentors who are interested. This is to promote behavioral change where successful entrepreneurs can organically produce newsworthy content and in turn extend media coverage to highlight the diversities of the community. Furthermore, communication is needed to be better understand the evolving diverse needs of entrepreneurs to reduce the key gaps in the ecosystem coming from real challenges that restrict growth. Develop support services to help increase mentorship for early businesses

‘operational to help increase sector-specific incubation and acceleration programs. The facilitators that are able to help throughout the provinces and that not only the soft skills are needed but also the physical infrastructure upgrading that is able to support women and people with disabilities. Additionally, SMEs should improve their competitive advantages in the market by developing technology and overall restructure. In addition, they have to prepare and select the management factors that support their firm performance to catch up with the trend of the global and domestic markets (Taun, 2020). Moreover, SMEs need to prepare their business planning, market analysis, competitor analysis, developing and implementing a good corporate vision and mission statements for their enterprises. Importantly, the government have to be flexible and improve financial supports to SMEs such as providing flexible lending conditions, especially the ones that do not have any collaterals. Capacity-building programmes by the government or development partners to boost SMEs’ competitiveness through skill development, product development, and market access. Tax incentives can also be part of better strategy. And should be more collaborative among regional countries in order to allocate sectors and activities to be in line with development objectives. Lastly, the SME One-Stop Service Centre to gather SME data by the government will provide free consultancy service regarding product development and financial management, and facilitate registration of SMEs. This would help SMEs in the rural areas to register through online system as well as save them sometimes from going to all related ministries with different fees.

However, this study has some limitations that must be considered that could add value to the findings in this paper. Begin with the research approach with extend to target population with the update information. Number of participants in survey questions and in-dept interview should be increase to other fields and sectors, with other data collection techniques, as it may be contribute more accurate and deeper insight. Another consideration of future research may extend the study towards other industries and employ comparison analysis across them. Lastly, a more specific study, focusing only on one or two specific driving challenge, could be conducted to see the result. This kind of study could provide very helpful insights and information to those SMEs operating in the specific industry studied, if they would find those studied factors meaningful for them. Worth of considering would also be to conduct the study in this case with a closer cooperation with some of the companies working on a specific industry, to ensure the study perfectly suits the companies’ need.

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