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Small and Medium-Sized Enterprise Dynamics in Laos

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Abstract

The study provides valuable insights into the current state of small and medium-sized enterprises in Laos, with a specific focus on their performance and challenges, particularly in the bustling economic hub of Vientiane Capital. Leveraging data from the nationwide small and medium-sized enterprises survey conducted by GIZ in 2007 and 2021, the research sheds light on key trends and dynamics shaping the small and medium-sized enterprises landscape in the country. One of the notable findings of the study is the significant growth in the number of small and medium-sized enterprises operating in the commercial sector in recent years. This trend underscores the burgeoning entrepreneurial spirit and business activity within Laos. However, despite this growth, a substantial proportion of small and medium-sized enterprises continue to grapple with challenges related to access to finance and adapting to intensifying competition in the marketplace. Moreover, the study highlights the limited readiness of many Lao small and medium-sized enterprises in the commerce sector to effectively navigate regional and international integration processes. This underscores the imperative for targeted interventions and capacity-building efforts to enhance the competitiveness and resilience of small and medium-sized enterprises in an increasingly interconnected global economy. An analysis of the factors influencing small and medium-sized enterprises performance reveals several noteworthy insights. Specifically, firm size (as measured by assets), workforce size, entrepreneur experience (age), and strategic location within commercial districts emerge as significant determinants of small and medium-sized enterprises turnover. These findings underscore the importance of resource endowment, operational scale, and entrepreneurial acumen in driving small and medium-sized enterprises success in the local context. Conversely, factors such as the number of years in operation, joint-venture status, gender, ethnicity, and educational attainment of entrepreneurs were found to have non-significant effects on small and medium-sized enterprises turnover. While these variables may still play important roles in shaping small and medium-sized enterprises dynamics, their impact on firm performance may be less pronounced within the specific parameters of the study. In light of these findings, the study underscores the critical role of government policies and interventions in supporting the growth and sustainability of small and medium-sized enterprises in the commercial sector. Tailored policy measures aimed at addressing the identified challenges, such as enhancing access to finance, providing targeted business support services, and facilitating market access, are essential for fostering a conducive environment for small and medium-sized enterprises development and economic growth in Laos. By leveraging these insights, policymakers can design and implement effective strategies to unlock the full potential of small and medium-sized enterprises as engines of inclusive and sustainable economic development.

Keywords: Small and Medium-Sized Enterprises, Laos, Entrepreneurship, Business Performance, Economic Challenges

JEL Codes: L25, O16, O53

1. INTRODUCTION

The Mekong Sub-Region, comprising countries such as Laos, Cambodia, Thailand, Vietnam, and Myanmar, is characterized by its rich cultural heritage, diverse ecosystems, and strategic geographical location. As a landlocked country, Laos shares borders with several neighboring nations, including China to the north, Vietnam to the east, Cambodia to the south, Thailand to the west, and Myanmar to the northwest. This geographic position has historically influenced Laos' cultural exchange, trade routes, and diplomatic relations with its neighbors. The New Economic Mechanism (NEM) introduced by the Government of Laos in the 1980s marked a significant shift towards a market-oriented approach aimed at boosting the country's socio-economic development and transitioning away from its least developed country status. This strategic initiative aimed to revitalize the national economy by promoting market-driven policies, encouraging private sector participation, and attracting foreign investment. Through the NEM, Laos sought to diversify its economy, improve productivity, and foster sustainable growth across various sectors. Souvannavong's and Huet findings (2006) shed light on the nuanced structure of the Laotian economy, revealing the significant contribution of the private sector to employment and economic activity. With the private sector playing a pivotal role in driving growth and innovation, policymakers in Laos have likely recognized the importance of creating an enabling environment for private enterprise to thrive. Moreover, the prevalence of small and micro-enterprises underscores the importance of fostering entrepreneurship and supporting the development of small businesses, which are often vital contributors to job creation and local economic development. Overall, Souvannavong's and Huet (2006), Barringer and Ireland (2008) and Blanchflower, et al (1998) research provides valuable insights into the composition and dynamics of the Laotian economy, offering a foundation for understanding its growth trajectory and potential areas for policy intervention.

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The growth of SMEs in Laos has not only led to the creation of new jobs but has also fostered entrepreneurship and innovation within the country (Southiseng, et al 2008; Maurya, 2014; Karhan, 2017; Nasir, 2022). With their agility and flexibility, SMEs are able to adapt to changing market conditions and introduce new products and services, thereby contributing to economic dynamism and competitiveness. Additionally, SMEs often serve as incubators for local talent and expertise, Thorsteinsdóttir, et al (2021) nurturing skilled workers and entrepreneurs who can further drive economic development in Laos. Furthermore, the expansion of SMEs contributes to poverty reduction by providing income-generating opportunities for individuals and communities, particularly in rural areas where employment opportunities may be limited. By empowering local communities and fostering economic self-reliance, SMEs play a vital role in promoting sustainable development and reducing income disparities. However, challenges such as access to finance, limited infrastructure, and regulatory barriers still hinder the growth potential of SMEs in Laos. Addressing these challenges through targeted policies and initiatives can unlock the full potential of SMEs as engines of economic growth and development, driving prosperity and resilience across the country. The findings from the Lao Expenditures and Consumption Survey 4 (LECS 4, 2007/2008) underscore the significant prevalence of family-run businesses, particularly at the micro and small scale, within Laos. This data highlights the integral role that SMEs play in the country's economy, with a considerable portion of households engaged in entrepreneurial activities to sustain their livelihoods. The higher concentration of family businesses in urban areas compared to rural regions reflects the diverse economic landscape of Laos and the varying opportunities available to households across different settings.

Understanding the challenges faced by SMEs is paramount for policymakers as they strive to support and foster the growth of these enterprises. By identifying and addressing key obstacles, policymakers can create an enabling environment that empowers SMEs to thrive and contribute more effectively to economic development. This may involve initiatives to improve access to finance, enhance infrastructure, streamline regulatory processes, and provide targeted support and training programs to enhance the capacity and competitiveness of SMEs. Additionally, policymakers can leverage research findings to design evidence-based policies and programs tailored to the specific needs and circumstances of SMEs in Laos. By fostering an ecosystem conducive to entrepreneurship and innovation, policymakers can unlock the full potential of SMEs as engines of economic growth, job creation, and poverty reduction, thereby driving sustainable development and prosperity across the country. The challenges facing SME development in Laos are multifaceted and require a comprehensive approach to address effectively. One of the primary obstacles is the limited access to capital, Dias, et al (2006), Hossain, (1998), Hurst, et al (2004) and Kilby (1971) which constrains SMEs' ability to invest in growth initiatives, innovation, and technology adoption. This lack of financial resources hampers their competitiveness and limits their capacity to expand operations and reach new markets. Furthermore, SMEs face hurdles related to market demand, as they operate in highly competitive environments with numerous substitute products and services. To succeed in such contexts, entrepreneurs must possess not only technical expertise but also strong business acumen, marketing acuity, and effective management skills. Additionally, understanding consumer preferences and market dynamics is crucial for SMEs to identify and capitalize on emerging opportunities.

Moreover, access to modern technology remains a critical challenge for many SMEs in Laos. The adoption of digital tools and IT infrastructure can enhance productivity, Sturgeon, (2021), Zimmerer, et al (2005), Kotey and Folker (2007), Marc et al., (2021), Adjasi and Yu (2021), and Banyen (2022) streamline operations, and facilitate market access. However, limited access to technology and digital literacy among SME owners pose barriers to technological adoption and innovation. Inconsistent application of macroeconomic policies for SME development further exacerbates the challenges faced by entrepreneurs. Clear and consistent policy frameworks that support SME growth and create an enabling business environment are essential for fostering entrepreneurship and investment. To overcome these constraints, policymakers and stakeholders must prioritize initiatives aimed at capacity building, access to finance, technology transfer, and market development for SMEs. By investing in entrepreneurship education, training programs, and mentorship initiatives, policymakers can equip SME owners with the skills and knowledge needed to navigate challenges and seize opportunities in the market. Additionally, targeted financial support mechanisms, such as microfinance schemes and venture capital funding, can enhance SMEs' access to capital and promote sustainable growth. Ultimately, addressing the constraints facing SME development requires a collaborative effort involving government agencies, private sector entities, financial institutions, and development partners. By working together to implement holistic strategies and supportive policies, stakeholders can create an ecosystem that empowers SMEs to thrive, innovate, and contribute to inclusive economic growth in Laos.

Building upon the foundation laid by Onphanhdala and Suruga (2010), this study aims to delve deeper into the dynamics of SME development in Vientiane Capital, the economic hub of Laos. By focusing specifically on SME entrepreneurs in this region, the research seeks to uncover insights into the initiation, challenges, coping mechanisms, and sustainability strategies employed by small and medium-sized enterprises operating in the capital city. Through qualitative and quantitative research methods, including interviews, surveys, and data analysis, this study endeavors to elucidate the unique context and experiences of SMEs in Vientiane Capital. By exploring the intricacies of business initiation, entrepreneurs' perspectives on the challenges they face, and their innovative strategies for overcoming obstacles, the research aims to provide valuable insights for policymakers, business support organizations, and other stakeholders involved in SME promotion and development efforts. By identifying the key challenges and support needs of SME entrepreneurs in Vientiane Capital, the study aspires to inform the design and implementation of targeted interventions and policies aimed at fostering a conducive environment for SME growth and sustainability in the Lao PDR. Additionally, by building upon existing research and expanding the knowledge base on SME development, this study contributes to the ongoing discourse on entrepreneurship, economic development, and inclusive growth in Laos and beyond.

2. LITERATURE REVIEW

The literature on entrepreneurship consistently emphasizes the role of human capital in driving entrepreneurial performance. Scholars such as Bosma et al. (2002), Cooper, et al (1994), Kurosaki, et al (2004), Gimeno et al. (1997), Honig (1998), Pennings, et al (1998), and van Praag, et al (2001) have highlighted the significance of human capital in fostering entrepreneurial success, particularly in the context of knowledge-based economic activities prevalent in modern societies. Human capital, as conceptualized in this study, encompasses two distinct dimensions: general human capital, represented by education, and specific human capital, characterized by domain-specific skills or experience. Education equips individuals with knowledge and skills that are transferable across a wide spectrum of activities, providing a foundation for entrepreneurial endeavors in diverse contexts. On the other hand, experience pertains to the mastery of skills relevant to particular settings, such as those pertinent to a specific firm or industry, enabling entrepreneurs to leverage specialized expertise to navigate challenges and capitalize on opportunities within a defined domain. By delineating between general and specific human capital, this study seeks to explore how different facets of human capital influence entrepreneurial performance. Through empirical analysis and theoretical frameworks, the research aims to elucidate the differential impacts of education and experience on entrepreneurial outcomes, shedding light on the nuanced interplay between human capital and entrepreneurial success in contemporary economic landscapes.

The study conducted by Kyophilavong et al. (2007) Leff, (1979) on SMEs in Laos represents a significant effort to understand the factors influencing SME performance in both urban and rural areas of the country. With a substantial sample size of over 16,000 SMEs, the research aimed to identify the determinants of SME performance, particularly in Vientiane and other provinces. Employing the Logit model and multiple regression analysis, the study revealed several key findings regarding the impact of various factors on SME performance. One notable finding of the study was the detrimental effect of unstable exchange rates and domestic ownership on SME performance. Conversely, factors such as access to capital and labor, as well as the nature of company ownership (state-owned or private), were found to have a positive influence on SME performance. These findings underscore the complex interplay between macroeconomic conditions, market dynamics, and internal organizational factors in shaping SME outcomes in Laos. However, it is important to note that the study had limitations in terms of its ability to provide detailed insights into specific subsectors within the SME landscape, such as handicrafts and wood processing. Despite this limitation, the findings offer valuable insights into the overarching challenges and opportunities facing SMEs in Laos, highlighting the need for targeted interventions to address constraints such as limited access to finance and production inefficiencies.

Building on the findings of Kyophilavong et al. (2007), subsequent surveys conducted by the Ministry of Industry and Handicraft and the United Nations Development Organization (UNIDO) further underscored the persistent challenges confronting SMEs in Laos. These surveys, albeit with smaller sample sizes, reinforced the importance of enhancing management skills, technological capabilities, and overall competitiveness among SMEs to enable them to thrive in a dynamic economic environment. By addressing these constraints and fostering an enabling ecosystem for SME development, policymakers and stakeholders can support the growth and sustainability of SMEs, thereby contributing to broader socio-economic advancement in Laos. The absence of comprehensive studies on the innovativeness, market expansion, networking, and competitiveness of SMEs in Laos underscores a critical gap in the existing literature. While prior research, including the Investment Climate Survey (ICS) conducted by the Asian Development Bank and the World Bank in 2005, has shed light on various aspects of the investment climate in Laos, a detailed understanding of SME dynamics and their role in driving innovation, market expansion, and competitiveness remains elusive. Recognizing this gap, the present paper seeks to address the dearth of empirical evidence by examining key dimensions of SME performance and behavior that are crucial for enhancing their resilience and growth prospects in the Lao economy. By delving into factors such as innovativeness, market expansion strategies, networking practices, and competitiveness, this study aims to provide valuable insights into the unique challenges and opportunities facing SMEs in Laos. Through a comprehensive analysis drawing on both quantitative and qualitative data, this research endeavors to uncover the underlying drivers and barriers shaping SMEs' ability to innovate, penetrate new markets, forge strategic partnerships, and compete effectively in domestic and international arenas. By elucidating the determinants of SME success and resilience, the study aims to inform policymakers, practitioners, and stakeholders about targeted interventions and policy reforms needed to foster a conducive environment for SME development in Laos. In doing so, this paper aspires to contribute to the existing body of knowledge on SMEs in Laos and provide actionable recommendations to support their sustainable growth and contribution to the country's economic development agenda. Through rigorous empirical analysis and strategic insights, this research seeks to catalyze efforts aimed at unleashing the full potential of SMEs as engines of inclusive growth, job creation, and poverty reduction in Laos.

Perrini et al. (2007) delineate several distinctive characteristics that set SMEs apart from large corporations, underscoring the unique nature of small and medium-sized enterprises in the business landscape. Firstly, SMEs are often characterized by their independence, operating autonomously and free from the hierarchical structures prevalent in larger organizations. This autonomy allows SMEs greater agility and flexibility in responding to market changes and customer demands. Secondly, SMEs typically engage in multi-tasking, with employees often wearing multiple hats and fulfilling diverse roles within the organization. This versatility enables SMEs to operate efficiently with leaner teams and resources, maximizing productivity while minimizing costs. Another defining feature of SMEs is their cash-limited nature, often facing constraints in terms of financial resources and access to capital. Unlike larger corporations with extensive financial backing, SMEs must navigate resource constraints creatively, leveraging available funds judiciously to fuel growth and expansion. Moreover, SMEs are characterized by their reliance on personal relationships and informality in business dealings. Strong interpersonal connections and trust-based networks play a pivotal role in SME operations, facilitating

collaboration, partnerships, and customer relations. Additionally, SMEs are typically owner-managed, with entrepreneurs actively involved in day-to-day decision-making and strategic planning. This hands-on approach to management fosters a culture of innovation, adaptability, and responsiveness to market dynamics. Furthermore, SMEs tend to exhibit a highly personalized approach to business, tailoring products and services to meet the specific needs and preferences of their target market. This customer-centric focus enables SMEs to differentiate themselves from larger competitors and carve out a niche in the market. Geographically, SMEs are often localized in their area of operation, serving predominantly local or regional markets. While this localized focus provides a sense of community and familiarity, it can also pose challenges in terms of scalability and reaching broader markets. SMEs rely predominantly on internal sources to finance their growth and expansion initiatives, such as reinvested profits, personal savings, or loans from family and friends. This self-reliant approach to financing underscores the resilience and resourcefulness of SME entrepreneurs in overcoming financial constraints.

Barrow and Brown (1997) succinctly capture the essence of entrepreneurship by highlighting several common characteristics shared by entrepreneurs. Firstly, entrepreneurs are characterized as individuals who are constantly brimming with new ideas, demonstrating a relentless drive for innovation and creativity. This propensity for generating novel concepts fuels the entrepreneurial process, driving the creation of new ventures and solutions to existing problems. Moreover, entrepreneurs are described as highly enthusiastic individuals, exhibiting a fervent passion and dedication towards their pursuits. This infectious enthusiasm serves as a driving force behind their entrepreneurial endeavors, motivating them to overcome obstacles, persevere through challenges, and pursue their goals with unwavering zeal. Furthermore, entrepreneurs are portrayed as hyperactive individuals, displaying a boundless energy and a proactive approach to problem-solving and decision-making. This innate drive and initiative propel entrepreneurs to take action, seize opportunities, and drive their ventures forward with vigor and determination. Additionally, entrepreneurs are characterized as being insatiably curious, possessing a relentless thirst for knowledge and a keen interest in exploring new frontiers. This insatiable curiosity drives entrepreneurs to continuously seek out learning opportunities, experiment with new ideas, and push the boundaries of innovation in their respective fields.

The issue of insufficient financial capital for the informal sector has been extensively studied and documented by various researchers. Studies such as those by Hashemi, et al (1996), Holt and Ribe (1991), Stiglitz and Weiss (1981), and Von Pischke, et al (1983) have shed light on this constraint faced by informal sector enterprises. Hashemi, et al (1996) explored the challenges encountered by informal sector entrepreneurs in accessing financial resources, highlighting the barriers they face in securing capital for business operations and expansion. Similarly, Holt and Ribe (1991) examined the impact of financial constraints on the growth and development of informal sector enterprises, emphasizing the detrimental effects of limited access to capital on their sustainability and productivity. Furthermore, seminal works such as those by Stiglitz and Weiss (1981), Von Pischke, et al (1983), Scozzi, et al (2005) and Sharma and Chrisman (1999) delved into the underlying economic mechanisms that contribute to the scarcity of financial capital in the informal sector. These studies analyzed factors such as asymmetric information, credit market imperfections, and institutional constraints that hinder informal sector enterprises from obtaining adequate financing. The International Labour Organization (ILO) study conducted in 2002 highlighted the significant role of Small and Medium-sized Enterprises (SMEs) in facilitating employment opportunities during Laos' economic transition. According to the findings, SMEs emerged as key contributors to employment, particularly in rural areas, where they accounted for the most active nonagricultural labor force. The workforce engaged in SMEs primarily comprised enterprise owners and unpaid family members, reflecting the prevalent nature of family-based businesses within the SME sector. While some entrepreneurs operated purely micro family businesses, others were part of farmer households, although they typically did not contribute to the labor force in agricultural activities. This underscores the importance of SMEs not only in driving economic activity but also in generating livelihoods and supporting local communities, particularly in rural settings where agriculture traditionally dominates. By providing employment opportunities beyond farming, SMEs contribute to diversifying the rural economy and enhancing the overall resilience of local livelihoods.

In exploring the dynamics of entrepreneurial decision-making in Laos, Tachibana's (2010), Tanabe and Wastanbe (2005) study underscores the intricate interplay between individual experiences, institutional contexts, and market dynamics. By examining the factors that drive entrepreneurial choices, the research sheds light on the multifaceted nature of entrepreneurship in the country. Moreover, the findings suggest that the entrepreneurial landscape in Laos is shaped not only by economic considerations but also by socio-political factors and institutional networks. Entrepreneurs navigate a complex terrain of opportunities and constraints, drawing on their interactions with foreign institutions and government connections to inform their business strategies. By elucidating the nuances of entrepreneurial decision-making, Tachibana's, (2010) study provides valuable insights for policymakers, practitioners, and scholars seeking to understand and support entrepreneurial activities in Laos. It underscores the importance of fostering an enabling environment that encourages innovation, facilitates access to resources, and fosters collaboration between diverse stakeholders in the entrepreneurial ecosystem.

The study by Southiseng and Walsh (2010) offers a comprehensive examination of the challenges faced by SME entrepreneurs in Laos, particularly in the provinces of Vientiane, Savannakhet, and Luang Prabang. Through an analysis of competition and management issues, the research provides valuable insights into the dynamics of the SME sector in these regions. One of the key findings of the study is the intensifying competition within the SME sector, driven by the introduction of substitute products and the proliferation of new market entrants. This heightened competition, coupled with significant bargaining power held by buyers, poses formidable challenges for SME entrepreneurs, who must contend with pressures to maintain competitiveness in terms of price and quality. Furthermore, the study highlights the systemic

barriers that SME entrepreneurs encounter in accessing modern technology and finance, as well as the limited availability of resources, both in terms of capital and skill. Additionally, entrepreneurs face obstacles related to unfair treatment by officials, further exacerbating the challenges they face in running their businesses. In terms of management practices, the study reveals a predominant focus on short-term objectives among SME entrepreneurs, with limited consideration given to longer-term sustainability and strategic planning. Moreover, there is a narrow conception of skills management and capacity building, with training and development initiatives often viewed as costs rather than investments in the future success of the business. The findings underscore the need for comprehensive support mechanisms to address the multifaceted challenges faced by SME entrepreneurs in Laos. This includes interventions aimed at enhancing access to finance and technology, fostering a conducive regulatory environment, promoting skills development and capacity building, and fostering a culture of entrepreneurship that values long-term sustainability and strategic thinking. The research by Onphanhdala and Suruga (2010) and Tanabe (2009) delves into the intricacies of SME performance across various industry sectors and geographical regions in Lao PDR. By examining a wide array of determinants, the study sheds light on key strategies for SME development, with a particular emphasis on the role of investment in basic education. One notable finding of the study is the relatively modest impact of business experience on SME performance, a result that may challenge conventional wisdom regarding the importance of prior entrepreneurial experience. This insight underscores the complexity of factors influencing SME success and suggests that other variables, such as access to education and skills development, may play a more significant role in driving performance. The study also highlights the evolving dynamics of urban-rural and ethnic minority disparities, particularly among younger generations. While these gaps have narrowed to some extent, they remain pronounced, indicating ongoing challenges related to economic inclusion and opportunity distribution across different demographic groups. Interestingly, the study challenges traditional gender-based stereotypes in entrepreneurship, with findings rejecting the notion of significant differences between male and female entrepreneurs across various regions, demographic groups, and generations. This suggests a more nuanced understanding of gender dynamics in SME participation and performance, highlighting the need for gender-inclusive policies and initiatives to support entrepreneurship among all segments of the population. The research offers valuable insights into the multifaceted determinants of SME performance in Lao PDR and underscores the importance of holistic development strategies that address education, demographic disparities, and gender dynamics to foster a thriving SME sector.

3. MODEL SPECIFICATION

The structure of this study encompasses two distinct yet complementary parts, each contributing to a comprehensive understanding of the SME landscape in Laos. The first part offers a broad overview of SMEs, examining promotional policies, trends, and the overall development trajectory of SMEs within the country. This foundational analysis provides essential context for understanding the SME sector's dynamics and its role within the broader economic landscape of Laos. In contrast, the second part of the study delves into a more focused and rigorous analysis of SME performance, leveraging econometric techniques to glean insights from empirical data. Drawing upon secondary data sources, particularly from GIZ surveys conducted in 2007 and 2009, this part of the study aims to uncover underlying patterns and relationships within the SME sector. By applying econometric models derived from previous research, the study seeks to elucidate the factors influencing SME performance and assess their implications for policy and practice. The empirical model specification employed in this analysis builds upon the foundations laid by prior studies, reflecting a synthesis of established methodologies and insights from the field of SME research. By grounding the analysis in a robust theoretical framework and leveraging rigorous econometric techniques, the study endeavors to generate actionable insights into the determinants of SME performance and the effectiveness of promotional policies in fostering SME growth and development. The basic empirical model specification is derived from many previous studies as below:

$$TO = f(As, L, OP, \text{male}, \text{age}, \text{Laoeth}, \text{schooling}, \text{joinven}, CD)$$

4. RESULTS

The table 1 outlines definitions and units of measurement for variables utilized in the analysis. The dependent variable, "Turnover," indicates the rank value of a firm's turnover. Among the independent variables, "Company asset" (As) signifies the asset size categorized into different levels based on monetary value. "Number of laborer" (L) denotes the total workforce employed by the firm, while "Operation year" (OP) represents the duration of the firm's existence. "Male entrepreneur" (Male) is a binary indicator reflecting the gender of the entrepreneur, with a value of 1 indicating male and 0 otherwise. "Age of entrepreneur" (Age) represents the age of the entrepreneur. The variable "Lao ethnic" (Laoeth) is binary, indicating whether the entrepreneur belongs to the Lao ethnic group. "Schooling level of entrepreneur" (schooling) categorizes the entrepreneur's educational attainment. "Joint-venture firm" (Joinven) is a binary variable indicating whether the firm is a joint-venture entity. Lastly, "Commercial district" (CD) is a binary indicator denoting whether the firm is situated in a commercial district.

The table 2 provides the results of an ordered probit regression analysis, where the dependent variable is "To," representing turnover. Several independent variables are included in the model for examination. The coefficient for "As" (Company asset) is estimated at 0.651, indicating a statistically significant positive relationship with turnover. This coefficient carries a high level of significance at the 1% level, denoted by three asterisks (***). Similarly, the variable "L" (Number of laborer) shows a coefficient of 0.012, also significant at the 5% level (**), suggesting a positive association with turnover. However, the coefficient for "OP" (Operation year) is not statistically significant, indicating no clear relationship with turnover. Variables such as "Male" (Male entrepreneur), "Age," "Laoeth" (Lao ethnic),

"Schooling," "Joinven" (Joint-venture firm), and "CD" (Commercial district) do not display statistically significant coefficients. This implies that these factors may not have a significant impact on turnover in the context of the study. Moreover, the coefficient for the dummy variable "year2009" is noteworthy, with a value of 1.843 and significant at the 1% level (***), suggesting its importance in influencing turnover during the year 2009. The model's goodness-of-fit statistics indicate a log-likelihood value of -93.31 and a pseudo R-squared of 0.35. These values suggest that the model explains a moderate proportion of the variation in turnover. Additionally, the probability associated with the chi-squared test is statistically significant at the 1% level, indicating that the model is overall a good fit for the data.

Table 1: Variables definition

Variables	Definition	Unit of measurement
Dependent variable		
<i>To</i>	Turnover	Rank value of firm's turnover
Independent variables		
<i>As</i>	Company asset	Equal to 1 if less than 200 million kip, 2 if 150 – 250 million kip, 3 if 250 – 750 million kip, 4 if 750 – 1,200 million kip, and 5 if above 1,200 million kip
<i>L</i>	Number of laborer	Persons
<i>OP</i>	Operation year	Years
<i>Male</i>	Male entrepreneur	Equal to 1 if male and 0 if otherwise
<i>Age</i>	Age of entrepreneur	Years
<i>Laoeth</i>	Lao ethnic	Equal to 1 if Lao ethnic and 0 if otherwise
<i>Schooling</i>	Schooling level of entrepreneur	Equal to 1 if no school, 2 if some primary, 3 if completed primary, 4 if some secondary, 5 if completed secondary, 6 if some high school, 7 if completed high school, 8 and 9 for vocational and technical, 10 if higher education, and 11 if post graduated.
<i>Joinven</i>	Joint-venture firm	Equal to 1 if joint-venture firm and 0 if otherwise
<i>CD</i>	Commercial district	Equal to 1 if firm locate in commercial district and 0 if otherwise

Table 2: Results of ordered probit

Dependent variable:	<i>To</i>
Independent variables	
<i>As</i>	0.651*** (0.117)
<i>L</i>	0.012** (0.005)
<i>OP</i>	-0.031 (0.029)
<i>Male</i>	0.086 (0.282)
<i>Age</i>	0.055*** (0.016)
<i>Laoeth</i>	-0.118 (0.456)
<i>Schooling</i>	-0.096 (0.062)
<i>Joinven</i>	0.400 (0.714)
<i>CD</i>	1.278*** (0.417)
<i>year2019</i>	1.843*** (0.338)
Observations	90
Log – likelihood	– 93.31
Prob > Chi 2	0.000
Pseudo R ²	0.35

5. DISCUSSION AND CONCLUSIONS

The main objective of this study is to evaluate the performance of Small and Medium-sized Enterprises (SMEs) operating in the commerce sector within Vientiane Capital. Through rigorous analysis and investigation, the study aims to provide valuable insights into the functioning and effectiveness of these SMEs in contributing to the local economy. After

conducting comprehensive research and analysis, the study has yielded several noteworthy findings and results. These findings shed light on various aspects of SME performance, including their financial stability, market competitiveness, growth potential, and overall impact on the commerce sector in Vientiane Capital. The study's results offer valuable insights into the strengths and weaknesses of SMEs in the commerce sector, highlighting areas where improvements can be made to enhance their performance and contribution to the local economy. Additionally, the findings may serve as a basis for policymakers, business owners, and stakeholders to develop strategies and initiatives aimed at supporting the growth and sustainability of SMEs in Vientiane Capital. Our analytical model revealed that several factors significantly influence the performance of SMEs in Vientiane Capital.

Among these determinants, firm size, measured by assets and number of labor, emerged as crucial indicators. The findings suggest that larger firms, characterized by greater assets and a higher number of employees, tend to exhibit better performance in the commerce sector. These results align with existing literature, which often identifies firm size as a key determinant of performance in various industries and contexts. The positive association between firm size and performance underscores the advantages that come with economies of scale, enhanced operational capabilities, and increased market competitiveness. Additionally, our analysis highlighted firm age and location as important determinants of SME performance. Older firms may benefit from established networks, brand recognition, and accumulated experience, contributing to their competitive advantage. Moreover, the geographic location of SMEs can influence their access to resources, markets, and opportunities, thereby impacting their overall performance. The notion that larger firms typically outperform smaller ones is a commonly held belief in economic theory. Larger firms often benefit from economies of scale, which enable them to spread fixed costs over a larger output and achieve lower average costs. Additionally, they may have greater access to resources, expertise, and market opportunities, further enhancing their competitive advantage. Similarly, the positive relationship between firm age and performance aligns with the concept of the "learning curve" in business. Older firms have had more time to refine their operations, develop relationships with customers and suppliers, and navigate market dynamics. This accumulated experience can lead to greater efficiency, innovation, and resilience, contributing to higher performance levels compared to younger firms. However, it's essential to acknowledge that while these general trends may hold true in many cases, individual firm performance can be influenced by a multitude of factors beyond size and age alone.

External market conditions, industry dynamics, managerial competence, and strategic decisions all play critical roles in determining a firm's success. Therefore, while larger and older firms may have certain inherent advantages, the performance of any given firm is ultimately shaped by its unique circumstances, capabilities, and strategic responses to internal and external factors. As such, a nuanced understanding of the specific context and dynamics impacting SMEs in Vientiane Capital is crucial for accurate assessment and informed decision-making. The finding that SMEs located in commercial districts demonstrate better performance than those situated outside such areas provides valuable insight into the significance of geographical location for SME success. Commercial districts often benefit from higher levels of foot traffic, greater visibility, and proximity to suppliers, customers, and complementary businesses. These factors can contribute to increased sales opportunities, networking possibilities, and overall business vitality for SMEs operating within these zones. By contrast, SMEs located outside commercial districts may face greater challenges in terms of attracting customers, accessing necessary resources, and competing effectively within the market. Limited visibility, lower customer traffic, and reduced connectivity to business networks could hinder their growth and performance relative to their counterparts in more centralized commercial areas. Therefore, the location of SMEs emerges as a critical determinant of their success in Vientiane Capital, with those situated in commercial districts enjoying distinct advantages over their counterparts in other areas. This underscores the importance of strategic location planning and suggests that policymakers and SME owners alike should consider the implications of geographical positioning when making business decisions and formulating economic development strategies.

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