

The Study of Investment Motivation and Managerial Problems of Taiwanese Companies in Cambodia

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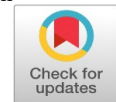
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Abstract: Due to the increasing competition from China and Southeast Asia countries, many Taiwanese companies have to invest in a foreign country in order to maintain a competitive advantage. However, the risk in foreign investment is much higher than in domestic investment because most of the companies are not familiar with the situation and culture of the foreign country. Therefore, the company has to be caution in making a foreign investment decision. The objective of this study is to investigate the investment motivation and managerial problems of Cambodia's Taiwanese companies by using the questionnaire method. The methodology used in this study is a questionnaire approach. Totally 46 valid replies from companies were received. The results showed that motivations for more than half of Taiwanese companies are no exchange control and developing market. The major problems faced by Taiwanese companies are: poor administrative efficiency, insufficient infrastructure, insufficient power supply and high cost, difficulty in managing employees due to cultural differences. Hopefully, the result of this study can be used as a reference for Taiwanese companies seeking investment in Cambodia. More updated information is needed in further research to compare the current and earlier situations.

Keywords: Foreign investment, Taiwanese company, Cambodia, Investment motivation, Managerial problem

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INTRODUCTION

China has been the most popular investing place and the world's factory for many years. However, after China implementing the new Labor Contract Law (新勞動合同法 in Chinese) in 2008, the operating cost has increased and affected the company's competitive advantage. For example, labors' rights and benefits need to be emphasized and protected, and thus, companies are required by the law to improve working conditions and to pay or provide workers' social insurance. In addition, the competition from other Southeast Asia countries has also increased recently. As a result, operating costs and exports of the Taiwanese companies are affected. Therefore, many Taiwanese companies start to shift their investment from China to low labor cost countries in Southeast Asia.

Among the Southeast Asia counties, Cambodia, which is one of the members of the Association of Southeast Asian Nations (ASEAN), has received a lot of attention lately. In the past, the cumulative amount of Taiwan's investment in Cambodia was the least among the ASEAN countries. The biggest reason was that the local turmoil in 1997, which made many Taiwanese businessmen lose their investment and affected their willingness to invest. However, Cambodia's national economy, exports, and economic development prospects have gradually improved in the past few decades after the implementation of

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free-market economy system and privatization. Recently, Cambodia has become the choice of many Taiwanese companies to invest.

In order to let Taiwanese companies understand more about Cambodia's investment environment, this study investigates the investment motivation and managerial problems of Cambodia's Taiwanese companies by using the questionnaire method. Hopefully, the result of this study can be used as a reference for Taiwanese companies seeking investment in Cambodia.

FOREIGN INVESTMENT

Foreign investment or Foreign Direct Investment (FDI) refers to the investment activities of domestic enterprises or individuals to create new businesses or purchase foreign businesses abroad. (United Nations Conference on Trade and Development, 1999) defines it as "an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)" (United Nations Conference on Trade and Development, 1999, 2017; Hairudinor, Barkatullah, A. H., Utomo, S., & Jirhanuddin, 2017). Foreign Direct Investment (FDI) has played an important role in the trend of globalization because it can provide cheaper production cost, new markets, and new technology for a company.

The traditional theory of foreign direct investment has emphasized market imperfection. Hymer (1976) believes that a company invests abroad for certain advantages, including better technology, management systems, financial management, and goodwill, and the company can use these advantages to make more profit (Hymer, 1976). Caves (1971) point out that the main factors influencing foreign investment are production costs, technology, and market barriers to trade (Caves, 1971).

Furthermore, significant changes in the global economic environment after the financial and economic crisis may also have caused a change in the investment priorities, and corporate taxes are still often emphasized as a crucial determinant of FDI (Humady & Orviska, 2014; Phyoe, 2015). Some other factors of foreign investment decisions include political stability, economic stability, quality of infrastructure, market size, labor costs, economic growth, exchange rate, and openness, etc.

FOREIGN INVESTMENT IN CAMBODIA

By 2009, Cambodia's new systems of government had been created, and peace was well established throughout the country. The flow of Foreign Direct Investment (FDI) had increased 12-fold since 2004 (Hughes & Un, 2011; Mizirak & Altinta, 2018; Hor, 2016). The determinants of the factors influencing inward FDI in Cambodia might refer to the country's political, geographic, and economic characteristics. A previous study using panel data sets during 1995-2005 showed that the determinants of FDI in Cambodia with a positive impact included home country's GDP, bilateral trade with the host country, the exchange rate, and geographic distance (Cuyvers, Soeng, Plasmans, & Van Den Bulcke, 2011).

Since Taiwan is close to Cambodia by a flight about three and half hours, Taiwan featured in Cambodia's top two FDI sources after Malaysia but before China between 1995 and 2000 by capital pledged (Freeman, 2002). In 1994 to 2007, of the cumulative FDI approved in this period, Malaysia had the largest share with 1.576 billion U.S. dollars (42.81%), followed by China (0.541 billion U.S. dollars, 14.69%) and Taiwan (0.393 billion U.S. dollars, 10.67%) (Huang, 2009). Recently, China became the largest FDI source in Cambodia (23.97%), followed by Korea (10.68%). The other major sources are Malaysia, Taiwan, Hong Kong, and Thailand with investment mainly from garment industry companies (Council for the Development of Cambodia, 2017).

Cambodia's economy enjoyed rapid growth for two decades and was named by the World Bank as the sixth fastest growing country (Council for the Development of Cambodia, 2017). It is estimated by the International Monetary Fund that Cambodia's 2019 projected real GDP would increase by 6.8 % (International Monetary Fund, 2018). GDP per capita also steadily increased from the U.S. \$738 in 2009 to the U.S. \$1,384 in 2017 (The World Bank, 2019). In addition, Cambodia provides some investment incentives to qualified investment projects including profit tax exemption or special depreciation, and commodities to be imported free of duty such as production equipment, construction materials and pro-

duction input to be used in the production of exports goods ([Council for the Development of Cambodia, 2017](#)).

With an exchange rate (KHR/USD) of 4,050.00, the bilateral trade statistics from Ministry of Commerce in Cambodia showed that exports to Taiwan were 40.03 million U.S. Dollars in 2017 while imports from Taiwan were 709.37 million U.S. Dollars ([Ministry of Commerce , 2019](#)). In addition, according to data from Taiwan's MOEAIC (Ministry Of Economic Affairs Investment Commission), accumulated investment cases and amount of money in Cambodia were 58 cases and 0.643 billion U.S. dollars in 1993 to 2018 ([MOEAIC, 2019](#)). In terms of industries from the highest number of cases, nine cases are in the industry of textile mills, eight are in wearing apparel and clothing accessories manufacturing, and seven are in financial and insurance. However, the accumulated investment money in the financial and insurance industry with these seven cases is 0.459 billion U.S. dollars, which accounts for 71.38% of the total accumulated investment money in Cambodia. These statistical data might not tell the real story about FDI from Taiwan in Cambodia. To fill the gap, this study attempts to provide useful first-hand empirical information about the investment motivation and operational difficulties that Taiwanese companies may have in Cambodia for those who are interested in doing business in Cambodia.

METHODS

This study primarily adopted a heuristic inquiry research design ([Patton, 1990](#)) along with a survey by using questionnaires. One of the authors is also an entrepreneur, who has run a business in Cambodia for more than 20 years, has visited Cambodia frequently, and keeps close relationships with many Taiwanese company owners or top managers in Cambodia. This brings the advantage of persistent observations and prolonged engagement with the Cambodian business community, and hence can enhance the credibility of this study. The researcher's personal experiences in Cambodian business help the process of data collection, analysis, and interpretation to acquire insights. The questionnaire used in this study consists of three parts:

1. Basic information: Basic information includes six question items: the type of industry, the number of employees, the amount of capital, the annual turnover, the company's capital structure, and the year of investment.
2. Motivation for investment: Motivation of investment includes 10 multiple selection items: low plant and land cost, labor supply and cost, energy supply and cost, tariffs and quota-free benefit, developing market, more Chinese and similar culture, transfer with major customers, material source, no exchange control, and others.
3. Problems faced by the company: Problems faced by the company include three categories: the overall environment of Cambodia (10 question items), business operations (10 question items), and support of the Taiwan government (4 question items).

The Likert 5-point Scale is used to measure the responses of Taiwanese companies on the current problems in which "1" indicates "strongly disagree", "2" indicates "disagree", "3" indicates "neutra" "4" indicates "agree", and "5" indicates "strongly agree". Purposive sampling was used to cover different industries and different scale companies. Therefore, approximately 260 members in the association of Taiwanese companies in Cambodia were considered appropriate due to diverse coverage of different industries and business scales throughout the whole Cambodia. All questionnaires were distributed to all members by Cambodian regular mails, followed by phone calls or face-to-face survey invitation in the association meetings.

Totally 54 questionnaires are received. By excluding invalid replies, there are 46 valid replies received. The data analysis methods used in this study includes a profile of the sample, descriptive statistics, frequency and mean analysis as well as Chi-Square analysis.

RESULTS AND DISCUSSION

There are 12 companies in textile industry (occupying 26.1%), 11 companies in service industry (occupying 23.9%), 6 companies in real estate industry (occupying 13%), 5 companies in shoes industry

(occupying 10.9%), 4 companies in agriculture and food processing industry (occupying 8.7%), 4 companies in tourism industry (occupying 8.7%), 2 companies in food processing industry (occupying 4.3%), and 2 others.

There are 17 companies that have under 50 employees (occupying 37%), 15 companies have 50 ~ 100 employees (occupying 32.6%), 8 companies have 101 ~ 300 employees (occupying 17.4%), 3 companies have 301 ~ 500 employees (occupying 6.5%), and 3 companies have 500 or more employees (occupying 6.5%).

There are 15 companies with a capital of '5.01 ~ 10 million NT\$ '(occupying 32.6%), 10 companies with a capital of '10.01 ~ 30 million NT\$ '(occupying 21.7%), 8 companies with a capital of 'under 5 million NT\$ '(occupying 17.4%), 6 companies with a capital of '50.01 ~ 80 million NT\$ '(occupying 13%), 5 companies with a capital of '30.01 ~ 50 million NT\$ '(occupying 10.9%), 1 company with a capital of '80.01 ~ 100 million NT\$ '(occupying 2.2%), and 1 company with a capital of 'more than 100 million NT\$ '(occupying 2.2%).

There are 14 companies with an annual turnover of '10.01 ~ 30 million NT\$ '(occupying 30.4%), 12 companies with an annual turnover of 'under 10 million NT\$ '(occupying 26.1%), 7 companies with an annual turnover of '30.01 ~ 50 million NT\$ '(occupying 15.2%), 7 companies with an annual turnover of '50.01 ~ 100 million NT\$ '(occupying 15.2%), and 6 companies with an annual turnover of '100.01 ~ 500 million NT\$ '(occupying 13%).

Twenty-one companies are Taiwan-funded enterprises (occupying 45.7%), 13 companies are Taiwanese and multinational joint ventures (occupying 28.2%), and 12 companies are Taiwan-Cambodia joint ventures (occupying 26.1%).

Nineteen companies have invested in Cambodia for 4 ~ 6 years (occupying 41.3%), 15 companies have invested in Cambodia for 1 ~ 3 years (occupying 32.6%), 5 companies have invested in Cambodia for more than 10 years (occupying 10.9%), 4 companies have invested in Cambodia for 7 ~ 9 years (occupying 8.7%), and 3 companies have invested in Cambodia for less than one year (occupying 6.5%). About 60% of the companies in the sample have invested in Cambodia for more than four years. Therefore, they have a deeper understanding of Cambodia overall environmental and operational issues (Table 1).

Table 1: Profile of the sample

	n	%		n	%
Type of industry			Number of employees		
Textile	12	26.1	under 50 employees	17	37.0
Service	11	23.9	50 ~ 100 employees	15	32.6
Real estate	6	13.0	101 ~ 300 employees	8	17.4
Shoes	5	10.9	301 ~ 500 employees	3	6.5
Agriculture and food processing	4	8.7	500 or more employees	3	6.5
Tourism	4	8.7	Amount of capital		
food processing	2	4.3	under 5 million NT\$	8	17.4
Other	2	4.3	5.01 ~ 10 million NT\$	15	32.6
Company's capital structure			10.01 ~ 30 million NT\$	10	21.7
Taiwan-funded enterprises	21	45.7	30.01 ~ 50 million NT\$	5	10.9
TW and multinational joint ventures	13	28.2	50.01 ~ 80 million NT\$	6	13.0
Taiwan-Cambodia joint ventures	12	26.1	80.01 ~ 100 million NT\$	1	2.2
Years of investment			more than 100 million NT\$	1	2.2
less than one year	3	6.5	Annual turnover		
1 ~ 3 years	15	32.6	under 10 million NT\$	12	26.1
4 ~ 6 years	19	41.3	10.01 ~ 30 million NT\$	14	30.4
7 ~ 9 years	4	8.7	30.01 ~ 50 million NT\$	7	15.2
more than 10 years	5	10.9	50.01 ~ 100 million NT\$	7	15.2
100.01 ~ 500 million NT\$	6	13.0			

The major motivations for Taiwanese companies to invest in Cambodia are no exchange control (67.4%), developing market (50%), low plant and land cost (41.3%), labor supply and cost (28.3%),

transfer with major customers (28.3%), tariffs and quota-free benefit (26.1%) (Table 2). The first major motive about no exchange control was similar to result of Cuyvers et al. (2011) indicating that the exchange rate could be one of major determinants influencing whether FDI would enter Cambodia.

The major problems faced by Taiwanese companies (Table 3) are listed as follows:

1. The overall environment of Cambodia: poor administrative efficiency, insufficient infrastructure, and political instability.
2. Business operations: insufficient power supply and high cost, difficulty in managing employees due to cultural differences, more trainings are needed due to poor labor quality.
3. Support of the Taiwan government: lack of management counseling and financing assistance.

Table 2: Major motivations for Taiwanese companies to invest in Cambodia

Motivation	n	%
No exchange control	31	67.4%
Developing market	23	50.0%
Low plant and land cost	19	41.3%
Labor supply and cost	13	28.3%
Transfer with major customers	13	28.3%
Tariffs and quota-free benefit	12	26.1%
Material source	8	17.4%
More Chinese and similar culture	3	6.5%
Energy supply and cost	1	2.2%
Others	1	2.2%

Note: Response with multiple choices

Table 3: Issues faced by Taiwanese companies in Cambodia

	M		M
Overall environment of Cambodia		Business Operations	
1. Poor administrative efficiency	4.20	1. Insufficient power supply and high cost	4.13
2. Insufficient infrastructure	3.96	2. Difficulty in managing employees due to cultural differences	4.02
3. Political instability	3.83	3. More training is needed due to poor labor quality	3.98
4. The increase of revenue tax in Cambodia has put more burden on enterprises	3.48	4. Local labor strikes are getting worse	3.93
5. Overall, the Cambodian environment has improved significantly	3.30	5. It is difficult to find suitable managers in the local job market.	3.80
6. Cambodia no longer enjoys some tariff preferences for undeveloped countries	3.20	6. There is a shortage of local labors	3.65
7. Cambodia's restrictions on foreign investment have been relaxed	3.17	7. It is not easy to borrow money locally	3.43
8. The security in Cambodia has improved significantly	3.04	8. Salary of local labors is cheap	3.41
9. Cambodia's labor laws are reasonable for enterprises	2.87	9. The quality of the company's products is stable to meet the requirements of customers	3.11
10. The industrial policy of the Cambodian government is clear and feasible	2.54	10. The supply of raw materials is not a problem	2.83
Support of the Taiwan government			
Financial assistance	2.67	Provide industry investment information	3.02
Management counseling	2.74	Sign an investment guarantee agreement with Cambodia	3.04

Note: 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree

In this study, some questions were asked in a direct way whereas other questions were asked in a reverse way. This might lead to underestimate some issues. For example, responding to whether the supply of raw materials is not a problem, the score indicated a neutral evaluation (Table 3). But if the question is asked in a direct way: whether the supply of raw materials is a problem, it would not be sure whether the response would become negative or not.

Chi-Square analysis is used to find out the relation between different industries and the problems they face. The result shows that there is a significant difference between different industries and the overall environment of Cambodia, particularly in industrial policy, security, and labor laws issues. It seemed that companies in the textile industry tended to have a higher level of unsatisfactory feelings with Cambodia's industrial policy than companies from the service industry. As for the security issue, it seemed that more companies in the service industry than those in other industries agreed that the security in Cambodia improved significantly. Responding to whether Cambodia's labor laws were reasonable for enterprises, more companies from tourism, real estate, and food processing industries tended to be more neutral or positive than those in other industries. Because a small number of companies was within different industries in the current study, the results of chi-square tests required more studies to confirm. Readers might pay attention not to over-interpret the current results.

CONCLUSION

The conclusions of this study are as follows:

1. The sample shows that more than 90% of Taiwanese companies in Cambodia are small and medium enterprises.
2. In the sample, about 87% of Taiwanese companies' annual turnover is under 100 million NT\$
3. About 60% of the companies in the sample have invested in Cambodia for more than four years.
4. The motivations for more than half of Taiwanese companies are no exchange control and developing market.
5. The major problems faced by Taiwanese companies are: poor administrative efficiency, insufficient infrastructure, insufficient power supply and high cost, difficulty in managing employees due to cultural differences.

Although this study was descriptive, useful practical implication was provided. The results of this study can be used as a reference for Taiwanese companies seeking investment in Cambodia. Although the building cost of factories is low in Cambodia, it is cautious to avoid damage from a flood in a raining season. When a company is considering investment in Cambodia, not only financial issues or market issues would be considered, but also macro-economic issues in Cambodia, its political environment, industrial policy, and human resources may also be issues. This study implies comprehensive and multiple dimensional evaluation is required in the decision whether to enter Cambodia for ensuring a success there.

Further, this study did not use outcome variables such as income or profit to associate with the company's success because such information is too sensitive to acquire. Future research may try deep interviews to overcome this research barrier. For future research directions, more updated information is needed in further research to compare the current and earlier situations. Perhaps now it is more competitive in Cambodia than before. Future research should consider challenges and competition particularly from Chinese companies coming from mainland China in Cambodia because Chinese and Renminbi seem to become popular in Cambodia.

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