

Skills and transformation in Cambodia's industry

Skills for Industry Policy Brief Cambodia #1 (2019)

At a glance

More than two thirds of Cambodia's manufacturing companies have experienced growth and transformation over the past five years. This increase in complexity and sophistication requires high-skilled workers and vocational skills development (VSD) programmes play important roles in the transformation of companies in Cambodia. Pre-employment VSD programmes can be a prerequisite for entry-level high-skilled jobs because fresh Cambodian graduates usually have no industry-specific working experience, while in-employment VSD programmes are mostly related to industry-specific skills. Unfortunately, most VSD programmes are not likely to cater to lower skilled workers, who constitute the majority of Cambodian workers. Nevertheless, these workers must participate in VSD programmes to develop both technical and soft skills as Cambodia aims to upgrade its position in global value chains.

Introduction

Cambodia's manufacturing industry is labour-intensive, usually with simple low-value-added production chains driven by foreign direct investments (FDIs). Since the early 1990s FDI has been attracted to Cambodia's low-wage and low-skilled labour force as well as preferential trade arrangements received due to Cambodia's least developed country status in the UN's classification.

As Cambodia plans to become an upper-middle income country, as defined by the World Bank, by 2030

and a high-income country by 2050, the country needs to shift to higher value-added manufacturing, improve competitive advantages, upgrade technologies, and link with the regional and international value chains. Skills development plays an important role in this regard.

This policy brief looks at the association between VSD and industrial growth and transformation using data from a firm-level survey conducted between September 2018 and January 2019.

The industry experienced positive growth and transformation

Most interviewed companies reported positive growth and transformation¹ between 2012 and 2017. Figure 1 shows the percentage of companies reporting their growth and transformation trends, and shows that the proportion of companies with positive growth is higher than those reporting positive transformation.

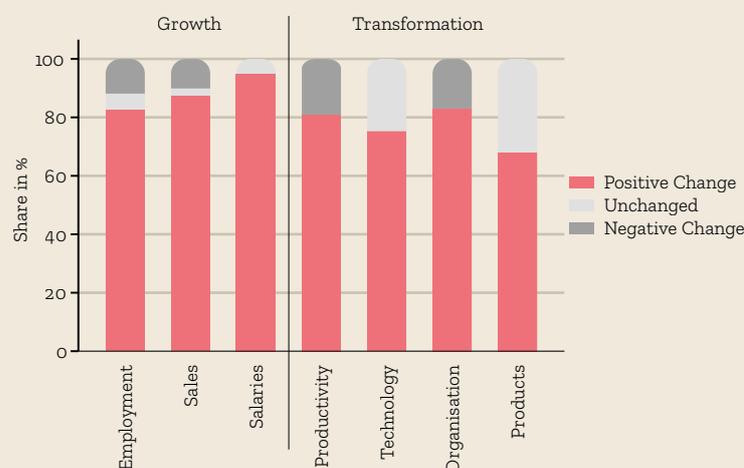


Fig. 1: Growth and transformation

The proportion of companies with positive salary growth was the highest, the result of efforts to increase the minimum wage in the textile, apparel and footwear industry over the past five years. The percentage of companies with positive sales was the second highest, followed by those with employment growth. Sales trends perhaps went hand in hand with employment growth because the expansion in employment was usually aimed to meet production demands. In regard to productivity, sales per worker is used as a proxy, so it seems to have excessively high positive growth.

The results also suggest that the companies experienced noticeable transformation in product enhancement, technology upgrade and organisation improvement: above 70 percent of companies indicated a significant shift towards complexity and sophistication. Companies with a large share of more complex and advanced products tend to upgrade their technology as well as work organisation and production. More than 80 percent of companies reported that they required either somewhat or significantly more advanced worker skills while they shifted towards more complexity and sophistication.

Low-skilled workers rarely took part in VSD

Table 1 illustrates the variety of pre- and in-employment VSD programmes and the number of VSD programmes that the companies assessed to have contributed to meeting their skills needs.

The E&E sector had the highest variety of VSD programmes² since this sector requires labourers to perform technical tasks. The garment sector had the second highest variety of VSD programmes followed by food processing. The results also suggest that general workers in these three sectors lack pre-employment VSD programme opportunities, while technicians, supervisors and higher management in the E&E and food processing sectors had more such opportunities. Noticeably, supervisors in the garment sector had no pre-employment VSD programmes as most supervisors in this sector were internally promoted from general workers who had good working performance and experience.

Most pre-employment VSD programmes in the

three sectors were related to the fields of electricity, electronics and food science. Moreover, these programmes were perceived to be more generic and likely to be applied in many other sectors as foundations on to which additional skills are built. However, the companies evaluated that on average, all the various pre-employment programmes significantly contributed to meeting their skills needs.

The companies in the garment sector reported the highest variety of in-employment VSD programmes³, followed by those in the food processing and E&E sectors. These in-employment programmes were pertinent to supervisory skills, electricity, and quality management and control, offered in short courses and are usually given to high-skilled workers. Since in-employment programmes tend to focus on industry-specific skills, the companies assessed that the various available in-employment programmes significantly contributed to meeting skills needs.

As shown in Table 1, general workers did not participate in VSD. The reasons could be that they are generally employed to perform low value-added tasks such as cutting, making and trimming (CMT) for the garment sector; mainly assembling for E&E; and mostly packaging for food processing. General workers and operators are generally offered a few weeks of work orientation and on-the-job training with support from supervisors and/or production heads. Noticeably, the variety of pre-employment programmes (162) was higher than that of in-employment programmes (53) which reflects that most companies may have low investment in in-employment training for their workers.

The variety of most frequent VSD programmes is positively associated with transformation, but not growth

The analysis highlights that the variety of pre-employment programmes had a somewhat positive correlation with product enhancement, a moderate positive correlation with technology upgrading, and a somewhat positive correlation with work organisation improvement. However, it had no significant correlation with sales trends and salary growth, suggesting that companies which have access to a higher variety of pre-employment programmes are more likely to have

Sector/Position	Pre-employment programmes		In-employment programmes	
	Variety*	Average Contribution of VSD programmes to meeting skills needs	Variety*	Average Contribution of VSD programmes to meeting skills needs
E&E	58	Somewhat	7	Significantly
Higher management	7	Somewhat	2	Significantly
Technicians	30	Somewhat	3	Significantly
Supervisors	16	Somewhat	1	Significantly
Operators	5	Somewhat	1	Significantly
General workers	0	-	0	-
Garment	50	Significantly	30	Significantly
Higher management	2	Significantly	7	Significantly
Technicians	44	Significantly	8	Significantly
Supervisors	0	-	14	Significantly
Operators	4	Somewhat	1	Significantly
General workers	0	-	0	-
Food processing	54	Significantly	16	Significantly
Higher management	10	Significantly	4	Significantly
Technicians	27	Significantly	7	Significantly
Supervisors	8	Significantly	5	Significantly
Operators	9	Significantly	0	-
General workers	0	-	0	-
Grand Total	162	Significantly	53	Significantly

Table 1: Most frequent VSD programmes and their contributions to meeting skills needs

*Variety: In this policy brief variety refers to the variety of the most frequent programmes companies have mentioned, and not the actual number of VSD programmes or the proportion of employees, who have participated in those programmes.

somewhat higher levels of product enhancement and work organisation improvement as well as a moderately higher level of technology upgrading.

The analysis also points out that the variety of in-employment VSD programmes had a somewhat positive correlation with product enhancement technology upgrading, but no significant correlation with work organisation improvement and sales trends. This suggests that companies with access to a higher variety of in-employment programmes tend to have a somewhat higher level of product enhancement and

technology upgrading.

Surprisingly, the variety of in-employment VSD programmes had a significant negative correlation with salary growth, but this appears spurious; salary growth may be affected by other factors rather than VSD programmes, such as government policy for minimum wage adjustment.

Conclusion and Implications

The companies reported that as they grew and transformed towards complexity and sophistication, high-

er worker skills were required. The proportion of high-skilled workers were small in their workforces, while most labour was low skilled, suggesting that the demand for higher worker skills in Cambodia is likely to be still small. This deserves further investigation in future studies.

The findings imply that the pre-employment programmes can be a prerequisite for entry-level high-skilled jobs because fresh graduates usually have no industry-specific working experience. As the in-employment programmes are mostly related to industry-specific skills, workers need both pre- and in-employment programmes to contribute to meeting companies' skills needs. Thus, expanding the provision of pre-employment programmes is a solution to the skills shortage, while more investment in in-employment programmes could also remedy the skill gaps by addressing the relevance and quality of pre-employment programmes to meet industrial requirements.

While most Cambodian workers can be classified as low-skilled, most VSD programmes do not cater to their development. These workers neither undergo pre- nor in-employment VSD programmes. However, these workers need to take part in VSD programmes to improve both technical and soft skills as Cambodia's industry continues to move up global-value-chains. Therefore, VSD programmes supporting lower skilled workers must be available to improve workers' skills to meet the skills needs of industry.

The study verifies the significant role of VSD in the transformation of companies in Cambodia, but not their growth. Growth dimensions can be caused by other factors such as market demand and government wage policy. If so, the variety of VSD programmes may have an indirect association with growth via transformation and future studies should examine this indi-

rect association more closely.

Sources and Notes

Own firm-level survey, Skills for Industry research project

- 1 Growth refers to expansion in sales, employment and salaries of employees, while transformation means productivity increase, products enhancement, technology and machinery advancement, and work organisation improvement.
- 2 These programmes may cater to lower, medium or higher skilled employees before entering the respective industry. They include short-term training as much as industry-oriented higher education programmes, leading to some kind of certification and industry-specific skills.
- 3 These programmes may cater to lower, medium or higher skilled employees after joining the respective industry but are offered/certified by third parties, leading to industry-specific skills.

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