

DEVELOPMENTS IN THE FIELD

Closing the Gap between Ideals and Reality: Lessons from a Malaysian SME's Experiment with Ethical Recruitment in the Nepal-Malaysia Corridor

Yvonne Khor¹  and Jing Hao Liong² 

¹China Foreign Affairs University, Beijing, China and ²Duke University, Durham, NC, USA

Corresponding author: Jing Hao Liong; Email: jinghao.liong@duke.edu

Abstract

Over the past decade or so, ethical recruitment has become increasingly popular as an aspirational standard for addressing labour violations and human rights issues in the transnational recruitment of migrant workers. While multi-national corporations (MNCs) – both international buyers and their Tier 1 suppliers – have been quick to adopt and codify ethical recruitment principles in their company codes of conduct, the same cannot be said for the small and medium enterprises (SMEs) further down the supply chain. Grounded in a case study of a small packaging company in Penang, Malaysia, this article explores how SMEs navigate their human resources and financial constraints in their attempt to practise ethical recruitment. We conclude with some brief reflections on the role of recruitment agents and the (in)equitable allocation of costs across global supply chains in making ethical recruitment a realistic and achievable goal for SMEs.

Keywords: ethical recruitment; international labour standards; Nepal-Malaysia corridor; recruitment costs; small and medium enterprises (SMEs)

1. Introduction

In the 2010s, ethical recruitment emerged as an ambitious standard for addressing the problems of forced labour and modern slavery ubiquitous in temporary labour migration regimes across the global economy. At its core, ethical recruitment calls for the implementation of the Employer Pays Principle and the protection of workers' fundamental rights.¹ An entire ecosystem devoted to its mainstreaming and monitoring has since developed that includes industry associations, multi-national corporations (MNCs), labour recruiters, and several United Nations (UN) agencies.²

While MNCs – both international buyers and their Tier 1 suppliers – have been quick to adopt and codify ethical recruitment principles in their company codes of conduct, the same cannot be said for the small and medium enterprises (SMEs) further down the supply chain.

¹ See the ILO's *General Principles and Operational Guidelines for Fair Recruitment and Definition of Recruitment Fees and Related Costs* (2019), the IOM's *The IRIS Standard* (2019), and the Institute for Human Rights and Business' *Migration with Dignity: A Guide to Implementing the Dhaka Principles* (2023).

² Genevieve LeBaron, *Combatting Modern Slavery: Why Labour Governance is Failing and What We Can Do About It* (Cambridge: Polity Press, 2020) 106–110.

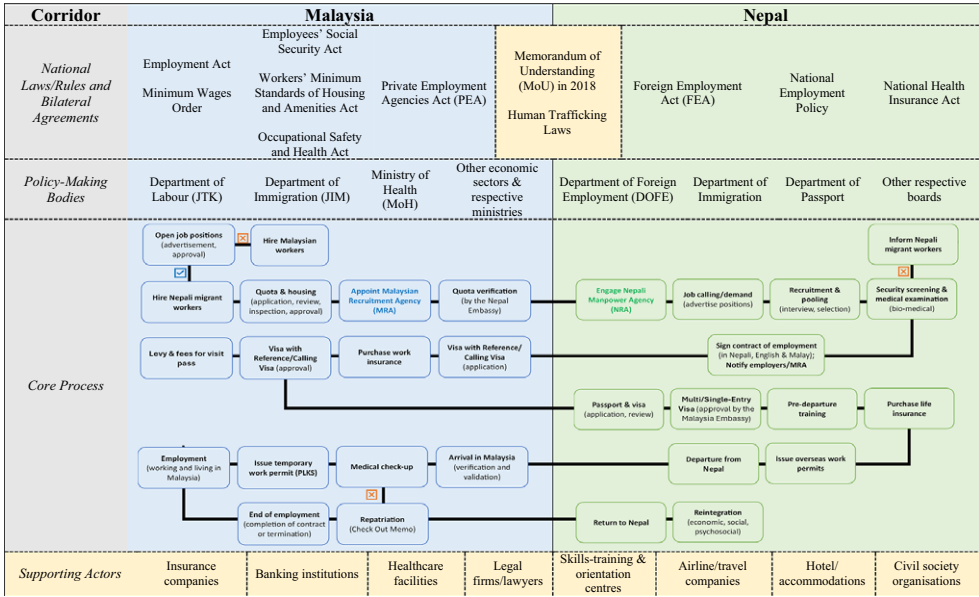


Figure 1. The Nepal-Malaysia recruitment pipeline from initial job advertisements to eventual repatriation.³

These smaller companies often cite a lack of knowledge about ethical recruitment in addition to its higher cost as major impediments to transforming their labour recruitment practices. Even SMEs that are genuinely committed to making the transition to ethical recruitment often struggle in their endeavours.

In this article, we explore the gaps between ethical recruitment as a set of ideal principles and the reality of its on-the-ground implementation. Our case study based on a small Malaysian packaging company's initial experience with ethical recruitment seeks to highlight the creative and, at times, necessarily compromised ways that SMEs overcome their limited financial and human resources. We conclude with some brief reflections on the importance of revisiting assumptions about the role of recruitment agents and the (in) equitable allocation of costs across global supply chains if we are to make ethical recruitment a realistic and achievable goal for SMEs.

II. Methodology

Data for this article is drawn from each author's research and disciplinary training in international affairs and cultural anthropology. Prior to the COVID-19 pandemic, one author followed a Malaysian employer's year-long hiring experience recruiting 30 Nepali migrant workers for his packaging facility in Batu Kawan, Penang (see Figure 1 for a comprehensive mapping of the entire Nepal-Malaysia recruitment pipeline). Meanwhile, the other author brought together a relevant group of actors to simulate the ideal recruitment drive, one that adhered to the strict standards of the Responsible Business Alliance (RBA). Attended by employers, civil society organisations and recruitment agents from both Nepal and

³ This flow chart was constructed based on interviews and participation observation conducted with recruitment agencies in Nepal and Malaysia. As of 2024, the official timeline for completion of the entire recruitment process is 15 months and 23 days. BERNAMA, 'Govt Shortens Foreign Worker Recruitment Process to 15 Months and 23 Days', *Bernama* (16 January 2024), <https://bernama.com/en/news.php?id=2263063> (accessed 30 April 2025).

Malaysia, this exercise helped identify existing ethical recruitment best practices. Both authors also conducted participant observation in ethical recruitment agencies in both Nepal and Malaysia, in addition to semi-structured interviews with various stakeholders.

III. First steps: from approvals to job advertisements

Rajan⁴ is a second-generation owner of a small company in Batu Kawan, Penang, that specialises in packaging production. Given the recent increased market demand for packaging services, Rajan plans to double his existing workforce of 40 employees to take on larger orders from the region's MNCs. His 30-day local recruitment campaign yielded just 10 new Malaysian employees. Having exhausted the domestic labour market, he starts to consider hiring workers from Nepal to fulfil his company's labour shortage.

Rajan engages the services of Amber, a Penang-based recruitment agent who has been recruiting workers from Nepal for the past 15 years. She has also practised ethical recruitment for the past decade and, like other ethical recruitment agents in the region, has extensive experience with the Responsible Business Alliance's (RBA) Specialty Validated Assessment Program (SVAP) on Forced Labor.⁵ Amber begins by trying to understand Rajan's workforce needs and details of the job before providing him with a list of Nepali recruitment agents with whom to potentially partner. Although many licensed recruitment agencies in the Nepal-Malaysia corridor may claim to practise ethical recruitment, there is in fact varying interpretations about the benchmark for such a claim. Some recruitment agents, for example, consider the charging of workers a modest recruitment fee (up to one month's salary) to be congruent with ethical recruitment principles despite calls for zero-cost recruitment. Amber has therefore vetted her list of source country recruitment agents for their degree of compliance with ethical recruitment standards. Rajan and Amber eventually settle on working with Sabin, the Managing Director of a registered manpower company in Nepal and someone with whom Amber, over the years, has developed a strong business relationship.

For a small business owner like Rajan, Amber's experience and expertise in ethical recruitment are invaluable given his limited HR capacity. Already, Amber has ensured that Rajan's terms of employment comply with Malaysia's Employment Act 1955 before she connects him to a wider ethical global labour supply chain. She also assists Rajan with the complex bureaucratic process in Malaysia by helping him apply for 30 foreign worker quotas through the Malaysian Ministry of Home Affairs' One Stop Centre.

Meanwhile, they also work closely together to produce the necessary demand letters and job advertisements that Amber will, again, review for legal compliance in both the source and destination countries. Job advertisements, for instance, must comply with the Guidelines for Advertising Vacancies through General Publications set by the Malaysian Department of Labour⁶, as well as Nepal's Foreign Employment Act, 2065 (2007)⁷ and Foreign Employment Rules, 2064 (2008).⁸ While Rajan may be familiar with Malaysian laws regarding job advertisements, he relies on Amber's expertise to ensure that he is also in compliance with Nepal's laws. Finally, Amber will also help Rajan understand any new or updated

⁴ We use pseudonyms (Rajan, Amber and Sabin) throughout this piece to protect the identities of our informants.

⁵ Responsible Business Alliance, 'Specialty Validated Assessment Program (SVAP) on Forced Labor', <https://www.responsiblebusiness.org/vap/svap-on-forced-labor/> (accessed 25 April 2025).

⁶ Department of Labour (JTK) Peninsular Malaysia, 'Garis Panduan Pengiklanan Kekosongan Jawatan Melalui Sebaran Am' (21 February 2012), https://jtksm.mohr.gov.my/sites/default/files/2023-01/garispanduan_iklan_0.pdf (accessed 31 July 2025).

⁷ Foreign Employment Act, 2064 (2007) (Nepal) sec 16 and 49.

⁸ The Foreign Employment Rules, 2064 (2008) (Nepal) sec 14.

Memorandums of Understanding (MoUs)⁹ that may have been signed and/or voluntary international standards (such as the RBA Code of Conduct)¹⁰ to which Rajan's customers might adhere.

Once the relevant documents and information have been sent to Sabin, he submits the demand letter to Nepal's Department of Foreign Employment (DOFE) and promotes the job advertisements through channels legally mandated by Nepali law. He will then begin screening incoming worker applications to compile a shortlist of final candidates.

IV. Travelling to Kathmandu: from interviews to deployment

When Sabin has narrowed down a shortlist of final candidates, Amber travels to Kathmandu to conduct the final interviews. While it would be ideal for the employer to also travel to Kathmandu to oversee the recruitment process, this is not always possible for an SME owner. Not only is such a trip expensive, but Rajan's presence is needed at his facility to supervise the production process. Rajan therefore places his trust in Amber (and, as we shall later see, in digital technologies) to ensure that the recruitment process goes smoothly.

At this stage, it is important for all parties, especially workers, to understand what ethical recruitment is so that any potential issues or violations can be addressed early on. Prior to Amber's arrival, Sabin provides worker candidates with a comprehensive training on the basic tenets of ethical recruitment, especially the foundational Employer Pays Principle.¹¹ Sabin complements his explanation of international standards with references to specific policies and issues relevant to aspiring migrant workers in Nepal, such as the government's 'Free Visa, Free Ticket' policy and the persistent involvement of sub-agents at the village level. His verbal presentation of workers' rights and safe migration is visually reinforced by a barrage of posters and signage that plaster the walls of his office. In the main lobby of the office is also a large flat-screen television on which an informational video about ethical recruitment plays in a continuous, uninterrupted loop.

Workers are then ushered in one by one to a private room in Sabin's office for their final interview with Amber and Rajan, the latter joining virtually via Zoom. While Rajan determines the workers' fit for the job, Amber ensures that they have a comprehensive understanding of the employment contracts. This includes clarifying job roles, work conditions and salary expectations as well as other conditions of their employment such as employer-provided accommodation, transportation and medical coverage. She also addresses any concerns candidates may have regarding contract terms, overtime pay and contract termination policies.

After Rajan selects his final 30 candidates, Amber and Sabin proceed to complete the last of the numerous administrative and bureaucratic tasks to ensure a smooth and safe migration process. On the Malaysian side, Amber submits the selected workers' applications through the Foreign Worker Centralized Management System (FWCMS) where levy payments are also made. At the same time, Sabin applies for approval from the Foreign Employment Information Management System (FEIMS) to progress workers through the recruitment pipeline. Selected

⁹ An MoU on the Recruitment, Employment and Repatriation of Workers was signed between Malaysia and Nepal in 2018 but has not been renewed following its expiration in 2023. General Federation of Nepalese Trade Unions (GEFONT), 'GEFONT Welcomes the MOU between Nepal Government and Malaysian Government', <https://gefont.org/news-more/gefont-welcomes-the-mou-between-nepal-government-and-malaysian-government> (accessed 25 April 2025).

¹⁰ Responsible Business Alliance, 'Code of Conduct', <https://www.responsiblebusiness.org/code-of-conduct/> (accessed 25 April 2025).

¹¹ Institute for Human Rights and Business, 'The Employer Pays Principle', <https://www.ihrb.org/projects/employer-pays-principle> (accessed 1 August 2025).

| No. | Breakdown of Payments | In Malaysia (amount RM/worker) | In Nepal (amount RM/Worker) | Notes |
|-----|---|--------------------------------|-----------------------------|--|
| 1 | Minimum Wage (as per Malaysian Minimum Wages Order in 2022) | 1,500.00 | | Wage cost refers to workers' monthly salary |
| 2 | Foreign Workers Compensation Scheme (FWCS) | 72.00 | | Non-wage costs refer to expenses incurred in the process of employing a worker |
| 3 | Foreign Workers Health Insurance Scheme (SPIKPA) | 120.00 | | |
| 4 | Recruitment service charges (as per the 2018 MoU based on the minimum wage in Malaysia in 2022) | 1,500.00 | 750.00 | |
| 5 | Amenities and perks (including assurance bond, medical examination cost, service fee for MiGRAMS) | 1,290.00 | 1,576.00 | |
| 6 | Other hiring expenses (levy in the manufacturing sector, attestation fee, welfare fund contribution in Nepal, etc.) | 4,435.00 | 365.00 | Defined as the official costs charged by different government agencies in Malaysia and Nepal |
| 7 | <i>Total cost for a male Nepali migrant worker</i> | <i>8,917.00</i> | <i>2,691.00</i> | <i>RM 11,608.00</i> |
| 8 | Total cost for 30 male Nepali migrant workers | RM 348,240.00 | | |

Figure 2. Breakdown of recruitment costs in the Nepal-Malaysia corridor.¹²

workers are also required to undergo pre-departure medical exams in Nepal, apply for a Malaysian Single-Entry Visa (including applying for a passport if the worker does not already have one), purchase life insurance, contribute to a variety of government funds and complete pre-departure training. During this training, Rajan once again leverages digital technology to prepare an informational video about his company to ensure transparency and assuage workers' fears of being deceived.

Under the 2018 Nepal-Malaysia MoU,¹³ employers are responsible for covering the cost of some of the requirements mentioned above, including medical exams that may cost up to RM633 (US\$143) per worker and security deposits amounting to RM750 (US\$169) per worker. Additionally, the cost of the Single-Entry Visa imposed by the Malaysian government is approximately RM225 (US\$51) per worker. The total cost of recruitment as agreed upon by the two governments amounts to RM11,608 (US\$2,619) per worker or RM 348,240 (US\$78,539) for the 30 workers Rajan wants to hire (see Figure 2 for a comprehensive breakdown). These are costs that Rajan has factored into his budget to ensure legal compliance with national legislation and the terms of the existing MoU.

However, there are other costs that recruitment agents often refer to as 'hidden costs' because of their absence in official accounting.¹⁴ During the recruitment process, for example, workers must travel to and from Kathmandu (sometimes up to five times) if they live outside the capital city to complete various tasks. Inevitably, they will incur in-country transportation costs and food and lodging costs that are neither covered under national legislation nor existing MoUs but that are covered under ethical recruitment standards. The International Labour Organization (ILO), for example, considers these 'travel and lodging costs' in its *General Principles and Operational Guidelines for Fair*

¹² The costs detailed in Figure 2 are compiled from costs listed by the Institute of Labour Market Information and Analysis (ILMIA), the 2018 Nepal-Malaysia MoU, and the authors' research with employers and recruitment agents. ILMIA, 'Labour Cost 2016', <https://www.ilmia.gov.my/index.php/my/labour-cost> (accessed 30 April 2025).

¹³ Global Forum on Migration and Development, 'Bilateral Agreement between Nepal and Malaysia on the Recruitment, Employment, and Repatriation of Workers', <https://www.gfmd.org/pfp/ppd/11125> (accessed 1 August 2025).

¹⁴ We provide only one example of a 'hidden cost' in this article to highlight the gap in cost calculations according to national legislation/MoUs and ethical recruitment standards. In reality, recruitment agents and employers report many types of hidden costs resulting from inefficiencies and/or corruption in their dealings with governments.

Recruitment and Definition of Recruitment Fees and Related Costs that ultimately fall under the total recruitment fees employers like Rajan ought to bear.¹⁵

According to Verité's Recruitment Cost Calculator,¹⁶ the travel and lodging costs incurred in Nepal during the recruitment process range from RM294 to 875 (US\$67–200)¹⁷ per worker or RM8,820 to 26,250 (US\$2,010–6,000) in total for the 30 workers Rajan wants to hire. Caught between the reality of his company's available cash flow and the ideal international standards of ethical recruitment that mandate full reimbursement of these costs, Rajan is forced to compromise to the best of his ability. He ultimately reimburses each worker RM200 (US\$45) to help partially defray their out-of-pocket expenses, a compromise that reflects his commitment to practise ethical recruitment to the extent that his financial constraints permit.

When all the necessary permits and visas have been secured and travel arrangements finalised, the workers are driven to Tribhuvan International Airport for their departure. Workers may be given a matching piece of clothing – perhaps a red hat on which is embroidered both the Nepali and Malaysian flags – to help them identify fellow travellers in their cohort and to make them identifiable to Amber, who is awaiting them at arrivals.

V. Conclusion and recommendations: revisiting recruitment agents and costs

As this case study has demonstrated, SME owners like Rajan often run into limitations associated with their human and financial resources in their initial experiments with ethical recruitment. Specifically, Rajan lacked existing business partnerships and knowledge of the legislation in the country from which he was recruiting workers. Rajan also lacked the available capital to travel to Kathmandu and to provide a full reimbursement of the recruitment fees as defined under international standards. We want to use these limitations as our starting point to revisit some assumptions about recruitment agents and the (in) equitable allocation of costs across actors embedded in global supply chains.

First, ethical recruitment agents like Amber and Sabin cannot simply be reduced to their commercial activity of moving workers across international borders.¹⁸ They might, in fact, be key partners in ensuring that employers engage legitimate and ethical source country recruitment agents as well as prioritising compliance with national legislation and labour agreements in any given migration corridor. Ethical recruitment agents can also help SMEs understand and adopt key principles outlined in various voluntary international standards. Their on-the-ground collaboration with SMEs can complement capacity-building efforts by helping operationalise the often abstract takeaways that these trainings provide participants.

Workers, too, benefit from ethical recruitment agents' dissemination of key information that may potentially empower them with greater awareness of the various perils and legal protections associated with the recruitment process. In pre-interview training sessions, for example, recruitment agents like Sabin endeavour to challenge the legitimacy of informal recruitment fees charged by sub-agents, a practice that rural communities have often internalised as an expected cost of migration. They also educate aspiring workers about important government policies like the 'Free Visa, Free Ticket' policy that, a decade since its

¹⁵ International Labour Organization, *General Principles and Operational Guidelines for Fair Recruitment and Definition of Recruitment Fees and Related Costs* (Geneva: ILO, 2019).

¹⁶ Verité, 'Recruitment Cost Calculator', <https://verite.org/calculator/> (accessed 28 April 2025).

¹⁷ This amount was calculated by adding together costs related to 'document mobilization' and 'departure processing', both of which require workers to travel to and from Kathmandu.

¹⁸ Philip Martin, *Merchants of Labor: Recruiters and International Labor Migration* (Oxford: Oxford University Press, 2017).

introduction, has yet to become universally recognised across the country.¹⁹ In other words, ethical recruitment agents should be seen as potential partners in ‘cascading’²⁰ ethical recruitment principles to MNC’s lower-tier suppliers and even the migrant workers they seek to employ.

Second, Rajan’s experience with ethical recruitment invites a re-evaluation of the allocation of costs that accumulate during the recruitment process. Ethical recruitment involves the re-allocation of costs previously borne by job-seeking migrants to prevent debt bondage and forced labour. The Employer Pays Principle stipulates that employers bear these costs, but what happens when employers like Rajan (Tier 2 and 3 SMEs) cannot afford them? While we have primarily focused on the costs incurred prior to deployment, there are also costs associated with the destination country that may impose further strain on employers’ financial resources, especially if those expenses are unexpected. In the best-case scenario, employers make difficult compromises and offer partial reimbursements in their earnest effort to practise ethical recruitment; in the worst-case scenario, they abandon ethical recruitment altogether.

What is needed, we suggest, is a reconsideration of the cost-sharing structures that impact stakeholders across global supply chains, including international buyers and brands, employers (both MNCs and SMEs), recruitment agents and governments. Many incentives have been proposed to encourage recruitment agencies and employers to adopt ethical recruitment principles such as tax incentives; expedited processing of licenses, visas and contracts; increased industry self-regulation efforts; and preferential market access.²¹ Any incentives will of course require government monitoring and enforcement to reward recruitment agencies and employers that go the extra mile. But while we agree that incentives can be helpful, we join the small chorus of voices that call for greater shared responsibility²² or the equitable burden²³ of recruitment costs, especially with regard to buyers (and, implicitly, retailers and consumers). A 2017 ILO Global Survey found that while 93% of buyers required their suppliers to meet social standards, only 17% of these suppliers benefited from shared audit costs and only 9% received any financial assistance from buyers.²⁴ Our own research, moreover, suggests that buyers do not increase the prices they are willing to pay for goods produced using ethically recruited migrant labour. This reluctance is especially difficult for the financial health of SME suppliers like Rajan, whose experience with ethical recruitment we documented in this article. It is time that buyers begin to take up the responsibility of helping shoulder some of the increased cost to business

¹⁹ Oshin Pandey, ‘The Hidden Costs of Nepal’s “Free Visa, Free Ticket” Policy’, *The Diplomat* (9 December 2024), <https://thediplomat.com/2024/12/the-hidden-costs-of-nepals-free-visa-free-ticket-policy/> (accessed 17 July 2025).

²⁰ Verónica H Villena, ‘The Missing Link? The Strategic Role of Procurement in Building Sustainable Supply Networks’ (2019) 28:5 *Production and Operations Management*. 1149.

²¹ International Labour Organization, ‘Regulating Recruitment of Migrant Workers: An Assessment of Complaint Mechanisms in Thailand’ (Bangkok: ILO, 2013); Kate Hooper, ‘Consolidating Gains: Lessons and Priorities for Promoting Fair and Ethical Recruitment’, https://www.migrationpolicy.org/sites/default/files/publications/mpi-fair-recruitment-2023_final.pdf (accessed 31 July 2025).

²² Interfaith Center on Corporate Responsibility, ‘Best Practice Guidance on Ethical Recruitment of Migrant Workers’ (New York: ICCR, 2017).

²³ Electronics Watch, ‘Guidance for Remediation and Prevention of Migrant Worker Recruitment Fees and Related Costs in Public Procurement’, (Amsterdam: Electronics Watch, 2019), http://electronicswatch.org/guidance-for-remediation-and-prevention-of-migrant-worker-recruitment-fees-and-related-costs-in-public-procurement-april-2019_2557767.pdf (accessed 1 August 2025); Hannah Newcomb and David Camp, ‘Eliminating Worker-Paid Recruitment Fees and Related Costs’ (UK: RRT, 2019).

²⁴ International Labour Office (ILO), ‘Purchasing Practices and Working Conditions in Global Supply Chains: Global Survey Results’, <https://www.ilo.org/publications/purchasing-practices-and-working-conditions-global-supply-chains-global> (accessed 31 July 2025) 9–10.

of recruitment if we are to begin closing the gap between ideals and reality for SMEs seeking to implement ethical recruitment.

Acknowledgments. We wish to sincerely thank the journal's editorial team for their careful handling of our manuscript from submission to review. We are also very grateful to the two anonymous reviewers for their insightful comments and thoughtful suggestions that greatly enhanced the clarity and depth of our analysis. Finally, we extend our heartfelt gratitude to our anonymous informants who generously shared their experiences and perspectives, and we honour their valuable contributions to advancing understanding in this field.

Financial support. Yvonne Khor and Jing Hao Liong declare none.

Competing interests. Yvonne Khor and Jing Hao Liong declare none.

Cite this article: Yvonne Khor and Jing Hao Liong, 'Closing the Gap between Ideals and Reality: Lessons from a Malaysian SME's Experiment with Ethical Recruitment in the Nepal-Malaysia Corridor' (2025) *Business and Human Rights Journal*, 1–8. <https://doi.org/10.1017/bhj.2025.10022>