

THE RECRUITMENT OF MIGRANT WORKERS IN THE FOOD SERVICE INDUSTRY IN MALAYSIA. A STUDY OF OLD TOWN WHITE COFFEE AND PAPPA RICH KOPITIAM

Yeo Sing Yee¹ --- Joyce Leu Fong Yuen²

^{1,2}Department of Business Studies, HELP University, Kuala Lumpur, Malaysia

ABSTRACT

In the recent decades, the process of globalization has increased the mobility of labor and spurred rapid international migration across borders. As one of the major labor importers in Asia, the government of Malaysia is committed to reduce the number of migrant labors to 1.5 million by 2015. Though many researches have been conducted to study the employment effects of migrant workers towards the local labor economy, this research aims to examine the factors which lead to the recruitment of migrant workers in the café segment of food service industry in Malaysia, specifically Old Town White Coffee and Pappa Rich Kopitiam (Café) in Klang Valley, Malaysia. Four main factors are being studied in this research, namely the lower wages; acceptability of workers towards poor employment conditions; flexibility of employees at work and better work ethics of foreign labors. The recruitment of migrant workers is said to be motivated by three main factors: lower wages, acceptability of workers towards employment conditions and better work ethics of the foreign workforce. In addition, the flexibility of workers is proven to have no significant relationship with the recruitment of migrant workers in this sector.

Keywords: Migrant workers, Food service industry, Café franchise, Old town white coffee, Pappa rich kopitiam (café), Lower wage, Flexibility at work, Work ethic, Malaysia.

Contribution/ Originality

This study explores the recruitment issues of migrant workers in the café industry, which has been neglected in Malaysia. Café industry is one of the industries which has huge number of migrant workers. This study gives an in-depth knowledge of employer-employee relationships in Old Town White Coffee and Pappa Rich Kopitiam (café).

1. INTRODUCTION

According to [United Nations \(1990\)](#), a migrant worker is defined as a foreigner who is engaged or has been engaged in a remunerated activity in a nation of which he or she is not a citizen. The process of globalization has increased the mobility of labor and spurred rapid

international migration across borders in the recent decades. Organization for Economy Co-operation Development (OECD, 2013) reports that there are 232 million international migrants in 2013 (about 3.2% of world's population), a sharp increase from 154 million in 1990.

In Southeast Asia, Singapore has the highest number of international migrants with 1.8 million, followed by Malaysia with 1.6 million (Patricia, 2010). At the same time, many Southeast Asia Countries are major sources of migrant labor. For example, 8.2 million of Filipinos are in overseas, with 3.6 million as permanent residents, 3.8 million as temporary residents and 875,000 recorded as irregular migrants (Patricia, 2010).

1.1. Migrant Workers in Malaysia

Since the early-1970s, Malaysia has relied on the regional labor market for unskilled and semi-skilled workers to fuel growth and facilitate structural adjustment (Kanapathy, 2006). As such, the number has a sharp increase from 532,000 migrant workers in 1993 to 1.6 million registered migrant workers in 2012 (Ministry of Finance Malaysia, 2013).

The increasing demand of migrant workers in Malaysia can be explained by its growth in industrialization and economy. In the past, migrant workers were used as a short-term response to alleviate labor shortages and lower labor costs. However, with the rapid growth of numbers in the recent years, concerns from the aspects of politic, social and economic have been raised. The unprecedented arrival of semi-skilled and unskilled migrant workers is viewed as a threat to the local workforce as they tend to replace local unskilled labors (Pillai, 1995).

Another perception is that the use of inexpensive migrant workers would suppress the domestic wage growth for the native workers of the same category. Hence, to ensure sustainable growth and minimize socio-economic impacts, the government has shown great commitment in reducing the number of migrant labors to 1.5 million by 2015 to reduce the overreliance on immigrants (Economic Planning Unit, 2013).

1.2. Food and Beverage Industry in Malaysia

Resulting from the change of life style for the past decades, food & beverage industry has been mushrooming, due to its great business potentials. It has much more to offer to the locals and tourists who dining out. Food & beverage industry satisfy consumers with its varieties, quality of the food and great taste to activate our taste buds.

In general, the food service industry can be divided into six main segments, namely: cafés and bars, self-service restaurants, full-service restaurants, fast food, takeaway and street kiosks. The International Markets Bureau (2011) indicates that the three leading segments in this industry are cafés and bars, full-service restaurants and fast food segments. Lately, cafés have become an important feature of the Malaysia's food service industry, as there have been a remarkably expansion in this segment. The rising disposable income and increasingly young population have led to further growth in the cafes and bars service industry.

In the recent years, a new phenomenon in such segment is the birth of local café franchise brands such as Old Town White Coffee and Pappa Rich Kopitiam (café). This café franchise shows a huge potential as it is aligned with the demand and life styles of people in Malaysia. For example, the total revenue for Old Town White Coffee in 2013 was RM 422,054,000; the profit before tax for 2013 was RM 74,947,000 (Old Town White Coffee, 2013).

Both of the mentioned examples are growing local food and beverage brands with established outlets in Malaysia. The former brand was first established in 1999 and has grown extensively into 200 café outlets throughout Asia (Old Town White Coffee, 2013). By manufacturing its own instant white coffee mixes, Old Town's products are now being exported to more than 13 countries internationally. On the contrary, Pappa Rich Kopitiam was founded in 2005 and has been expanded to 90 café outlets nationwide (Pappa Rich Kopitiam, 2014). The founders of both brands mentioned above have adopted the franchising approach as a way to expand their businesses nationwide and worldwide.

1.3. Significant of the Study

Most of the foreign workers in Malaysia are mainly low-skilled, as the expatriates found in Malaysia only dominate 3% of the total foreign workforce in Malaysia (Ministry of Finance Malaysia, 2013). Contract workers who dominate 97% of the migrant workforce in Malaysia are being employed mainly in the manufacturing, construction, plantation, agriculture and service sectors. They are employed as a temporary measure to overcome the labor market imbalances in specific industries, food and beverage industry is one of them.

To remain competitive, many food service operators have opted to employ migrant workers in their daily operations to lower the cost of businesses. Many studies has done related to this issue, however, no study has been conducted to identify the reasons for employing migrant workers in Malaysia. Hence, this research aims to determine the factors that influence the decision to employ migrant workers in the café segment of food service industry in Malaysia. Focus will be placed on the Old Town White Coffee and Pappa Rich Kopitiam, as both of the brands are expanding rapidly, thus, they can represent the café segment in the food service industry.

1.4. Objectives of the Study

This study proposes to meet the following objectives:

- To identify the factors that lead to the recruitment of migrant labors in the café segment of food service industry.
- To examine the significance of each factor in affecting the employers' decision to employ foreign workers in the café service industry.
- To suggest appropriate recommendations for policymakers in formulating policies to reduce the overreliance of migrant workers in the food service industry.

2. LITERATURE REVIEW

Based on a report published by [Institution of Employment Studies \(2006\)](#), Dench, Hurstfield, Hill and Akroyd list four main factors that lead to the recruitment of foreign workers instead of domestic workforce.

To enhance the competitiveness of businesses, many employers resort to the use of migrant workforce instead of local workforce. The following section explores the reasons which lead to the preference of employers towards migrant workers, namely: lower wages, acceptability of workers towards employment conditions, flexibility at workplace and the better work ethics of immigrants.

2.1. Lower Wages

Employers in labor-intensive industries often prefer to keep their labor costs low as they fear of decreased profitability and competitiveness. For example, construction, food processing, social care, agriculture and hospitality industries are heavily reliant on low-cost employment. In detail, immigrants typically have lower reservation wage, the minimum salary that motivates an individual to work as compared to equivalent locals.

The [Learning and Skills Council \(2006\)](#) finds that employers who hire migrant workers in United Kingdom (UK) perceive them dispassionately as a cost-effective commodity. According to [Devadason \(2012\)](#), enterprises prefer immigrants to local citizens, thus displacing the local workforce. This is due to the fact that hiring contract foreign labors could help firms to maintain their labor costs. However, the access to a ready pool of low-cost unskilled migrant workers will impede the adoption of new, skilled complementary technology ([Durbin, 2004](#)). For instance, construction sector would rather rely on immigrants as investing in labor-saving technology would impose more cost for the employers in the short-run. In the absence of immigrants, the operation cost of businesses will increase as employers need to raise the wage levels to attract local workforce or to upgrade into labor-saving technology.

2.2. Acceptability of Workers towards Employment Conditions

Apart from the inexpensive reservation wage of migrant workers, certain employers turn to migrants as the latter have lower expectations about employment conditions. [Anderson and Ruhs \(2011\)](#) reveal that employers are aware of the willingness of immigrants to accept the undesirable employment conditions in the host countries, as the conditions are far better than those prevailing in their origin countries.

Prior studies by [Moriarty et al. \(2008\)](#) find that employers in the food processing and social care sector in UK have acknowledged that, the employment conditions being offered in low-skilled work are intolerable and unacceptable to most local workers. Instead of having the local workers complaining over the 3D (monotonous, menial and dirty) jobs, migrants are regarded as a better choice as they are willing to endure the poor employment conditions. However, such willingness to work in poor working conditions also caused the immigrants to be susceptible to

exploitation. As a result, the welfare of migrant workers in terms of occupational safety and health is often neglected and compromised.

2.3. Flexibility at Workplace

Another underlying motive behind the preference use of migrant workers for low-skilled jobs is that, they are more flexible at work as compared to the locals. Atkinson (1984) proposes that employers seek four main types of flexibility in potential employees, namely: wage flexibility, functional flexibility, internal numerical flexibility and external numerical flexibility. In the context of this research, functional flexibility and internal numerical flexibility will be further discussed as the two components are emphasized, particularly in lower-skilled job roles (Atfield *et al.*, 2011). In detail, functional flexibility refers to the extent workers are able to handle different tasks and play different roles within the business (Green *et al.*, 2013). Such movement in job roles is commonly viewed as unacceptable among the local employees due to the attributes of the jobs. In this case, migrant workers are functionally more flexible, as they are willing to switch roles at workplace. For instance, receptionists in food service sector may be asked to become kitchen porters when the need arises.

On the other hand, internal numerical flexibility involves the adjustments to the employees' inputs at work. Employers typically prefer to recruit employees who are able to work flexible hours. However, a majority of local workforce is reluctant to work anti-social hours. Institution of Employment Studies (2006) report that employers in the hotels and catering sector face difficulty in recruiting domestic workers who are willing to work flexible or anti-social hours. Therefore, employers have to resort to immigrants to fill the demand for irregular working hours.

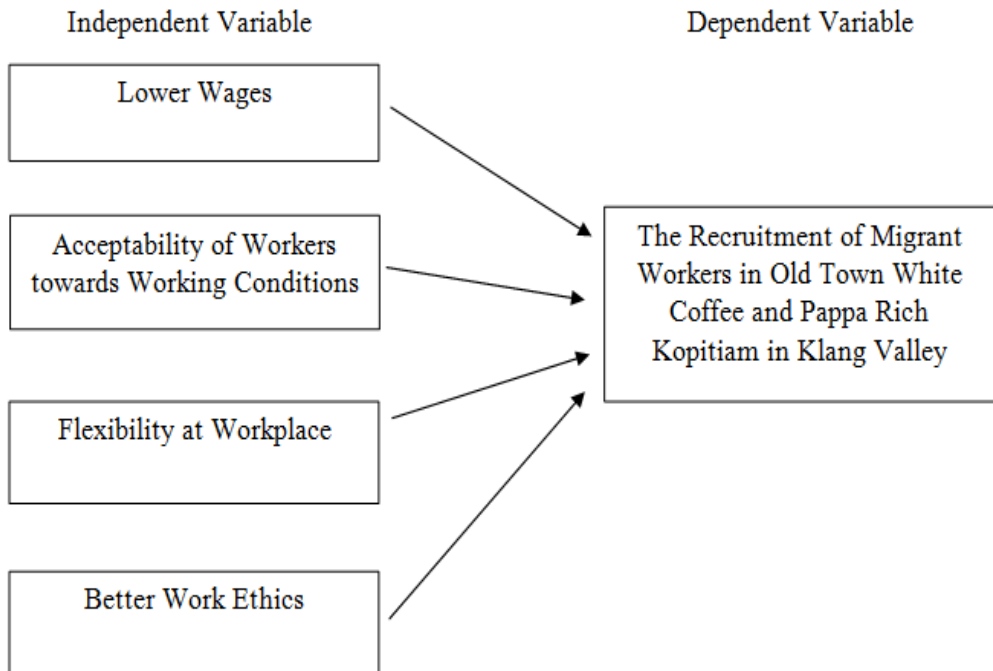
2.4. Better Work Ethics

According to Anderson and Ruhs (2011), it is a challenging task for employers to control worker-effort, which is an important component in good employment relations. Employers from diverse industries demand specific attributes and competencies of employees for certain occupations. Undeniably, employers would prefer workers with good work ethics and tend to motivate them by offering wage or non-wage benefits. Work ethics capture a series of positive attitudes and soft skills, which include the attitude at work, the ability to cooperate with teammates effectively and to comply to the instructions given. Recent researches indicate that employers perceive migrant workers to have superior work ethics and attitude, as compared to domestic workforce.

The employment in certain sectors, particularly the hospitality industry requires customer contact and unpredictable demand for services. Studies have confirmed that employers not only recruit migrant workers to reduce labor costs, but also because some migrant workers are perceived to have better work ethics than the existing workforce. Therefore, migrant workers have better opportunities to become the candidates for low-skilled works in certain host countries.

2.5. Conceptual Framework

Figure-2.1. Research Framework of the Recruitment of Migrant Workers in the Old Town White Coffee and Pappa Rich Kopitiam in Klang Valley.



This conceptual framework is adopted from the framework of [Learning and Skills Council \(2006\)](#). Each of the factors will be tested and measured to determine if it leads to the preference of employers towards the recruitment of migrant workers in the café segment of food service industry in Malaysia.

The relationship of independent variables and dependent variable are listed as:

- The cheaper wages of migrant workers could lead to lower labour cost, hence, influencing the employers to hire migrant workers instead of local workforce.
- The higher the tolerability of migrant workers towards poorer working conditions, the more likely the employers will recruit migrant workers.
- The higher the flexibility of migrant workers at workplace would cause the employers to hire more migrant workers instead of using the local workforce.
- The better work ethics of migrant workers as compared to local workforce will lead to the replacement of local workers in this industry.

3. METHODOLOGY

Quantitative approach is used to quantify and explain the results of this study, along with descriptive analysis. The targeted study population is the managers of Old Town White Coffee and Pappa Rich Kopitiam franchise outlets in Selangor.

This state is chosen as targeted ideal place to conduct the study, as both the franchise brands have established the most outlets in this state. In detail, Old Town White Coffee has established 99 outlets whereas Pappa Rich Kopitiam has 55 outlets in Selangor. In this study, clusters sampling method is used, it is based on geographical zone, as only the franchise outlets in Klang Valley are selected for the survey from both groups. The managers of the franchise outlets of Old Town White Coffee and Pappa Rich Kopitiam in Klang Valley will be selected to fill up the questionnaire. The sample size of 30 outlets responded to the questionnaire. In brief, descriptive statistics and Pearson product-moment correlation analysis are performed to explain the findings of the research. At the same time, cross tabulation will be used to compare the differences between the degree of agreement to selected statements among the managers from both of the franchise brands.

4. FINDINGS AND DISCUSSION

4. 1. Background

Table-4.1. Number and Percentage of Local and Migrant Workers

Local Franchise Brand	Local Workers		Migrant Workers		Total Workers	
	Number	Percentage	Number	Percentage	Number	Percentage
Old Town White Coffee	63	33.16%	127	66.84%	190	100%
Pappa Rich Kopitiam	47	28.66%	117	71.34%	164	100%
Total	110		244		354	

Table 4.1 shows the number and percentage of local and migrant workers working in the participated franchise outlets. Based on the tabulated result, it is seen that both of the franchise brands employ more migrant workers over local workers. Of the 190 employees working in Old Town White Coffee, local workers and migrant workers accounted for 33.16% and 66.84% of the total employees respectively.

Crosstab

Table-4.2. Cross Tabulation for Old Town White Coffee and Pappa Rich Kopitiam

I recruit migrant workers due to:		Neither	Agree	Strongly Agree	Total
Lower wage	Old Town White Coffee	4	9	2	15
	Pappa Rich Kopitiam	5	6	4	15
Acceptability of workers towards environment	Old Town White Coffee	5	9	1	15
	Pappa Rich Kopitiam	2	12	1	15
Flexibility of works	Old Town White Coffee	2	10	3	15
	Pappa Rich Kopitiam	2	11	2	15
Better work ethics	Old Town White Coffee	0	11	4	15
	Pappa Rich Kopitiam	2	9	4	15

On the other hand, of the 164 workers in Pappa Rich Kopitiam, 28.66% of the total workers are Malaysians whereas the remaining 71.34% are migrant workers. As a whole, the total number

of workers being employed in the 30 sample outlets sum up to be 354 employees, in which 110 of them are local workers and 244 of the remaining are migrant workers.

4.2. Reasons for Recruitment of Migrant Workers

The analysis from 4.2.1 to 4.2.4 are based on table 4.2.

4.2.1. Low Cost

Based on Table 4.2, it can be seen that half of the total respondents (15 out of 30) agree and another additional 6 respondents strongly agree to the statement that they recruit migrant workers as they cost lesser than the local employees. While there are 9 respondents who took a neutral stand on this statement, 11 out of 15 participants (73.33%) from Old Town White Coffee and 10 out of 15 participants (66.67%) from Pappa Rich Kopitiam are in agreement that the use of migrant workers at the workplace is due to the fact that they have lower reservation wage as compared to the local workforce.

4.2.2. Acceptability of Workers towards Employment Conditions

It is revealed that 21 out of 30 managers of the franchise outlets agree and another additional 2 managers strongly agree that migrant workers are generally more willing to accept the poor and dirty working conditions at workplace. 100% of the respondents either took a neutral or positive stand on this claim as none responded negatively to this statement. 10 out of 15 participants (66.67%) from Old Town White Coffee and 13 out of 15 participants (86.67%) from Pappa Rich Kopitiam are in agreement that migrant workers are more willing to perform the 'low-status' jobs as compared to the local workforce.

4.2.3. Flexibility of Work

A majority of respondents (21 out of 30) agree and an additional 5 respondents strongly agree to the claim that the migrant workers are more undemanding and more flexible at work. While there are four neutral votes on this statement, 13 out of 15 employers (86.67%) from both Old Town White Coffee and Pappa Rich Kopitiam respectively feel that the migrant workers are more undemanding and flexible in the sense that they are willing to switch roles at work, unlike the local employees.

4.2.4. Better Work Ethics

The data demonstrates the number of votes the statement obtained, when the managers of the 30 participated franchise outlets were being asked to rate their degree of agreement in the questionnaire. A majority of respondents (20 out of 30) agree and 8 respondents strongly agree to the statement being tested. While none of the employers disagree to the fact that migrant workers are more disciplined, 2 managers from Pappa Rich Kopitiam took a neutral stand on this matter. All managers from the 15 participated Old Town White Coffee outlets and 13 out of 15

managers (86.67%) from Pappa Rich Kopitiam outlets are in agreement that the foreign labors are able to complete their tasks well.

From the findings, we can conclude that low cost, acceptability of workers, flexibility of work and better work ethic are the reasons of hiring workers in both franchise café. However, further analysis is needed to determine the level of correlation between these factors and the recruitment of migrant workers.

4.3. Correlation

Table-4.3. Correlation between the Recruitment of Migrant Workers and Lower Wages, Employment Conditions, Flexibility & Work Ethics

Items	Lower wages	Employment conditions	Flexibility	Work Ethics
I favor the recruitment of migrant workers				
Pearson Correlation	0.521**	0.392**	0.254**	0.369**
Sig. (2 tailed)	0.003	0.032	0.175	0.045
N	30	30	30	30

4.3.1. Correlation between the Recruitment of Migrant Workers and Lower Wage

The correlation coefficient (r) is 0.521. In a two-tailed test, the p -value is 0.003. According to the rule of thumb, the 0.521 value of r shows that there is a moderate positive relationship between both the variables. Whereas, the p -value confirms that the relationship is significant. Thus, there is a significant positive relationship between the lower wages and the use of migrant workers, in both café.

It can be deduced that the factor of lower wages had a statistically significant impact on the preference use of migrant workers, instead of local workers in the café segment of food service industry. In addition, it has the most significant impact as its correlation coefficient is the highest among the four factors studied. It is also confirmed in table 4.3 that, most of the employers hire migrant workers to reduce costs due to their lower reservation wage, as compared to the local workforce. [Geddes and Scott \(2010\)](#) claim that the preference use of low-wage foreign labors serves as a subsidy to employers.

From the perspective of employers, a cut in the labor costs can help to maintain or even increase the profit margins of the businesses. By cutting the operational cost, the use of migrant workers ensures that the competitiveness of a business can be enhanced ([Waldinger and Lichter, 2003](#); [Devadason, 2012](#)). At the same time, [Dench et al. \(2006\)](#) also discover that the migrant labors are viewed as a cost-effective commodity by the employers in the hotels and catering sector in UK. The same situation happens in the palm oil industry in Malaysia, low wage migrant workers has generated more profit to employers ([Oliver et al., 2012](#)).

It should also be noted that the implementation of the minimum wage policy has not much influence on the hiring of migrant workers in the studied field. The migrant workers have been remunerated with a higher-than the minimum wage rate but lower-than the locals' salaries level all these while.

4.3.2. Correlation between the Recruitment of Migrant Workers and the Acceptability of Workers towards Employment Conditions

In a two-tailed test, the p-value is 0.032, which shows a significant positive relationship between the acceptability of workers towards employment conditions, and the use of migrant workers in both franchise café.

However, table 4.3 reinstates that this factor received the second highest amount of votes as the most influential factor in the decision to recruit migrant workers. Unlike local workers, the poor employment conditions offered by employers in the food service industry are acceptable to most of the migrant workers.

The result of this study is supported by the research conducted by [Nayarana and Lai \(2005\)](#), which reveal that the use of migrant workers, instead of local workforce in the construction sector in Malaysia, is mainly due to the former can tolerate poorer and harsher employment conditions. Similar results are proven by the research of [Geddes and Scott \(2010\)](#). With the lower expectation and higher acceptability of employment conditions of migrant workers, there have been cases where proper rules of occupational safety and health are not properly implemented in the workplace which then leads to workplace accidents.

4.3.3. Correlation between the Recruitment of Migrant Workers and Work Ethics

The Pearson product-moment correlation result shows that the correlation coefficient (r) is 0.369, with p-value 0.045. The data shows that there is a significant positive relationship between work ethics, and the use of migrant workers in both firms.

According to the rule of thumb, this relationship is considered as the weakest among all as its correlation coefficient, which position itself at 0.369. Though not being placed as the most influential factor, the better work ethics of foreign labors is still a determining factor in the decision to recruit migrant workers.

It has been observed that the migrant workers are more hardworking and show better attitude at work, as compared to the local workers. [Anderson and Ruhs \(2011\)](#) also claim that the foreign labors are generally more grateful and appreciate their jobs more, by being committed at work. In addition, [Smith \(2006\)](#) finds that the greatest difference between domestic and foreign labors is the acceptability of workload intensity, where the latter can accept a heavier intensity of workloads

These superior work ethics of foreign workers contribute partly to the preference of employers in the recruitment of migrant workers.

4.3.4. Correlation between the Recruitment of Migrant Workers and the Flexibility at Workplace

The Pearson product-moment correlation result shows that the correlation coefficient (r) is 0.254. In a two-tailed test, the p -value is 0.175. There is no positive relationship between both the variables. As a result, there is no significant relationship between the flexibility of employees at workplace and the use of migrant workers in both of the local franchise cafe.

It can be deduced that the flexibility of workers at work is not an important aspect in this study. This result is in contrast with the palm oil industry, one of the factors which attract the recruitment of migrant workers is due to the flexibility of workers in taking overtime, based on the global demand and prices of palm oil (Oliver *et al.*, 2012)

5. CONCLUSION

According to the study, it can be concluded that the factors behind the use of migrant workers in the café segment of food service industry ranked in order of significance are lower wages of the foreign workforce, acceptability of workers towards working conditions and better work ethics of migrant workers. It has been revealed that the lower wages of foreign workforce contributes most to the decision of employers to recruit migrant workers instead of hiring the existing workforce.

On the other hand, the factor of flexibility of workers at work is found to have no significant impact on the use of migrant workers. Though migrant workers are more willing to work long hours as compared to the native workforce, the nature of jobs in the café segment does not require the employees to work long hours. Workers in Old Town White Coffee and Pappa Rich Kopitiam work according to the shifts allocated.

As most of the employers from Old Town White Coffee and Pappa Rich Kopitiam ranked the lower wages as the most influential factor in the recruitment of migrant workers, it can be deduced that the migrant workers are viewed as complements to the domestic workers. With that, the migrant workers are said to be competing with the lower-skilled local workforce in filling the roles being offered in the food service industry.

Nayarana and Lai (2005) further allege that unskilled migrant workers do not contribute to skill formation, they thwart the wider use of impair productivity growth and produce shoddy outputs. For example, most migrant workers lack previous experience in construction, they acquire construction skills only subsequent to their working in Malaysia (Nayarana and Lai, 2005).

It is of course unwise to let the industry largely dependent on workers from other countries. Policymakers should utilize these findings and formulate appropriate labor migration policies in the effort of reducing the number of migrant workers to 1.5 million by 2015. The implementation of minimum wage policy covering local and migrant workforce also intend to increase the cost of hiring migrant workers, allowing the unskilled indigenous workers to be employed when the cost

of hiring both are about the same. To reduce the overreliance of migrant labors in this sector, it is important for the government to limit the number of work permits being issued, while imposing more levies so as to increase the cost of hiring a migrant worker.

Apart from evaluating this situation from the prospective of the employers and policy makers, there are other issues being raised, concerning the rights and welfare of migrant workers in Asia or Southeast Asia. The South East Asia National Human Rights Institution Forum (SEANF) notes that they are obligation to comply with the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work. Thus, SEANF proposes the 'national treatment' in relation with wages and conditions of work for migrant workers (South East Asia National Human Rights Institution Forum, 2010). The minimum wage policy which has been enforced is part of the responses to the urge of SEANF. Furthermore, employer also need to ensure a proper working environment for migrant workers, though they have high tolerance on 3D jobs. More important, fulfilling all these requirements not because employers are forced to do so, but part of social justice and responsibility which employers shouldn't neglect.

As they are more awareness on corporate social responsibilities (CSR) among the public and buyers, employers are expected to play a more crucial role in this expect, such as the adaptation of CSR in the mainstream direction of brand-name manufacturers (Crisinis, 2010). The core values include non-discrimination in the workplace, rights to form unions, rights to bargain, etc. These policies are aligned with the standard emphasized by the Fair Labor Association. As such, the policy makers and employers should find a balance between making profit and ensuring migrant workers' rights, in order to achieve win-win situations, which will benefit all parties involved in the long run.

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