



CONFLICT BETWEEN MANAGERIAL PREROGATIVE AND EMPLOYEES' PROTECTION IN MALAYSIA: LEGAL PERSPECTIVE ON RETRENCHMENT AND DISMISSAL

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Abstract:

Workplace governance in Malaysia is characterized by a persistent tension between managerial prerogatives and statutory employee protections. While employers retain the authority to restructure operations, retrench staff, and determine employment terms, these powers must operate within the bounds of procedural fairness, transparency, and good faith. This study aims to examine the legal boundaries of managerial prerogatives in Malaysia, with a specific focus on retrenchment and dismissal. It determines how effectively the law balances operational autonomy with employee protection. Using a qualitative doctrinal methodology, the research analyzes statutory provisions, judicial precedents, and industrial guidelines to assess the extent to which the Employment Act 1955, the Industrial Relations Act 1967, and the Code of Conduct for Industrial Harmony safeguard against arbitrary or unfair dismissals. The findings confirm that while the legislative framework and judicial oversight provide important protections, enforcement gaps and inconsistent procedural application undermine their effectiveness. The study achieves its objective by clarifying the doctrinal limits of employer discretion and contributes to both theory and practice by offering guidance for consistent application of labor laws, thereby promoting a more equitable and sustainable employment environment in Malaysia.

Keywords:

Dismissal, Employment, Managerial Prerogative, Redundancy, Retrenchment, Workplace

Introduction

Managerial prerogatives refer to the rights and powers vested in employers to make decisions regarding the operation and organization of their businesses. These include the formulation of work procedures, the determination of employment terms, and the management of employee performance (Shahrilnizam et al., 2015). In Malaysia, the Employment Act 1955 provides a statutory foundation that defines the responsibilities of employers while still allowing room for operational discretion. For example, Section 12(3) of the Act permits employers to terminate employees under specific circumstances, such as business closure, redundancy, or organizational restructuring. Likewise, Section 13(3) of the Industrial Relations Act (IRA) 1967 recognizes the employer's right to retrench workers or reorganize operations provided such actions are carried out in good faith and for legitimate business purposes (Hassan et al., 2016).

The Code of Conduct for Industrial Harmony (1975), recognized under Section 30(5A) of the Industrial Relations Act (IRA) 1967, serves as a guiding framework for maintaining fair and balanced workplace relations. Often viewed as a best-practice rulebook, the Code emphasizes the importance of fairness, transparency, and open dialogue, especially in situations involving potential layoffs. Clause 20 encourages employers to exhaust all possible alternatives before resorting to retrenchment, while Clause 21 underscores the need for prior consultation with employee representatives or trade unions before any major decisions are made. These principles have been supported by judicial rulings, including *Mamut Copper Mining Sdn. Bhd. v Chan Fook Kong @ Leonard and Ors.* (1997), where the court reaffirmed that retrenchment exercises must be conducted in a manner that is fair, transparent, and in accordance with accepted industrial norms.

However, despite these regulatory safeguards, imbalances persist in practice. Employers typically wield disproportionate authority in employment relations, which often places workers at a significant disadvantage, particularly in matters of disciplinary action or unexpected termination (Stylogiannis, 2023). Furthermore, gaps in legal protections in certain jurisdictions may create opportunities for employers to exceed reasonable boundaries (Sundra-Karean & Ahmad, 2012). Consequently, achieving an equitable balance is imperative, one that upholds managerial efficiency while ensuring employees are not unjustly marginalized.

This study examines the application of managerial prerogatives within the Malaysian context, with particular focus on disputes arising from retrenchment and dismissal cases. Employing a qualitative doctrinal legal methodology, the research analyses key legislative instruments including the Employment Act 1955 and the Industrial Relations Act 1967, alongside relevant jurisprudence, to delineate the boundaries between employer autonomy and employee safeguards. The study elucidates how Malaysian labour law navigates the complex equilibrium of recognising the equitable workplace relations that serve the interests of all stakeholders.

Concept and Limits of Managerial Prerogative

Managerial prerogative, often called management rights, is a long-standing concept that traces back to common law traditions. In its early form, it gave employers sweeping control over decisions in the workplace, shaped by the old master-servant model where bosses held near-total authority over their workers (Storey, 1976). Back then, labor laws largely supported this imbalance, reinforcing the idea that employers had the final say, while employees were expected to follow without much say (De Stefano et al., 2024). But things started to change in

the late 1800s and early 1900s. Legal systems slowly began to recognize that workers, too, deserved rights. While these changes didn't completely undo the strong grip employers had, they did start to level the playing field. By the middle of the 20th century, with the rise of unions and collective bargaining, employees gained more power to negotiate their terms, pushing back against one-sided decisions from management (Brown, 1976).

Today, the idea of managerial prerogative still exists, but it's often explained through principles like property rights and freedom of contract. Business owners argue that since they own the company, they should have the freedom to run it, making choices about hiring, firing, and setting the rules. At the same time, employment contracts are seen as mutual agreements, where both employer and employee agree on things like pay, job duties, and expected conduct. This balance reflects a modern understanding that workplace decisions should be guided by negotiation, not just authority.

Management Prerogatives and Retrenchment

Retrenchment, the termination of employees due to surplus labor rather than disciplinary reasons (*Hariprasad v. Divelkar*, 1957), remains one of the most difficult and ethically sensitive dimensions of managerial prerogative. It highlights a tense intersection between an employer's right to restructure for efficiency and an employee's right to job security and fair treatment. While often presented as an unavoidable step for business survival or organizational reform, retrenchment invariably raises serious concerns about fairness, transparency, and the ethical obligations of management toward its workforce.

From a legal standpoint, retrenchment is permissible when undertaken in good faith as part of a genuine business reorganization. As noted by Malhotra (1968) "retrenchment is permissible due to the reorganization of business. It is within the managerial discretion of an employer to organize and arrange their business in the manner they consider best. As long as this is done bona fide, it is not within the Tribunal's competence to question its propriety." Even so, this discretion is not absolute. Courts have consistently stressed the importance of examining retrenchment exercises to ensure they are not being used to mask unjust or arbitrary dismissals. In assessing whether a retrenchment is valid, courts typically consider three key factors:

- a. The employer must provide clear and reasonable grounds for the retrenchment, such as declining business performance, structural reorganization, or cost-efficiency measures. For example, in *Electcoms Sdn Bhd v Tay Kah Hock* (2013), the company successfully argued that an economic downturn required a restructuring process, and the court recognized the legitimacy of the retrenchment, particularly because the company had attempted to redeploy affected employees before proceeding with layoffs
- b. The reasons cited by the employer must be authentic and backed by concrete evidence, such as a measurable drop in workload, financial strain, or operational realignment. In *Ahmad Nasirruddin bin Harun v KPJ Healthcare Bhd* (2024), the court carefully reviewed organizational charts and financial documents to verify the employer's claim that the employee's role had become redundant due to restructuring.
- c. Employers must act in good faith and avoid using retrenchment as a tool to target or punish specific employees. In *Arkitek Ak/Prima Sdn Bhd v. Liang Siew Fatt & Anor* (2002), serves as a reminder that any indication of ulterior motives such as

retaliation for union involvement or personal grievances can invalidate the entire retrenchment exercise.

Retrenchment process must be carried out with transparency, objectivity, and strict adherence to legal and procedural requirements. Employers who disregard these principles risk not only reputational damage but also significant legal liability.

Redundancy

Redundancy occurs during business reorganizations, where certain positions are either eliminated or consolidated to better fit the company's updated operational needs. Often, large-scale redundancies are driven by economic pressures or shifts in the labor market, making it essential to carefully assess the financial challenges the organization is facing. Successfully managing these transitions requires well-considered human resource strategies that not only address operational needs but also promote a sense of fairness and transparency in the process (Raeder, 2019). The rise of automation and digital technologies under the banner of Industry 4.0 has also contributed significantly to organizational restructuring. As companies adapt to these changes, some roles become obsolete while others demand new, specialized skill sets (Husin et al., 2023). Financial pressures such as those experienced during the COVID-19 pandemic, have further forced companies to downsize in order to remain stable and competitive (Jolović & Berber, 2023). To navigate these transformations, effective record-keeping and documentation systems are vital. Not only do they provide a clear timeline of events and decisions, but they also serve as essential evidence to justify and explain the need for workforce reductions (Aveiro et al., 2010). Martin et al. emphasize that long-term sustainability in organizational change cannot rest solely on introducing new practices it requires continuous adaptation to a constantly evolving environment (Martin et al., 2012).

From a legal standpoint, redundancy must be established before retrenchment is justified. According to Ayadurai (2001), redundancy exists when there is a genuine surplus of labor. Employers must demonstrate that a specific position is no longer necessary, whether due to a significant reduction in job functions, business restructuring, or other operational needs. Clear evidence is essential. Documentation must show that the restructuring was grounded in economic or strategic necessity and not used as a cover for unjust dismissals.

In *Ahmad Nasirruddin bin Harun v KPJ Healthcare Bhd* (2024), the Industrial Court carefully examined memos and organizational charts that substantiated the company's claim of a legitimate reorganization. The claimant, a Senior General Manager with over 25 years at the company, was informed that his role was redundant following a structural overhaul. He challenged the decision, arguing that the reorganization lacked adequate justification. However, the courts found that the company had acted in good faith. By comparing organizational charts before and after the restructuring, it was clear that the claimant's position had been dissolved. His responsibilities were reallocated to newly created roles requiring broader and more advanced competencies, confirming that the redundancy reflected a bona fide business decision.

A similar outcome occurred in *Electcoms Sdn Bhd v Tay Kah Hock* (2013), where the company cited an economic downturn as the reason for a major restructuring. The closure of two outlets and the termination of a mobile phone agency led to the claimant's position being rendered obsolete. Though efforts were made to reassign him to other departments, further downturns

made this unsustainable. The court noted that no new staff were hired to replace the claimant, strengthening the argument that the redundancy was genuine and not a disguised dismissal.

In *Azlee bin Abdul Aziz v L & O Collections Sdn Bhd & Anor* (2023), the retrenchment of six kitchen staff at Lone Pine Hotel was similarly upheld. Due to the COVID-19 pandemic and the nationwide Movement Control Order (MCO), the hotel was forced to close its restaurant permanently. Management communicated the financial strain to employees, offering alternatives like pay cuts and unpaid leave. Most accepted; the applicants did not. Based on financial records and credible testimony, the court found that the employer had exhausted reasonable options before proceeding with retrenchment.

Redundancy does not always mean the complete elimination of a job type. It can also refer to the reduced need for certain roles due to restructuring. In *Stephen Bong v FCB (M) Sdn Bhd & Anor* (1999), the court clarified that redundancy may arise even when work still exists, provided fewer employees are needed to do it. This view was echoed in *Capital Land Sdn. Bhd v Encik Lam Chan Meng* (2004), where the claimant's role became redundant after the project he was assigned to was completed. Similarly, in *Au Lai Chan & Anor v Malaysian Mosaics Sdn Bhd* (2024), the Court of Appeal emphasized that courts should avoid interfering with genuine business decisions, such as plant closures, unless there is clear evidence of bad faith. Legitimate factors such as falling profits or market shifts remain within the bounds of managerial discretion. However, employers must not disguise dismissals as redundancies without credible, objective justification.

Redundancy does not necessarily imply that a job or work no longer exists. Instead, it may occur when an employer requires fewer employees of a certain type due to restructuring or redistribution of work (*Stephen Bong v. FCB (M) Sdn Bhd & Anor* (1999)). This principle was further illustrated in *Capital Land Sdn. Bhd v Encik Lam Chan Meng* (2004), where the claimant's role became redundant following the completion of a specific project. Similarly, in *Au Lai Chan & Anor v Malaysian Mosaics Sdn Bhd* (2024), the Court of Appeal reaffirmed that courts should not interfere with genuine business decisions such as plant closures unless there is clear evidence of bad faith. Business considerations like declining profits or changes in market conditions are generally within the scope of managerial discretion. However, employers must not use redundancy as a cover for dismissals without providing credible and objective justification.

These cases highlight the importance of transparency and proper documentation in redundancy decisions. Employers must not only act in good faith but also be prepared to demonstrate, with clear and verifiable evidence, that workforce reductions are genuinely required due to legitimate business needs not as a means to achieve unrelated or improper objectives.

The Burden and Standard of Proof in Redundancy Cases

Determining whether a redundancy is genuine requires a case-by-case assessment, as the outcome depends heavily on the specific facts and context involved. A finding in one case, such as a lack of justification based on falling profits or organizational restructuring, cannot be automatically applied to others without carefully considering their distinct circumstances. (*Au Lai Chan & Anor v Malaysian Mosaics Sdn Bhd* (2024)). The burden of proof lies squarely on the employer to demonstrate, on the balance of probabilities, that the redundancy is genuine and not a pretext for unjust dismissal. In cases of retrenchment, it is the employer's

responsibility to prove that the employee's role is no longer required. As stated in *Woo Vain Chan v Malayawata Steel Bhd* (2016), the employer must substantiate claims of redundancy with concrete evidence. Similarly, in *Bayer (M) Sdn Bhd v Ng Hong Pau* (1999), the court emphasized, "on redundancy, it cannot be gainsaid that the appellant must come to the Court with concrete proof. The burden is on the appellant to prove actual redundancy on which the dismissal was grounded."

While reorganization is recognized as part of the employer's prerogative, this discretion is not absolute. Employers must substantiate that the claimant's services are genuinely redundant. For instance, in *Adam bin Abdullah @ Peter Lum v Malaysian Oxygen Bhd* (2012), the claimant argued that his retrenchment on redundancy grounds was a dismissal without just cause or excuse. The court held that it was the employer's responsibility to prove that the claimant's role was no longer necessary. In the absence of evidence showing the claimant's unsuitability for retraining or inability to operate the SAP system, the court concluded that the retrenchment was conducted in bad faith.

However, the standard of proof required to establish redundancy is not excessively demanding. In *Siemens Malaysia Sdn Bhd v. Cheong Kok Leong* (2004), the Industrial Court clarified that tribunals should not impose an unduly high standard of proof on employers. Employers are not required to provide detailed financial evidence or prove the absolute necessity of redundancies. Once a genuine redundancy situation is demonstrated, tribunals cannot question the employer's business decisions or assess whether the redundancies were essential.

Requirement of Bona Fide

Employers must prove that redundancy is bona fide by providing clear evidence of genuine operational or economic necessity and following a transparent process to identify surplus roles. In *Bayer (M) Sdn Bhd v. Ng Hong Pau* (1999), the court highlighted that presenting evidence of reorganization alone is insufficient to establish bona fide redundancy. In this case, although the employer claimed reduced sales as a justification, the court found that the employee's workload remained unchanged and was redistributed among two colleagues after his dismissal. Additionally, the employer failed to substantiate claims of a projected RM1 million loss or any significant reduction in workload. As a result, the court concluded that the redundancy was not bona fide.

A thorough assessment of the workforce to identify surplus roles aligned with current operational needs can serve as strong evidence of genuine redundancy. This principle was upheld in *Au Lai Chan & Anor v Malaysian Mosaics Sdn Bhd & Anor* where the appellants contended that their job functions still existed and had merely been reassigned to other employees. However, the employer submitted substantial documentation including financial statements, audited accounts, and internal departmental reviews to show that the company was facing financial losses and significant operational difficulties. As part of a broader downsizing strategy, the company decided to close one of its plants, and the court accepted this as a legitimate business decision. The Industrial Court concluded that the appellants' roles had indeed become redundant and that the retrenchment was justified. In the absence of any evidence suggesting bad faith or ulterior motives, the court declined to interfere with the employer's managerial discretion.

As established in *Hariprasad v Divelkar* (1957), determining whether a retrenchment exercise is bona fide depends on the specific facts and circumstances of each case. While courts generally respect managerial prerogatives, decisions are not immune from judicial scrutiny. Employers must be able to show credible and objective evidence that a redundancy is genuinely driven by legitimate business needs and not by hidden motives in order to ensure that the retrenchment process is fair and lawful.

Adherence to LIFO Principle

The "Last In, First Out" (LIFO) principle is a longstanding and widely accepted standard in retrenchment law. It places a clear responsibility on employers to justify any decision to depart from this norm. In *Ganda Palm Services Sdn. Bhd., Teluk Intan v Ng Wah Chiew and 2 others* (Award 40/1986 ILR), the Industrial Court reaffirmed that LIFO remains a key industrial practice unless compelling and reasonable grounds for deviation are presented.

Courts have consistently emphasized that retrenchment exercises must reflect genuine business needs and should never be used as a cover for arbitrary or unfair dismissals. This was made clear in *Vigniswary a/p Sundram v Commercial Marketers and Distributors Sdn Bhd* (2022), where the employer's decision to terminate a senior employee instead of a junior one was found unjustified. The rationale given, alleged skill differences was vague and unsupported by evidence, leading the court to reject the employer's position. Importantly, the LIFO principle is applied within specific job categories, meaning that seniority is assessed based on tenure in the same role or job function, not across the organization as a whole. This approach ensures fairness and allows employers to target truly redundant roles rather than individuals arbitrarily.

Judicial scrutiny in such cases is rigorous. Employers are expected to demonstrate that their actions are driven by legitimate operational needs and that their decision-making process is transparent and fair. In *Ameerah Solihah bt Ibrahim v China 1st Metallurgical Construction (M) Sdn Bhd* (2023), the employee challenged her retrenchment on several grounds, including the employer's failure to follow the LIFO principle. The Industrial Court agreed, finding that the company had provided no evidence to explain its departure from LIFO. The absence of a transparent process or any justification for ignoring established norms led the court to rule that the dismissal was without just cause or excuse. In *Syamaizar bin Azmi v Central Sugars Refinery Sdn Bhd* (2020), the court confirmed that the Last In, First Out (LIFO) principle is not an inflexible rule and may be set aside if there are valid reasons. In this case, the company undertook a retrenchment exercise as part of a broader cost-reduction initiative, which involved outsourcing its security services. Of the existing security personnel, four guards were retained based on clear and objective criteria, including individual performance evaluations and disciplinary records documented through the company's Performance Management System (PMS). The court accepted this merit-based selection as a reasonable departure from the LIFO principle, recognizing it as a fair and transparent process.

Similarly in *CH Reinforcing Steel (M) Sdn Bhd v Abu Samah Abbas* (2001), the court reiterated that a bona fide selection for retrenchment must reflect reasonable and fair conduct, consistent with industry practices or any applicable codes of conduct. This underscores the importance of adhering to accepted procedural norms when determining who should be retrenched. Further clarification was provided in *Aluminium Company of Malaysia v Jaspal Singh* (1989) where the Industrial Court emphasized that LIFO must be applied within the context of specific job categories. For example, when selecting fitters for retrenchment, seniority should be based on

the length of service in that particular role, not on an employee's total service across different positions. This approach ensures that the LIFO principle is applied fairly, taking into account the relevant employment context and maintaining equity among employees within the same category.

Observance of Procedural Fairness in Retrenchment

Procedural fairness is a core requirement in any retrenchment process. It ensures that decisions are made transparently, that employees are consulted, and that they are given a fair opportunity to respond. Employers must show that their actions are taken in good faith and that fair procedures were followed, including offering reasonable alternatives such as voluntary separation schemes.

In *Ahmad Nasirruddin bin Harun v KPJ Healthcare Bhd* (2024), the court acknowledged that procedural fairness had been upheld through several key measures. The employee was clearly informed about the upcoming reorganization and was offered a Mutual Separation Agreement (MSA). He was also given the chance to voice his concerns and participate in discussions during meetings. After reviewing the selection criteria used in identifying redundancy, the court found no evidence of bad faith or hidden agendas, and concluded that the retrenchment process was conducted fairly and appropriately.

Conversely, in *Adam bin Abdullah @ Peter Lum v Malaysian Oxygen Bhd* (2012), the court found procedural fairness lacking, citing the employer's failure to consult the claimant or provide sufficient notice of retrenchment. The absence of transparency contributed to the perception of malice and unfair industrial practice. The court emphasized that fair industrial practice necessitates early warning, allowing employees to prepare for alternative employment. The claimant, who had a 25-year unblemished service record, was not afforded such notice, undermining the employer's justification for redundancy. Furthermore, the claimant's job functions continued to exist, further discrediting the redundancy claim. Where it is shown that the exercise of managerial is not bona fide or amounts to unfair labour practice or indicates victimisation, the Court will not hesitate to strike down such exercise as bad.

Consistency As a Proof Of Bona Fide

Consistency in an employer's actions is a crucial factor in demonstrating the bona fide nature of a restructuring exercise. In *Syamaizar bin Azmi v Central Sugars Refinery Sdn Bhd* (2020), the company's methodical approach to reducing operational costs through outsourcing served as a strong indicator of its genuine intentions. The company implemented a clear and structured process, outsourcing a significant portion of its security section while retaining four security guards based on objective criteria such as performance evaluations and disciplinary records.

These decisions were guided by the company's Performance Management System (PMS), ensuring fairness and transparency. Additionally, affected employees were properly notified, provided with retrenchment benefits, and even facilitated with interviews for positions with the outsourced security provider, further reinforcing the company's commitment to fair practices. The court also noted evidence of a formal outsourcing contract signed months before the retrenchment, which reflected a well-planned and legitimate restructuring initiative rather than an arbitrary or malicious decision. No evidence of mala fide intentions was found, and the company's consistent adherence to managerial prerogatives was deemed to underscore the bona fides of its actions.

Non-Obligation for Employer to Find Alternative Employment

Employers are not legally obligated to provide or arrange alternative employment for employees affected by a legitimately conducted restructuring exercise. This principle has been consistently upheld by the courts, emphasizing that validly executed organizational changes do not impose such a duty on employers. In *Au Lai Chan & Anor v Malaysian Mosaics Sdn Bhd* (2024), the Court of Appeal rejected the argument that the company was required to identify or provide alternative positions for dismissed employees. The court referred to *Nordson (M) Sdn Bhd v Lee Chin Tao & Anor* (2012), where Aziah Ali JCA stated:

“The first respondent further complains that the appellant had failed to make any reasonable effort to look for alternative employment before retrenching him... We find there is no obligation on the appellant to offer or secure alternative employment for the first respondent on account of the restructuring exercise validly carried out”.

This position is consistent with the earlier ruling in *Tuan Syed Hashim bin Tuan Long v Esso Production Malaysia Inc* (1998), where Abdul Kadir Sulaiman J affirmed that an employer is under no obligation to offer alternative employment during a legitimate reorganization. The court also found that the company’s failure to consult or explore alternative arrangements with the employee did not amount to bad faith, given that the restructuring was conducted appropriately and in accordance with proper procedures.

Operational Realities in Organizational Change

In Malaysia’s labor landscape, the exercise of managerial prerogatives, especially during periods of organizational change and workforce reduction frequently intersects with statutory obligations and the contractual rights of employees. Whether such transformations succeed, both legally and practically, often depends on how employees perceive the changes and how well they adapt to newly implemented systems and processes. When these systems are introduced effectively and transparently, they can help justify redundancies by demonstrating improvements in operational efficiency (Diment et al., 2011; Turner & Rindova, 2012). Crucially, employees' perceptions of leadership particularly in terms of integrity, competence, and fairness shape how they respond to organizational restructuring. If the process is seen as transparent and fair, and if leadership is trusted, resistance to change tends to be lower. Procedural fairness and trust in decision-makers are therefore essential in promoting employee acceptance and easing the transition during organizational shifts (Kaltiainen et al., 2018).

Clear and honest communication, along with meaningful employee involvement in decision-making, is essential to balancing managerial discretion with the rights and protections of employees. When strategic communication is paired with participatory processes, it helps build trust, encourages employee buy-in, and reduces resistance to organizational changes (Schulz-Knappe et al., 2019). These practices are in line with Malaysian labor values, which emphasize mutual respect, dialogue, and cooperative problem-solving in managing workplace challenges. Training and development initiatives further reflect a responsible approach to managing the impact of redundancies. Programs aimed at retraining and redeploying surplus staff, maintaining morale, and preparing remaining employees for new responsibilities demonstrate how management can exercise its prerogatives thoughtfully and fairly. Such measures show that workforce restructuring does not have to come at the expense of employee dignity and protection (Rees & Porter, 2009; Samuel & Moagi, 2022). Participation in vocational training programs can lower the probability of negative career events, such as job loss, and provide greater flexibility in career paths. This is crucial for maintaining morale and redeploying

surplus staff effectively (Egorov, 2018). Organizations may also benefit from internally training employees to provide career support during redundancy exercises. This approach not only supports affected employees but also demonstrates managerial accountability, thereby preserving the organization's reputation and integrity (Nathan, 2007). In Malaysia, such practices align with the broader industrial relations framework, which seeks to balance managerial rights with the welfare and dignity of employees

Conclusion

This study set out to examine the legal limits of managerial prerogatives in Malaysia, with a specific focus on retrenchment and dismissal, and to determine how effectively the current legal framework balances employers' operational autonomy with employees' statutory protections. Through a qualitative doctrinal analysis of the Employment Act 1955, the Industrial Relations Act 1967, the Code of Conduct for Industrial Harmony, and relevant judicial precedents, the research has achieved its objective by clarifying the doctrinal boundaries of employer discretion and assessing the role of judicial oversight in preventing arbitrary or unfair dismissals.

The table below summarizes how the main legal principles on managerial prerogatives in retrenchment and dismissal are applied in court, how they work in real workplace situations in Malaysia, and what this means for fair employment practices.

Table 1: Findings on Managerial Prerogative in Retrenchment and Dismissal in Malaysia

Legal Principle / Doctrine	Observed Practice in Malaysia	Implication for Industrial Relations
Retrenchment permissible if bona fide and supported by evidence <i>Ahmad Nasirruddin v KPJ Healthcare Bhd</i> (2024)	Some employers provide vague or insufficient economic justifications	Undermines trust in employer motives; increases litigation risk
LIFO principle as standard selection method; deviation must be justified <i>Ganda Palm Services v Ng Wah Chiew</i> (1986)	Departures from LIFO occur without transparent, objective criteria	Perception of favouritism; potential unfair dismissal claims
Procedural fairness and prior consultation required <i>Adam v Malaysian Oxygen</i> (2012)	Consultation often bypassed, especially in urgent restructurings	Employees feel excluded; weakens morale
Redundancy must reflect genuine surplus of labour <i>Au Lai Chan v Malaysian Mosaics</i> (2024); <i>Stephen Bong v FCB</i> (1999)	Some redundancies are disguised dismissals; role functions continue	Erodes integrity of redundancy process
No obligation to find alternative employment <i>Nordson v Lee Chin Tao</i> (2012)	Employers rarely explore redeployment voluntarily	Missed opportunities to preserve employment relationships

Legal Principle / Doctrine	Observed Practice in Malaysia	Implication for Industrial Relations
Consistency in employer's restructuring actions evidences bona fide intent <i>Syamaizar v Central Sugars Refinery</i> (2020)	Inconsistencies in selection and implementation create suspicion	Reduced employee confidence in management

The findings reveal that, while the Malaysian legal framework provides essential safeguards grounded in fairness, transparency, and good faith, practical challenges persist due to inconsistent procedural adherence and enforcement gaps. These shortcomings risk undermining the legislative intent to create equitable industrial relations and highlight the need for stronger compliance mechanisms. The contribution of this study is twofold. Theoretically, it enriches the scholarship on the intersection between managerial prerogatives and employee rights by providing a nuanced legal perspective on balancing operational efficiency with labor protection. Practically, it offers guidance to employers, policymakers, and industrial relations practitioners on ensuring consistent application of labor laws, improving procedural compliance, and fostering fairer workplace governance. This study supports the development of a more sustainable and equitable employment environment in Malaysia.

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