Redundancy and Restructuring in a Transitioning Global Economy: Ensuring Economic Justice for Employees Retrenchment

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ABSTRACT

Within the wider context of layoffs, redundancy is now recognised as an increasing issue, just as Malaysia's economy continues to grow rapidly. Redundancy, a term used in business, takes place when the number of employees is greater than operations require in the workforce due to cost-cutting reorganisations, or there is discontinuation of certain job positions in that company. This issue has arisen mainly due to market competitiveness within businesses, technological advancement in the industries, as well as post-pandemic restructuring, which leads companies to eliminate roles that are no longer required, i.e. redundancy. Although these measures may be essential to a business's survival, especially as automation grows in popularity, they contribute to forced unemployment and thus reveal the issues of worker protection provided by Malaysia's legal system, namely the Employment Act 1955. This article evaluates the effectiveness of legislative safeguards in addressing redundancy through a qualitative legal evaluation from significant court rulings, policy papers, and statutory provisions. The study identifies gaps in the current frameworks and finalises by suggesting specific legislative measures that would strengthen economic justice for displaced workers, improve the transparency of the redundancy procedure, and strengthen their rights to compensation.

Keywords: Employee Retrenchment, Redundancy, Restructuring, Economic Justice, Employment Act

INTRODUCTION

As companies adapt to technological innovation and the long-term effects of the COVID-19 pandemic, restructuring and layoffs have become frequent in an unpredictable global economy (World Bank, 2025). Layoffs are a major issue of economic justice and rights of employees, yet are often justified by employers as necessary to survive and remain effective (Marsono & Jusoff, 2008). The term "retrenchment" refers to the termination of employee contracts due to financial constraints or company restructuring. However, such a practice may lead to greater joblessness and ultimately to a decline in the well-being of workers and threaten the economic stability of the nation (International Labour Organization [ILO] 1982). This indicates the increased competitive position of economic efficiency and social justice in the labour market. Further, tracking the pace at which technology and artificial intelligence are becoming embedded in the Malaysian labour system is crucial. A study by the Institute of Strategic and International Studies (ISIS) Malaysia showed that approximately 6.7 million workers, or around 45% of the total labour force, in the country are using generative AI technologies, 28% and 17% of whom were in the very high and medium-high exposure quartiles, respectively (Cheng, 2025). The findings also align with the estimate by the International Monetary Fund (IMF), which used a methodology developed by

Felten et al. (2021) and estimated that roughly 48% of the Malaysian workforce is exposed to Artificial Intelligence (AI) technologies (International Monetary Fund, 2025; MIDF Research, 2025).

Large-scale unemployment remains a problem in today's economy, not only in Malaysia but worldwide. The International Labour Organisation (ILO) Convention No. 158 sets international standards on termination of employment, which include valid reasons for dismissal, adequate notice, consultation and fair compensation for workers (International Labour Organization, 1982). However, many workers have remained at risk during retrenchment exercises due to the implementation of these protections. Moreover, big tech companies like Google, Amazon and Meta have made large workforce cuts during 2023 and 2024, driven by technological restructuring and operational changes associated with artificial intelligence and economic conditions (InformationWeek, 2025). Thousands of workers were thus put out of work at short notice, with little or no assistance in finding jobs elsewhere and with the lack of a suitable compensation system. This has widened the disparity between the flexibility of labour and social justice. The situation reflects continuing shortcomings in national regimes that should ensure that workers are not displaced by the economy, despite established international labour standards.

The Association of Southeast Asian Nations (ASEAN) fosters labour rights and human resource development through several types of initiatives. However, its efforts, including "just transition" debates, lack legal force to enforce worker protections (International Labour Organization & PAGE, 2023). Nevertheless, the application of these principles varies by member state and reflects the greater tension between economic competitiveness and worker protection (Marsono & Jusoff, 2008; Ford & Piper, 2021). Malaysia's agreement to ASEAN's non-binding guidelines shows rhetorical support for worker welfare, yet retrenched employees frequently encounter limited procedural protection and insufficient enforcement.

In Malaysia, retrenchment is regulated by the Employment Act 1955 and the Industrial Relations Act 1967, which give employers the right to restructure for operational reasons. Although the 2025 amendments to the Employment Act slightly broadened coverage, as it formerly applied only to employees earning below RM1,700. However, many workers remain excluded from statutory benefits. In addition, employers are required to inform the Department of Labour prior to retrenchment of employees (Hassan & Hartini, 2023). However, no legal rules mandate alternative employment or retention, and if the employer fails to do so, they suffer only minor penalties (Mumtaj Hassan, 2025). Moreover, Malaysia's courts have adopted the Code of Conduct for Industrial Harmony that offers voluntary guidelines for fair retrenchment, encouraging consultation, transparency, and fairness. However, it is not legally binding, and the Industrial Court may treat non-compliance as evidence of bad faith in termination decisions (Chau, 2023). Thus, reliance on the non-binding Code of Conduct for Industrial Harmony gives employers broad discretion in selection processes, which often leads to cost-based retrenchment decisions. In Nordson (Malaysia) Sdn Bhd v. Lee Chin Tao, the court held that employers must demonstrate actual redundancy, but did not require consultation or employee participation. Similarly, the rise of precarious and gig labour has impacted retrenchment protections, as these workers often fall outside the existing employment laws and social safety nets (Rabeatul et al., 2025).

Malaysian law lacks a statutory definition of redundancy, and consequently, its meaning relies mainly on case law (Mazura et al., 2025). The Industrial Court determined that redundancy occurs when an employee's position is no longer required due to operational changes. However, the courts have noted that the possibility of using redundancy merely to conceal unfair dismissals. In Rasyidah Rosli v. Ally Azran Holding Sdn Bhd (Award No. 3105 of 2019), the employer claimed that financial difficulties had caused the employee's termination by way of redundancy. Nevertheless, the court held that the company had remained profitable and lacked enough evidence to prove genuine redundancy because the affected positions continued to exist and were replaced by other employees. The Industrial Court states that redundancy made by the employer was merely a pretext for termination and highlighted that redundancy can be used as a convenient excuse. The court found in favour of the employees and directed the employer to provide compensation and back wages.

Therefore, even though these cases have suggested that redundancy is legally allowed in Malaysian law, it can still often be a tool exploited by employers to terminate employees under the guise of restructuring or downsizing of a company. Hence, this study evaluates the existing law in Malaysia and how effectively it has addressed redundancy and retrenchment issues. The aim of this study is to emphasise a clear legal definition and analysis of the extent to which the present laws have adequately protected economically affected employees against bad faith by employers through unfair dismissal (International Labour Organization, 2022).

Discussion of Theory: Redundancy and Economic Justice in Retrenching Employees

The redundancy and reorganisation in the changing global economy can be examined within the framework of the theory of the political thinker John Rawls and the concept of justice as fairness that regards the basic organisation of society as its major part, which is constituted of the major legal views, monetary, and social institutions as the primary subject of justice (Rawls, 2017). Rawls argues that just institutional principles represent those whom free and rational individuals decide from an initial position behind a veil of ignorance in which nobody knows their socioeconomic status, rank in society, or personal assets, so that the corresponding principles are not designed to benefit anyone in particular. Regarding employee retrenchment caused by redundancy, Rawls' perspective challenges efficiency-based defences of layoffs in redundancy since he expressly rejects institutions that defend layoffs by claiming that the benefits enjoyed by others can outweigh the hardships of some (Rawls, 2017). Redundancy actions and procedures are therefore economically fair only when the system's layout, along with the execution of safeguard measures for employees most at risk of being retrenched through fair procedures, clear selection criteria for redundancy, and meaningful mitigation such as sufficient compensation, re-employment assistance, and opportunities for reskilling. According to a recent organisational study, maintaining trust during redundancy and fair retrenchment practices depends heavily on employees' views of fairness and justice (Bilotta et al., 2020). Redundancy-related retrenchment must be paired with effective protections, as empirical research links job insecurity and crisis-driven cost-cutting plans to damaging psychological and cognitive effects among workers (Van Egdom et al., 2022).

LITERATURE REVIEW

Organisational restructuring is strongly influenced by both cyclical and structural changes in the global economy today. The events of the 2008 financial crisis and the COVID-19 outbreak have shown how businesses responded to market changes, which forced them to quickly change their employment policies. According to Brynjolfsson and McAfee (2014), technological disruption caused by globalisation has contributed to employment displacement, especially in manufacturing and low-skilled industries. The COVID-19 pandemic forced many companies across industries to revise their business policies. For instance, major airline corporations such as American Airlines and United Airlines announced that they had to retrench many of their employees due to massive redundancies as travel demand collapsed; reports indicated that United Airlines warned that up to 36,000 employees could face furloughs and that American Airlines planned to cut approximately 19,000 jobs following a sharp decline in air travel. This shift has resulted in what Susskind & Susskind (2020) refer to as the "Fourth Industrial Revolution," in which automation, artificial intelligence, and remote labour disrupted employment structures and hastened redundancy in sectors resistant to digital transformation. According to the OECD (2021), problems with global supply chains have led many companies to relocate industrial operations, resulting in jobs being cut or eliminated in countries with lower production costs. However, this process has also created new job opportunities in advanced economies. This situation shows that companies must carefully weigh their international plans and how these decisions may affect employees from various countries.

In the corporate world, redundancy is one of the strategies used by many businesses to reduce losses and also seeks strategic goals to reduce future expenses. Companies that strategically reduce their workforces need to strike a balance between downsizing and positioning themselves for later expansion. According to Forbes Human Resources Council (2021), companies have implemented "rightsizing" policies that now focus on cutting staff only when essential and ensuring that it aligns with the company's future growth. According to an important study by Li (2024), businesses can reduce the harmful effects of redundancy when they focus on staff reskilling as part of restructuring, as in the case of Ford Motor Company's employee retraining programmes. This proactive approach helps ensure that every person who has been laid off has viable career options, which helps sustain goodwill among employees and the general public. Furthermore, Mergers and Acquisitions (M&A) have long been a driver of redundancy, as businesses have combined activities to raise efficiency. Although mergers and acquisitions (M&As) usually give companies an opportunity to expand their market share, they can result in severe layoffs as part of the restructuring strategy (Mujtaba & Senathip, 2020). Such downsizing may have both adverse emotional and organisational consequences on the remaining staff, provided that such a process is not conducted in a transparent and fair way. The studies of organisational justice indicate that firms that do not communicate openly when laying off employees may be perceived by employees as unjust, and can affect the trust and morale negatively. By contrast, transparent and just leadership, including the use of clear, non-discriminatory criteria when laying off employees, can greatly reduce these adverse impacts and help maintain staff confidence in organisational unity (Bies et al., 1988). Saunders and Thornhill (2003) suggested that the strength of perceptions of organisational justice, particularly in the fair procedures and consistent application, is closely related to increased employee trust in situations of organisational change. This implies that employees are likely to retain trust in the management and the organisation when they feel that fair procedures have been observed in decisions such as redundancies.

The outcomes of redundancy are directly affected by leadership style. The studies have shown that how organisations cope with redundancy, particularly under employee-centred leadership and the procedure of retrenchment, has great influence on employee attitudes and long-term organisational performance. For example, Tsai and Shih (2014) concluded that organisations that adopted responsible downsizing initiatives alongside an employee-oriented leadership system recorded better post-downsizing performance, and that leadership behaviour that treats employees as long-term assets helped cultivate greater trust and loyalty among employees during and after reductions.

Decisions on redundancy must be free from prejudice, especially regarding age, gender, and ethnicity. According to research on fairness during layoffs, employees suffer psychologically when they judge their layoffs to be unfair. For example, owing to social biases that link technical adaptability with youth and male workers, women and older workers frequently suffer the most from redundancies. According to UN research from 2018, women and older workers are more likely to be selected for layoffs in industries such as retail and healthcare. Scholars argued that seniority-based decisions in traditional corporate settings can undermine fairness to longer-serving employees who are frequently selected for layoffs regardless of their performance. This can lead to disappointment among workers as they perceive that their dedication and contributions to the company have been neglected. According to Colquitt et al. (2013), companies must protect employee morale and trust, which requires companies to prioritise justice.

Another area of redundancy concerns the psychological effect. The psychological impacts of redundancy are extensive and arise not only from the loss of employment, but also from stress, anxiety, and depression, which are just some of the effects that come along with it. Cmiosh (2024) notes that such mental health problems are often prevalent among employees who face the threat of redundancy, to which the additional risk of financial hardship and social isolation is often added. The long-term effects of this phenomenon are that displaced workers can also lose their identities in most cases and become less socially connected to their communities (Cmiosh, 2024). These effects can be reduced through compensation and retraining schemes offered during restructuring. However, the provision has to be thorough, and should cover as many needs as possible to support proper recovery and reintegration.

Kim (2025) states that human resource interventions such as comprehensive support programmes and open communication, when reducing the workforce, yield lower turnover intentions and improved employee well-being compared with settings without these initiatives. This highlights the role of employee assistance and support programmes as tools for reducing the negative psychological and social impacts of redundancy, by helping affected employees to transition more easily. Today's digital advancement, such as the rise of AI, automation, and robotics, has threatened traditional labour markets. According to Brynjolfsson and McAfee (2014), technology is expected to eliminate millions of jobs, especially in manufacturing and clerical work. This technological transition has led firms to provide retraining programmes to ensure their employees' competitiveness in a rapidly changing employment market.

In this regard, Amazon's extensive use of robotic technologies in warehouses has decreased the demand for human labour, resulting in redundancy, especially for manual labour tasks. Nevertheless, another practice imposed by Amazon was trainee programmes for its employees, whereby employees were encouraged to change their roles by moving into new jobs that required more technical skills. Studies indicate that upskilling and reskilling programmes could be used to enhance the adaptability of the workforce during technological change, which can improve employees' long-term career opportunities and mitigate the adverse consequences of the displacement of workers (Hasan et al, 2024)

The main challenge is to ensure that all employees, particularly those in low-skilled and routine manual positions, such as warehouse picking and material handling roles, who are most exposed to redundancy through automation, obtain meaningful access to reskilling opportunities through digital equity (Brynjolfsson & McAfee, 2014). Research has shown that fair access to education and professional development in digital skills is critical so that the impact of technology does not unjustly harm lower-income people.

Corporate Social Responsibility (CSR) is important for maintaining economic fairness during redundancy. Companies with strong CSR obligations often prioritise the welfare of their workers during retrenchment. According to Cascio (2002), ethical duties in responsible restructuring include retraining programmes and outplacement services, which can reduce the adverse effects that restructuring will have on employees. For example, Unilever's redundancy management policy prioritises moral responsibilities and social assistance for its employees. All retrenched employees receive large severance compensation, and those who wish to stay in the workforce are offered the chance to undergo retraining (Unilever, 2020). Such actions illustrate a dedication to fair labour standards and show how CSR may reduce the social consequences of redundancy.

The government policy has a great influence on the manner in which business organisations manage redundancies. Operating in Europe requires firms to contend with employee protection laws. A clear example is the German works council, which requires a discussion between the company and the employee before a final decision is taken. It suggests that redundancy is not only a top-down decision if the decision does not respect social justice (Grund, 2016).

Many underdeveloped countries, however, do not provide the same degree of security to their workers. A good example is that of India, where labour laws were not historically aimed towards the welfare of the labourers. Workers usually lose work without meaningful opportunities to get financial aid or receive further training. Research indicates that unemployment in India is linked to a higher degree of psychological distress because individuals lose access to adequate social safety nets (SenGupta, 2025). This difference demonstrates the need for new world labour regulations that would provide similar opportunities through unemployment benefits and other support services.

The process of redundancy in Malaysia is often an unwanted side effect of economic change or of emerging automation. However, the legal system is somewhat of a hodgepodge, where the main Acts (Employment Act 1955 and the Industrial Relations Act 1967) do not provide any real statutory definition of redundancy (Marsono & Jusoff, 2008). Rather, the interpretation of the concept by the courts is left to them, and this can create inconsistency in enforcement. Although the law requires employers to act in good faith (bona fide), such loopholes tend to leave workers to bear the brunt of uncertainty in the process of a retrenchment exercise

AirAsia's experience during the COVID-19 pandemic offers a stark insight into how redundancies can unfold in practice, as the airline saw its revenue fall sharply, forcing it to downsize its workforce to withstand extreme financial pressure. Notably, AirAsia announced in June 2020 that it had laid off hundreds of employees, including cabin crew, pilots, and engineers, as part of its crisis cost-cutting plan (Malay Mail, 2020). Such a situation reflects wider patterns in the aviation sector during the pandemic, where airlines such as AirAsia had to implement alternative measures to avoid more extreme layoffs, such as reduced wages and fewer flight operations (Kee et al., 2021). Despite the airline's efforts to provide compensation and retraining, the abruptness of the retrenchment raised issues about procedural fairness. Studies on retrenchment indicate that employees who feel that the layoff process was opaque, explained and followed fairly have higher chances of feeling threatened and unjustly treated by their employer, with serious effects on trust and future commitment to an organisation (Wanberg et al., 1999).

The volatility of oil prices and a strategic shift towards the use of green energy have compelled Petronas to take some redundancy measures. Its approach, which includes voluntary separation packages (VSPs) and career retraining, shows what redundancy can look like when a company actually has the resources to manage it (Petronas prioritises employee welfare amid workforce reduction, 2025). However, this points to the two-tier nature of the Malaysian labour market. On the one hand, Petronas can act in a socially responsible way because it has sufficient financial capacity. Conversely, small businesses often struggle to make both ends meet, and therefore their employees have a greater likelihood of being retrenched with no cushion at all.

Research on the gig economy in Malaysia indicates that gig workers are often deprived of adequate redundancy rights or statutory employment benefits, which exposes them to job loss with a lack of financial security or access to legal remedies. Because gig workers often qualify as independent contractors under Malaysian labour law, they do not enjoy standard employment benefits like minimum wage, paid leaves, and social insurance; thus, as a result, they are more vulnerable to economic shifts or even loss of income and employment in the short term (Abdullah et al., 2024; Uchiyama et al., 2022; International Labour Organization, 2021). Such cases draw attention to the weaknesses of the Malaysian redundancy system, especially regarding employee protection and the fairness of the process. Lesmana and Samudra (2025) argued that the existing legal system fails to protect smaller businesses and gig workers, although larger organisations are capable of offering adequate compensation and support.

The many dimensions of redundancy and restructuring in the changing global economy have been brought out in this literature review, ranging across issues of leadership and fairness in redundancy decisions to the influence of technological change and the role of corporate social responsibility. The review highlights significant factors that shape economic justice in employee layoffs. Although these are not the only difficult issues that most organisations face, it is necessary to consider not only the financial impact of layoffs but also the emotional impacts on employees and firms' moral duty to treat all workers fairly.

METHODOLOGY

This study adopts a mixed qualitative legal approach based on both doctrinal and juridical-normative analysis and has been supplemented by a hermeneutic interpretation of judicial reasoning. This paper aims to analyse the efficiency of the Malaysian law on redundancy and employee retrenchment in the global era. The statutory provisions under the Employment Act 1955, Industrial Relations Act 1967, and the non-binding Code of Conduct for Industrial Harmony are analysed through doctrinal methods to establish the state of the law and to identify deficiencies in the legal structure that is meant to offer protection to workers. These legal instruments are evaluated through a juridical-normative approach against principles of economic justice and international labour standards, especially as embodied in ILO Convention No. 158. Hermeneutic analysis is applied to case law to explain how courts distinguish actual redundancy from wrongful dismissal, and in practice, the balance between managerial discretion and employee rights. It is an appropriate mix of the two approaches in the sense that it reflects formal law and how it is applied in real-world scenarios, showing how the law on paper and the law in action are not the same. The method does not rely on empirical data. However, it offers a strict system of legal analysis. It contributes to the research by proposing certain legislative changes to improve transparency, accountability, and economic fairness in the retrenchment of employees.

FINDINGS

The first significant finding of this study concerns the extensive legal ambiguity arising from the lack of a statutory definition of redundancy in Malaysian labour law. The Employment Act 1955 and the Industrial Relations Act 1967 do not give a straightforward legislative definition to the word, which forces excessive reliance on case law that is often inconsistent. Although the Industrial Court usually accepts redundancy where the job is obsolete for operational or structural reasons, the open-ended nature of such rules leads to confusion, leaving employers and employees in uncertainty. Such ambiguity tends to allow redundancy to serve as a ready excuse for unfair layoffs based on management expediency. In *Rasyidah Rosli v Ally Azran Holding Sdn Bhd*, the court established that a company that was alleged to have suffered financial hardship was in fact profitable and promptly replaced the dismissed employee with new staff, and hence the redundancy was a facade for wrongful termination.

Moreover, the redundancy regime in Malaysia is excessively tilted towards managerial discretion, at the expense of objective fairness. Under the doctrine of managerial prerogative, it is within employers' legal rights to organise their labour force in a manner conducive to the business, and courts are usually unwilling to interfere in such business decisions except where bad faith is shown. As seen in the case of *Nordson (Malaysia) Sdn Bhd v Lee Chin Tao, where the employer had to prove the reality of the redundancy,* but has no statutory duty to consult employees and include them in decision-making. Although the Code of Conduct for Industrial Harmony promotes transparency and fair practices in selection, such as the Last In, First Out principle, its non-binding status means that it is often overlooked. This gives employers broad leeway to make cost-oriented decisions that fail to consider social justice and the psychological welfare of employees.

Weak participation is worsened by poor procedural protection and enforcement systems, which are below global standards. In principle, employers are required to inform the Department of Labour prior to a retrenchment exercise; however, the penalties and fines for non-compliance are minimal and do not act as an effective deterrent. The current Malaysian legal framework does not impose any mandates requiring companies to seek alternative avenues of retraining, redeployment, or gradual reductions before engaging in terminations. This differs markedly from the requirements of ILO Convention No. 158, which states the necessity of good reasons, sufficient notice, and meaningful consultation. This study finds that even after recent amendments to the Employment Act, national enforcement institutions are not working effectively enough in safeguarding workers' rights against economic displacement.

This study also finds that the Fourth Industrial Revolution and the emergence of the gig economy have increased structural inequality. It is estimated that about 45% of the Malaysian workforce, which is about 6.7 million workers, is now exposed to generative AI, with 29% in the high-exposure category. Employees in manual routine or low-skilled labour are those most likely to be displaced by automation. Nevertheless, despite this threat, digital equity remains difficult to catch up because most of these workers are not given access to the reskilling programmes that can help them keep pace with the evolving market. This is especially apparent for gig workers and independent contractors, as they are not considered employees and therefore have no minimum wage, social insurance, or statutory redundancy cover. They are usually only left without a financial backup and no legal checks and balances when their positions are being terminated.

Workers' vulnerability is further increased because post-retrenchment support in Malaysia is two-tiered, as it depends on the employer's financial status rather than on legal obligations. Large and socially responsible corporations such as Petronas or Unilever use their resources to offer voluntary separation packages, career transition support, and retraining programmes. By contrast, small and medium businesses tend to retrench employees without financial protection or outplacement benefits since they cannot survive through economic recessions. The COVID-19 pandemic illustrated this disparity, as seen with AirAsia, which was compelled to lay off its employees in large numbers and to cut wages because of severe financial strain. This contradiction undermines the concept of economic justice because employees affected by the same economic forces obtain entirely different results simply because a given company has greater resources.

In addition to the financial implications, this study finds that the psychological impacts of downsizing and redundancy are extensive and have not been adequately addressed by existing laws. Displaced employees often experience stress, anxiety, depression and a significant loss of personal identity and social connection. Such harmful effects are compounded when employees feel that the layoff process is opaque and unfair. Studies have shown that redundancy decisions are often affected by social biases, with women and older employees being disproportionately selected for layoff in sectors such as retail and healthcare, since they are stereotypically categorised as not being flexible in technical matters. These restructuring survivors tend to acquire guilt and low morale, which may lead to a decline in organisational performance and trust over the long term.

When set against the theory of justice as fairness developed by John Rawls, the results suggest a systemic failure to protect the most disadvantaged members of society. The view of Rawls rejects institutions that justify the sufferings of a few for the gains of the majority, such as efficiency-driven retrenchments that favour corporate survival at the expense of employees. This shows that the current Malaysian system fails the test since it does not apply any serious mitigation strategies, including compulsory reskilling or substantial damages to bad faith layoffs, to ensure that the costs of economic restructuring are shared equitably. Instead, the legal framework lets the most exposed employees bear most of the losses from economic change without an adequate safety net.

Lastly, the study states that judicial protection in Malaysia is reactive rather than preventive. Because the law does not require approval or mandatory consultation prior to retrenchment, the Industrial Court only steps in after a worker has lost his or her livelihood. For many displaced employees, particularly those with no means to endure litigation, the imbalance of power between employer and employee makes access to justice nearly impossible. This reactive model does not offer systematic protection against the abuse of redundancy, and the workforce is left exposed to economic displacement until the damage and harm have been done.

RECOMMENDATIONS

The main suggestion is that a suitable amendment of the Employment Act 1955 is needed to include a clear statutory definition of redundancy. Currently, the lack of such a legislative definition causes over-reliance on inconsistent case law that consequently creates uncertainty for both employers and employees. Although the employer is allowed by the Industrial Court to reorganise operations to achieve efficiency, the court guards against the use of redundancy as a convenient tool for avoiding unfair dismissal. A good example is the case of *Rasyidah Rosli v. Ally Azran Holding Sdn Bhd*, where the court held that the employee was entitled to relief because even though the employer argued that the company faced financial hardship, the company was still profitable and had since re-employed the so-called redundant posts to new workers. The law can further distinguish between lawful operational needs and bad-faith dismissals, used to hide unfair dismissals, by codifying redundancy in statute. In addition, legislative reform must increase the punishment required for those companies that do not comply with reporting requirements to the Department of Labour, since the existing comparatively modest penalties cannot deter non-compliance.

To improve transparency, the Code of Conduct for Industrial Harmony should be incorporated into the Industrial Relations Act 1967, to change it from a voluntary guideline into a legal instrument. Under the current system, the non-binding character of the Code gives employers too much freedom in their choices in selection processes, which in many cases leads to decisions based on cost reduction rather than objective fairness. Making these guidelines mandatory and would entrench consultation, transparency, as well as the use of reasonable selection criteria, e.g. the kind used by International Labour Organization Convention No. 158, giving them status as prerequisite requirements for any retrenchment exercise. A regulatory change of this nature would bring Malaysia’s domestic labour system into line with internationally accepted rules and provide employees with stronger procedural safeguards.

In addressing issues created by the Fourth Industrial Revolution, this paper proposes that the Malaysian government should institutionalise reskilling and upskilling for workers at risk from technological displacement. Since about 45 per cent of the entire labour force is vulnerable to generative AI, these programmes will be essential in maintaining labour agility and enabling lower-skilled workers to achieve digital equity. The recommendations, beyond technical training, advance a comprehensive model of redundancy that integrates mental-health support, as well as outplacement services, thereby easing the severe psychological impact and loss of identity that accompany forced unemployment. These actions align with the principles of Corporate Social Responsibility (CSR) and advocate a form of responsible restructuring that treats employees as lasting assets rather than disposable liabilities.

In the context of implementing generative artificial intelligence and automation in the Malaysian workforce, legal regulations must undergo substantive change to protect employees from displacement caused by technological progress. Scholarly consensus supports mandatory just-transition policies that require enterprises to provide full-scale reskilling and upskilling programmes to be enacted by the government as a condition of any technology-driven displacement, which would align with current policy discourse on human capital protection. Based on John Rawls’s theory of justice as fairness, these policies should focus on the most vulnerable employees, especially those in low-skill or routine manual labour, to ensure meaningful access to digital equity and inclusion. This is not only a way to comply with the principles of distributive justice but also to address the systemic inequalities that are further deepened by rapid automation. Moreover, statutory benefits should be extended to cover gig-economy workers and independent contractors who are currently excluded from social insurance and have no legal recourse amid economic change. This amendment to the law would provide equality in the level of protection of the employment contracts of a traditional nature. It would help the welfare state withstand the destabilising effects of technological change.

CONCLUSION

This paper has assessed the effectiveness of the Malaysian legal framework governing redundancy and employee retrenchment arising from economic restructuring, technological progress, and post-pandemic recovery. Through doctrinal and juridical-normative analysis, the study concludes that, despite legal recognition of redundancy, current laws do not give adequate protection to retrenched employees and do not guarantee economic justice.

There is no statutory definition of redundancy in the Employment Act 1955, which results in legal ambiguity and allows it to be used as a guise for unfair dismissal. Judicial protection exists, but it is mostly reactive and puts the responsibility on the employees to challenge employer decisions. Moreover, the fact that the Code of Conduct for Industrial Harmony is not binding gives employers excessive discretion during retrenchment exercises, weakening procedural fairness and accountability. These failures indicate only partial adherence by Malaysia to international labour standards, especially ILO Convention No. 158.

Normatively, the existing framework does not meet Rawls’s theory of justice as fairness, since it allows efficiency-based retrenchment without requiring adequate consultation, clear selection procedures, or any form of meaningful mitigation. These shortcomings have been worsened by the rapid adoption of automation and artificial intelligence, which have disproportionately affected low-skilled workers and have denied participants in the gig economy any form of legal protection.

This paper has found that Malaysia’s redundancy regime requires extensive legal reform to restore it to the principles of economic justice. It is necessary to have a clear statutory definition, binding procedural protection, stronger enforcement, and just-transition policies focused on reskilling and worker welfare, so that economic progress is not achieved at the expense of employees’ dignity and security.

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