Improving Compliance with Labor Laws in MSMEs in Malaysia to Achieve Protection of Workers' Rights and Fair Industrial Relations

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Abstract

Compliance with employment law in micro, small, and medium enterprises (MSMEs) in Malaysia requires a practical understanding of wage obligations, working hours, social security, occupational safety and health, and worker grievance resolution. This article presents a community service plan planned for Polytechnic Tuanku Syed Sirajuddin, Perlis, on July 31, 2027. The primary target audience is MSMEs and workers. The designed methods include needs mapping, case-based legal counseling, compliance audit workshops, bipartite dialogue simulations, and knowledge evaluations and follow-up plans. The materials refer to the Employment Act 1955 for Peninsular Malaysia and Labuan, the Minimum Wages Order 2024, which will be fully effective from August 2025, EPF and PERKESO obligations, the Occupational Safety and Health Act 1994, and the Industrial Relations Act 1967. The outputs that have been formulated during the preparation stage are an obligation matrix, a compliance checklist, and an internal grievance handling process. Because the activity has not yet been implemented, this article does not indicate any increase in compliance or changes in participant behavior. Results will be assessed after the activity through pretest-posttest comparisons, simple document reviews, and follow-up. This plan positions legal education and equitable dialogue as pathways to translating norms into fair work practices.

Keywords: labor compliance; Malaysian MSMEs; workers' rights; industrial relations; community service.

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Introduction

MSMEs are a dominant part of Malaysia's business structure. Official data from SME Corp Malaysia shows that by 2025, micro, small, and medium enterprises will account for 96.2% of all companies, with 77.4% of these being microenterprises (SME Corp Malaysia, 2026). The large number of business actors means that compliance with labor laws at the small business level directly impacts worker protection. Furthermore, business owners often perform personnel, payroll, and record-keeping functions themselves; therefore, norms scattered across several laws need to be translated into simple administrative steps. This last statement is the basis for program design, not the findings of a survey of potential participants.

Malaysia's legal framework has changed in recent years. The Pindaan Employment Act 1955, which came into effect on 1 January 2023, expanded the scope of worker protection in Peninsular Malaysia and Labuan, limiting ordinary working time to 45 hours per week, extending maternity leave to 98 days, and regulating paternity leave at seven days (Jabatan Kerja Semenanjung Malaysia [JTKSM], n.d.). The Minimum Wages Order 2024 sets a minimum basic wage of RM1,700 a month. Once the suspension period for employers with fewer than five employees ends, this provision applies to all covered employers beginning August 1, 2025; allowances and incentives are not counted as minimum basic wages (Ministry of Human Resources Malaysia, 2024).

MSME obligations do not stop with wages. Employers need to check registration obligations and contributions to the Employees Provident Fund (EPF/KWSP) and Social Security Organization (PERKESO), occupational safety and health, as well as dispute handling mechanisms. Legal provisions also differ by region: the Employment Act 1955 discussed in the Perlis event should not automatically apply to Sabah and Sarawak, which have their own labor regulations; The proposed Sarawak Labor Ordinance is effective from 1 May 2025 (JTKSM, nd; Sarawak Labor Department, 2025).

This community service activity was planned at Tuanku Syed Sirajuddin Polytechnic in Arau, Perlis. The goal was to improve the ability of MSMEs to recognize legal obligations, review their work practices, improve employment documentation, and establish accessible grievance channels for workers. Practical questions guiding the activity were: what obligations do MSMEs most need to review? How can workers' rights be explained in operational terms? And how can internal dialogue prevent disputes from escalating into termination or formal proceedings?

Literature Review

2.1 Employment law compliance

Legal compliance is understood as the alignment between business practices and applicable obligations, which can be demonstrated through documentation, payments, and daily behavior. In MSMEs, basic indicators include a clear contract or offer letter, a basic wage that meets at least the provisions (Hutabarat W, Nurhayati S, Rafianti F, 2024), work time and leave records, pay slips, social security contributions, and follow-up on safety risks (Rahmayanti et al., 2025). In the context of Peninsular Malaysia, the Employment Act 1955 provides minimum standards, while more favorable contract terms can be maintained. Certain exceptions apply to workers earning more than RM4,000 per month, for example regarding overtime pay, work on rest days, holidays, and severance benefits, except for the specifically regulated category of manual workers (JTKSM, n.d.).Hans Kelsen further explains that legal certainty is achieved through a hierarchical legal system in which lower legal norms derive their validity from higher legal norms [9]. Therefore, judicial decisions concerning interfaith family disputes should be based on coherent legal principles that harmonize statutory provisions with constitutional values, particularly the principles of justice, equality before the law, and the protection of human rights.

A community service approach needs to connect legal knowledge with the daily decisions of business owners. Research by Nurhayati, Wahyuni, and Hasibuan (2023) on minimum wage education in Indonesia demonstrates the relevance of legal education that stems from wage

issues that are readily recognized by the public. These findings serve as inspiration for education methods; the legal substance is not simply transferred to Malaysia.

2.2 MSMEs in Malaysia

SME Corp Malaysia (nd) defines micro-enterprises across sectors as companies with an annual turnover of less than RM300,000 or fewer than five full-time employees. For the manufacturing sector, the upper limit for the MSME category is a turnover of RM50 million or no more than 200 employees; for services and other sectors, it is RM20 million or no more than 75 employees. Classification follows the criteria of turnover or employees, whichever results in the smaller category. This definition helps select case studies, but employment obligations are still determined by law and employment status, not simply by the size of the business.

2.3 Protection of workers' rights

Protection of workers' rights includes economic rights, rest periods, social protection, safety and dignified treatment. The program checklist will prioritize five areas: (1) base wages and proof of payment; (2) working hours, leave, and attendance records; (3) registration and EPF and PERKESO contributions according to worker eligibility; (4) identification of hazards and safety measures; and (5) handling discrimination, sexual harassment and complaints. The EPF states that employers are required to register within seven days of the accrual of the hiring obligation; PERKESO states that employers who have at least one employee are required to register and register according to the applicable regime (Employees Provident Fund [EPF], 2026; Social Security Organization [PERKESO], nd). The application of contributions must take into account the status and category of the worker concerned.

The Occupational Safety and Health Act 1994 is also relevant to MSMEs. Under Article 29A, workplaces with five or more workers that are not required to appoint a safety and health officer must appoint one of their workers as an occupational safety and health coordinator, unless the requirements for appointing such an officer are met (Department of Occupational Safety and Health [DOSH], 2024). Therefore, training materials will avoid the perception that small businesses are exempt from safety responsibilities.

2.4 Fair industrial relations

Fair industrial relations require open information, the opportunity to raise grievances without retaliation, dialogue, recording of decisions, and access to legal mechanisms if internal resolution fails (Agustina Y, Nurhayati S, Marbun RJ; 2026)The Code of Conduct for Industrial Harmony serves as a guideline for employers, workers, and unions; its role as a guideline should be distinguished from statutory obligations (Department of Industrial Relations Malaysia [DIRM], n.d.-a). In cases of dismissal deemed without just cause or justification, workers may file a reinstatement petition under Section 20 of the Industrial Relations Act 1967 within 60 days of dismissal (DIRM, n.d.-b).

Nurhayati, Wakhyuni, and Nasution (2024) emphasize the importance of transparent information on workers' rights and structured advocacy channels in resolving industrial disputes in Indonesia. This idea supports the selection of simulated dialogue and grievance procedures in this program. However, the Indonesian legal model and mechanisms in this article are not equated with official Malaysian procedures.

Methods

This article uses a community service design based on participatory legal education and brief mentoring. The activity is planned for July 31, 2027, at the Tuanku Syed Sirajuddin Polytechnic, Perlis, targeting MSMEs and workers. The number of participants, implementing partners, and session duration will be determined in further coordination. The polytechnic's location will serve as the activity venue; its status as a partner or organizer is not assumed until confirmation is received.

The first stage is a needs assessment. The team will distribute a short form to prospective participants to map their business sector, number of employees, contract type, payroll process, social security registration, and types of complaints. Sensitive data will only be used in aggregate and with participant consent. The assessment results will determine the material's emphasis and case studies.

The second stage is case-based counseling during the main session. The facilitator explains the scope of jurisdiction, minimum wages, working time and leave, EPF and PERKESO, safety obligations, and dispute channels. One payroll case and one termination complaint case were used for the joint exercise. Legal information is presented along with official sources so participants can check for regulatory changes after the event.

The third stage is a self-audit workshop. Participants assess their own business documents using a checklist; if original documents cannot be brought, anonymous samples can be used. Each participant or group is asked to develop three specific corrective actions, a responsible person, and a deadline for implementation. The fourth stage is a simulated bipartite dialogue: employers and worker representatives practice receiving complaints, verifying facts, proposing solutions, and recording agreements without hindering workers' access to the relevant authorities.

The evaluation is planned at three levels. Knowledge is assessed with the same pre- and post-test items on basic wages, regulatory coverage, contributions, and dismissal representation deadlines. Practical ability is assessed by the accuracy of checklists and action plans. A follow-up one to three months later will inquire about whether documents and procedures have been significantly improved, with voluntary verification in the form of disguised document samples. Score changes can be reported descriptively; claims of changes in compliance are only made when evidence of implementation is available. The instrument, number of respondents, and final analysis procedures will be adjusted based on partner approval and field conditions.

Results and Discussion

At the time of drafting (October 2026), the activities planned for July 31, 2027, had not yet been implemented. Therefore, this section reports the results of the design phase based on a review of official sources, not participant observations. No attendance figures, pretest–posttest scores, changes in compliance levels, oru testimony that can be stated as a finding.

4.1 Design phase output

The first output is a material matrix linking legal obligations, simple evidence, and corrective pathways. This structure was chosen to enable participants to transform abstract norms into actionable business audits. The following matrix is an initial training tool and should be updated as the program progresses..

Field	Initial Examination	Practical Follow-up
Wages	Basic salary and pay slip compared to RM1,700 per month, allowances are separated	Structured correction of wages and save proof of payment
Working hours and leave	Schedule of attendance records, contracts, and examination leave rights	Adjust schedule and written change information
Social protection	EPF/PERKESO registration and payment status is checked by worker category	Register or correct contributions through official channels
Work safety	Workplace risks and K3 responsibilities are mapped	Establish risk controls and coordinators if required.
Complaints and disputes	There are channels for complaints, recording, response and referral reform.	Define response flow and access rights to authorities

The second outcome is a four-step internal grievance flow: receipt of a recorded written or verbal complaint; mutual verification without retaliation; negotiation and documentation of the outcome; and information about official channels when agreement cannot be reached. This flow is a proposed governance practice, not a substitute for the procedures required by the Industrial Relations Act 1967. The 60-day deadline for dismissal representations should be communicated early so that the internal process does not deprive workers of the opportunity to exercise their legal rights (DIRM, nd-b).

4.2 Discussion of implications and limitations

The activity design positions compliance as a series of demonstrable actions. Knowledge of the minimum wage, for example, is insufficient if the salary structure still incorporates allowances into the base wage (Nurhayati, S., Wahyuni, E., & Hasibuan, SA, 2023). Similarly, industrial relations deemed "harmonious" are not necessarily fair if workers lack channels to raise grievances. Therefore, norm education is combined with document audits and dialogue exercises. The relationship between education and practice change is a working hypothesis of the program that must be tested after implementation, not an empirical conclusion of this article.

This design also takes into account the limitations of micro-businesses. The checklist is concise and separates generally applicable obligations from those that depend on the number of employees or their status. For example, the safety coordinator requirement in Article 29A applies under certain conditions, while PERKESO registration is already relevant for employers with one employee. The clarity of the classification prevents simplifications that could mislead businesses. The material will need to be reviewed by July 2027, as minimum wage levels and administrative requirements are subject to change.

Following the activity, the final journal manuscript should include verifiable field data: number and profile of participants, session documentation, exercise completion rates, pre- and post-test score distributions, anonymized examples of action plans, participant feedback, and follow-up results. The final discussion should separate immediate post-training knowledge gains from actual workplace compliance. Without follow-up, behavioral changes cannot be inferred from post-tests alone.

Conclusion

The planned community service program at Politeknik Tuanku Syed Sirajuddin, Perlis, offers a labor law education model that combines counseling, self-audits, and dialogue simulations. The core topics include minimum wages, work standards, social protection, safety, and grievance resolution within the Malaysian legal framework relevant to Perlis. At the pre-implementation stage, available outputs include a draft methodology, a compliance matrix, and an internal grievance flow. The impact on knowledge, compliance, worker protection, and industrial relations fairness cannot be assessed until the activities and follow-up activities are implemented. The final draft must be updated with empirical data and a review of the regulations in effect at the time of the activities.

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