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CONTRACT AND LABOUR LAW IN EMPLOYMENT CONTRACTS

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ABSTRACT

The interaction of contract legislation and labour laws is at the core of the law regulation of employment relations. Although the law of contract is usually based on the freedom of the parties themselves to decide on the terms, the introduction of labour law provides new statutory requirements imposed on parties by the government and public policy concerns. This paper is a research study of the interaction between these two legal fields, in relation to employment contracts, in terms of how the above key elements of contracts are framed by requirements of minimum labour standards and legislative requirements. Through the analysis, the employment agreements are revealed as not being bound by the will of the contracting parties only as they are deeply impacted by the laws making the workplace fair, non-discriminatory, and protecting social well-being.

Comparative insights, landmark court cases are cited to reveal the extent to which courts weigh the freedom of contract of individual people against the labour rights of people. The paper evaluates the enforceability of the contractual terms concerning termination, non-compete strategies and the method of resolving disputes in general within the labyrinth of the labour law adherence. As the paper critically analyzes the cross-influences of contract and labour law, it can provide valuable contributions to employers and employees alongside legal practitioners and policymakers, with the vital necessity of harmony between the agreement of individuals/parties and the good of the population. By doing so, it shows how the content and efficacy of employment contracts hinge on the necessity of striking a balance between such laws of contractual certainty and the necessities of social justice inherent in labour law.

INTRODUCTION

Employment contracts occupy a boundary between contract law and labour law because they combine the principles of free contract with imperatives of public policy grounded in the need to protect the interests of workers. Contract law is the source of the rules on how to form, interpret, and enforce agreements, and focuses on such factors as assent by the parties, stipulated consideration, and legality. Labour law, in its turn, superimposes regulatory provisions to resolve power disparities in the context of employer-worker relationships while

setting the minimum wage rates, anti-discrimination requirements and collective bargaining rights. Such a meeting ground is essential to the calculation of the validity or invalidity of a contract in law, whether it satisfies the minimal requirements of formation or not, and enforceability or unenforceability, whether it is capable of being enforced in a court of law, as far as it does not impair the normal provisions of law or otherwise contravenes the statutes.

Employment contracts must meet general contract principles; clear offer, acceptance, consideration (e.g., work in exchange of pay), capacity, and lawful purpose in order to be valid. Nonetheless, labour law brings about finer points; that as example, those contracts that violate the minimum standards of labour, such as paying less than the legal wage, are not valid. Enforceability can also add an additional twist because even acceptable contracts can be overturned since they can be found to place a restraint of an undue nature, e.g., be overly broad noncompete clauses or actually be the product of coercive methods.

These dynamics are analyzed in this paper, with the emphasis on the tensions in at-will employment regimes that are most frequent in the U.S., where it is assumed that contract is presumptively terminable at-will. It relies on both empirical and doctrinal studies to explain the cause-effect relationship between misapplications of contract ideas/conceptions, and how they result in the emergence of what it calls employment contract exceptionalism--places where there are deviations of rules that do not fit into the mainstream commercial law of contracts[1]. The thesis theory is that increased application of the modern contract rules, good faith and reasonable notice, to maintain consistency in labour protections, would lead to fair results. It goes on to analyse using principles of the law of contract and the law of labour, their overlaps, case studies, problems, and recommendations.

PRINCIPLES OF CONTRACT LAW IN EMPLOYMENT CONTRACTS

The Indian Contract Act, 1872 (ICA) is the primary law that governs contract law in India and regulates the signing and interpretation of employment agreements, stipulating that the agreement should incorporate the main factors to be valid. In Section 2(a) of the ICA, the offer should be definite, i.e., job description, remuneration, and term period; acceptance as per Section 2(b) may be explicit or by implication through action, i.e., starting work. In Section 2(d), consideration is required--employees render services on terms of compensation--but

[1] Rachel Arnow-Richman and J.H. Verkerke , Deconstructing Employment Contract Law, UF Law Scholarship Repository, 2023 https://scholarship.law.ufl.edu/cgi/viewcontent.cgi?article=2225&context=facultypub

where the employer has wide rights of termination, the consideration can be contested as not mutual as it makes the promise illusory[2].

There arise matters of validity when the contracts do not have free consent or when they are coerced. An example is the case where an employee has signed under the threat of being fired, coercion under Section 15 or undue influence under Section 16 could render the contract invalid, and the courts would consider whether the threat was unreasonable and limit the party to any reasonable alternatives[3]. Cancellation may also be affected where it violates the public policy in Section 23, such as unconscionability where there is an unequal balance of bargaining power (procedural) or unfair terms (substantive) in the contract, especially in the standard form or adhesion contracts found in employment[4]. Jurisprudence has condemned oppressive provisions as unconstitutional and abusive in the fundamental rights guaranteed in Articles 14 and 21 of the Constitution, with the effect that refusal to enforce can be made in case the terms are unreasonably oppressive.

Compliance with public policy and legality is required of enforceability. Pacts that foster unlawful practices such as tax evasion are void ab initio in Section 23[5]. Good faith in performance underlines modern judicial interpretations, based on the equitable principles, but are not legally codified as in some international regimes; changes are normally made with new consent and consideration under Section 62, unlike the inflexible norms in continuing relations. Nevertheless, the courts can maintain changes if they are consistent with business efficiency or tradition.

Such a strategy captures the relational character of employment contracts in India, which tend to be indefinite and change over time in contrast to discrete commercial transactions. Courts sometimes invoke the principles of unilateral contract, i.e., a promise made by the employer (e.g. performance bonus) which binds the employee on performing it, but this does not suit well contracts that are ongoing and is a matter of implied assent through continued performance.

LABOUR LAW INFLUENCES ON EMPLOYMENT CONTRACTS

The Indian labour law moderates the freedom of contract with anti-exploitative protections, with long-lasting consequences on validity and enforceability. In contrast to the at-will

[2] Indian Contract Act, 1872, Section 2 (a)
[3] Central Inland Water Transport Corporation Ltd. v. Brojo Nath Ganguly (1986), https://www.advocatekhoj.com/library/lawreports/unfair/26.php?Title=Unfair
[4] LIC of India v. Consumer Education & Research Centre (1995) 5 SCC 482, https://api.sci.gov.in/supremecourt/2012/32841/32841_2012_10_1501_32101_Judgement_09-Dec-2021.pdf
[5] Indian Contract Act, 1872, Section 23.

doctrines in other countries, Indian employment, in particular employment of workmen in lieu of the Industrial Disputes Act, 1947 (ID Act), assumes security of tenure, and termination must be based on just cause, notice, or compensation by the employer, under Sections 25F and 25N, which makes arbitrary dismissal hard to sustain[6].

Contracts that contravene these mandates are voided by statutory overlays like the Minimum Wages Act, 1948 in wage floors, the Payment of Wages Act, 1936 in timely payments and the Employees Provident Funds and Miscellaneous Provisions Act, 1952 in social security. An instance is a contract that lays down remunerations that are lower than the legally required minimums. It is unenforceable through the Minimum Wages Act[7]. Articles 14, 15, and 16 of the Constitution form the basis of provisions against discrimination because of caste, gender or religion, with further investigation under the Equal Remuneration Act, 1976, and Maternity Benefit Act, 1961.

In India, labour law implies terms like reasonable notice for termination, even absent explicit agreement, as per state-specific Shops and Establishments Acts (e.g., one month's notice in many states). These connotations cover the aspect of power inequality, granting equal treatment in terminations or changes, and courts filling lacuna according to custom or need[8].

Public policy exceptions, such as protections of whistleblowers or people who refuse to make illegal directives, are enforceable and are frequently supported by the constitutional rights. In long-term hiring or under policies of a firm guaranteeing fair procedures, the courts can suggest the just-cause criteria, depending on the jurisdiction and type of employee.

Collective agreements are also governed by labour law under the ID Act where settlement or award made by conciliation binds both employers and workers invalidating individual contracts in accordance with Section 18. This grouping highlights the focus of labour law on equity and social justice, rather than the unchecked autonomy of contracts, especially in the period of transitions during the implementation of the Labour Codes of 2019-2020, the full enforcement of which is currently delayed at the state level because of delays and resistance[9].

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[6] Industrial Disputes Act, 1947, Section 25F.

[7] Minimum Wages Act, 1948.

[8] Swastik Sarkar, Labour Code implementation: A delicate balance between reform and resistance, 2025, ET HRWorld, https://hr.economictimes.indiatimes.com/news/industry/labour-code-implementation-a-delicate-balance-between-reform-and-resistance/121457677

[9] Anilesh Mahajan, What RSS trade union arm's conditional embrace of Modi govt labour codes indicates, 2025, India Today, https://www.indiatoday.in/india-today-insight/story/what-rss-trade-union-arms-conditional-embrace-of-modi-govt-labour-codes-indicates-2777743-2025-08-27

THE INTERSECTION: KEY AREAS OF OVERLAP AND TENSION

The intersection manifests prominently in mid-term modifications, noncompete clauses, and implied terms, where contract doctrines clash with labour protections.

- **Mid-Term Modifications**

Employers tend to change terms during employment, including adjusting wages, hours of work, or leaves, and take advantage of their role in employment relationships. In India, the situation varies greatly depending upon whether the employee is a workman as defined by the Industrial Disputes Act, 1947 (ID Act) or not a workman (usually a manager or supervisor). To workmen, the unilateral changes are limited, whereas to non-workmen, they are more governed under the general contract principles in the Indian Contract Act, 1872 (ICA).

Section 9A of the ID Act[10] requires a 21-day notice of any intended change in conditions of service to workmen in connection with matters mentioned in the Fourth Schedule, including wages, compensatory allowances, hours of work, leave with wages, and shift working. This is to give an opportunity to workers to react, possibly via collective bargaining, and failure to do so makes the changes null. In the case of non-workmen, the change must be agreed to by the employee and must be considered valid under Section 10 of ICA, since only ongoing employment cannot serve as a valid consideration.

In Workmen of the *Food Corporation of India v. Food Corporation of India (1985)*[11], made an attempt to rewrite the terms of service without submitting the desired Section 9A notice. The Supreme Court declared that this kind of change was invalid ab initio, and that procedural safety was mandatory to allow protection of workmen against arbitrary changes. The case is also applicable because it combines the elements of labour law protection and validity of the contract, so that modifications made between periods comply with the fairness provisions of the law but do not take advantage of a power imbalance.

Conversely, in *P. Virudhachalam & Ors. v. The Management of Lotus Mills & Anr. (1998)*[12], A settlement arrived at in the conciliation proceedings under the ID Act changed the terms that applied to union members and non-members, as seen in the given case. The Supreme Court affirmed the binding quality of the settlement to all workmen, which demonstrates that collective bargaining may enable mid-term adjustments and holds even those not inclined to it.

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[10] Industrial Disputes Act,1947, Section 9 (a)

[11] Food Corporation of India v. Food Corporation of India (1985) 2 SCC 136, https://indiankanoon.org/doc/323893/

[12] P. Virudhachalam & Ors. v. The Management of Lotus Mills & Anr. (1998) 1 SCC 650, https://indiankanoon.org/doc/188638/ & https://awmlegal.in/the-judgment-that-could-change-every-employment-contract/

This puts a point on the conflict between individual contractual autonomy under the ICA and collective labour rights.

Unconscionability concerns one-sided changes, as in the case of *Central Inland Water Transport Corporation Ltd. v. Brojo Nath Ganguly in 1986*[13], in which the Supreme Court declared an amendment to a standard form contract rule permitting termination without prior notice to be unconscionable under Section 23 of the ICA, because of unequal material bargaining power. The court denied enforcement because it was inconsistent with public policy and Article 14 of the Constitution. It is applicable in this case, combining the contract defences, such as unconscionability, with the labour principles, so that any mid-term changes do not prejudice the essential rights[14].

This scheme suggests the exercise of contract principles mitigated by labour standards; although the ICA emphasises mutual consent, labour legislation such as the ID Act provides a notice to overcome duress because of economic dependency. One of the suggested reforms is the requirement of consultation, as well as notice, which makes the process more just according to the ethos of labour.

- **Noncompete Clauses**

Noncompetition prevents competition when former employees are employed, although in India, there is Section 27 of the ICA, which invalidates noncompetition in restraint of trade, with the exception of goodwill sale on restricted conditions. These types of clauses become enforceable in employment when reasonable, but not enforceable after termination in general[15]. Labour law overlaps through matters of policy: noncompete may interfere with labour mobility and the mobility of skills, which can affect livelihoods. Although it is not regulated directly under the labour laws, such as the ID Act, the public policy against restraints is of priority in court, thereby promoting economic freedom.

In *Niranjan Shankar Golikari v. Century Spinning and Manufacturing Co. Ltd. (1967)*[16], had signed a noncompete agreement whilst employed and after employment to aid trade secrets acquired through foreign cooperation. The Supreme Court found the clause during employment

[13] Central Inland Water Transport Corporation Ltd. v. Brojo Nath Ganguly (1986) AIR 1571, https://indiankanoon.org/doc/477313/

[14] Aaditi Sinha, The Myth of (Fragile) Consent: Unilateral Changes And Indian Employment Law, Law School Policy Review, 2024 https://lawschoolpolicyreview.com/2024/12/30/the-myth-of-fragile-consent-unilateral-changes-and-indian-employment-law/

[15] Understanding Non-Compete Clauses in India, Corrida Legal, July 01, 2024https://corridalegal.com/non-compete-clauses-in-india/

[16] Niranjan Shankar Golikari v. Century Spinning and Manufacturing Co. Ltd. (1967) AIR 1098, https://indiankanoon.org/doc/452434/

to be reasonable yet invalidated the restraint of trade after termination under Section 27, terming it as an undue restraint to trade. The case is applicable in the context of applying the reasonableness test to the contract law when taking into consideration the labour effects on the mobility of the employees.

In *Superintendence Company of India (P) Ltd. v. Krishan Murgai (1980)*[17], the employer was trying to have the employee sign a post-employment noncompete agreement against the employee where they were not allowed to compete with in two years. The Supreme Court voided it under Section 27 and opposed any idea of partial enforcement and the absolute bar to restraint after termination. It is relevant because it places the labour policy above the trade restraints rather than the contractual liberty, ensuring the right of the workers to livelihood.

- **Implied Terms**

Labour law connotes clauses such as reasonable giving of notice of termination, which is absent in pure contract law and is very essential in employment to cover loopholes. In the ICA, words can be implied to business efficacy or custom, under Section 9 (proposals and acceptances can be implied to exist by conduct).

In *Common Cause v. Union of India (1999)*[18], which is not necessarily employment, the Supreme Court suggested that it was the terms of good governance in the placement of public contracts and that affected employment, in that employment implied duties of fairness. In employment, however, the courts suggest that terms such as non-disclosure of confidential information after the end of employment, as in the case of *VFS Global Services Pvt. Ltd. v. Suprit Roy (2008)*[19], the Bombay High Court implied an obligation not to misuse trade secrets, and this implied job is enforceable even in the absence of a specific clause.

Courts suggest necessity terms to be imposed on them, including reasonable notice in indefinite contracts under state Shops and Establishments Acts (e.g., Delhi Shops and Establishments Act, 1954, and this would imply a one-month notice). This overlaps in that enforceability is strengthened where there are no explicit terms that are silent to guard against arbitrary action. These regions demonstrate exceptionalism in the Indian employment contracts, which escapes the general commercial principles to support worker protection under labour laws.

[17] Superintendence Company of India (P) Ltd. v. Krishan Murgai (1980) AIR 1717, https://indiankanoon.org/doc/1186410/

[18] Common Cause, A Registered Society vs Union Of India & Ors (1999) 6 SCC 667, https://indiankanoon.org/doc/1707158/

[19] VFS Global Services Pvt. Ltd. v. Suprit Roy (2008) https://indiankanoon.org/doc/1547420/

Challenges and Proposed Reforms

- **Doctrinal Incoherence & 'Workman' Classification-**

  Continued doctrinal confusion between workman and non-workman under the Industrial Disputes Act and non-workman and ordinary contract law. This dualism makes employment law difficult.

- **Adhesion Contracts & Power Asymmetries-**

  Indian workers, particularly in non-workman employment, tend to work on adhesion contracts devoid of statutory safeguards or regulatory review- exacerbating the vulnerability of workers. Anthropomorphic beings can only be described by aids and impediments to the proliferation of life.

- **Labour Codes Consolidation & Opposition-**

  To streamline 29 central labour laws, the four codes of labour of 2019-2020, such as Code on Wages, Industrial Relations Code, Occupational Safety, Health and Working Conditions Code, and Social Security Code, were adopted. Nevertheless, their adoption has been postponed in most states, and trade unions have vehemently protested them, calling them anti-worker reforms[20].

- **Implementation Lags & State-Level Variations-**

  Application has been patchy with numerous states not having draft rules in place. Labour is an overlapping topic, and the slow deployment poses a threat to homogeneity and the diminution of worker rights[21].

- **Union Resistance & Protests-**

  Several demonstrations and strikes can be used to describe the common backlash against the new codes:

  - In September 2024, thousands of workers protested in major cities demanding that the labour codes need to be repealed as it gave preference to corporations at the expense of rights.
  - A nationwide Bharat bandh strike in July 2025 brought most of the industries to a halt, and unions lamented labour reforms and demanded its repeal.

[20] CPI asks State Governments not to Enact Centre's 4 Labor Codes, The Times of India, July 18, 2025, 22:49 IST https://timesofindia.indiatimes.com/city/patna/cpi-asks-state-govts-not-to-enact-centres-4-labour-codes/articleshow/121936986.cms

[21] Auro Prasad, The Impact Of Labour Codes 2020 On Workers' Rights: Reform Or Regression?, Legal Service India, https://www.legalserviceindia.com/legal/legal/article-21138-the-impact-of-labour-codes-2020-on-workers-rights-reform-or-regression-.html

- In June 2025, AITUC and CPI called on states to refuse to enact the codes and described them as efforts to undermine collective bargaining.
- In May 2025, leaders of the unions would hold strategy talks around the country before a coordinated strike.
- **Non-Compete Clauses & Section 27 of the ICA-**

The Indian Contract Act, 27 has been criticised on its strict attitude towards after-employment restraint. Recent decisions and criticism indicate that the judiciary should be reviewed: *Varun Tyagi v. Daffodil Software (2025)* - a non-compete enforcement was invalidated by the Delhi High Court, meaning that the Section 27 requirements can be liberalized by the courts[22]. In *Niranjan Shankar Golikari v. The Supreme Court (1967)* did not strike down non-competes in the working term, but required a stringent examination of the same in Century Spinning after the end of the term[23].

The following solutions are proposed:

- Proposals by experts and reformers are: Requiring reasonable notice time (e.g., 1-3 months) to change to prevent duress, in line with the state Shops and Establishments Acts.
- Increasing judicial review of non-competes, restraints restricted to specialized/high-skill functions: The identification of gig/platform workers as hybrid employees with statutory protections aligned to the EU models and social security under the Social Security Code.

Empowering labour courts to strengthen dispute resolution to achieve equity in the enforcement of employment contracts (reflected in wider commentary on reform)[24].

CONCLUSION

The clash between the Indian Contract Act, 1872 (ICA), which emphasizes matters related to free consent (Section 10), consideration (Section 2(d)) and legality (Section 23), and the protective requirements of labour laws such as the Industrial Disputes Act, 1947 (ID Act), is reflected in the intersection of contract law with labour law in Indian employment contracts. Although the ICA guarantees minimum levels of validity by enforcing the mutual agreement

[22] Rahul Sundaram, Section 27 of the Indian Contract Act: Varun Tyagi Judgment and Delhi High Court's Ruling on Non-Compete Clauses, 2025, India Law LLP, https://www.indialaw.in/blog/labour/section-27-of-indian-contract-act-varun-tyagi-ruling

[23] The Enforceability of Non-Compete Clauses in India: Section 27 and Judicial Precedents, CAclubIndia, August 23, 2025 https://www.caclubindia.com/articles/the-enforceability-of-noncompete-clauses-in-india-section-27-and-judicial-precedents-53956.asp

[24] Swastik Sarkar, Labour Code implementation: A delicate balance between reform and resistance, 2025, ET HRWorld, May 28, 2025, 12:49 IST https://hr.economictimes.indiatimes.com/news/industry/labour-code-implementation-a-delicate-balance-between-reform-and-resistance/121457677

and the lawful purpose, the labour laws moderate the degree of enforceability with measures against unreasonable terms, groundless termination, and manipulative changes. As an example, Section 9A of the ID Act requires prior notification of variations in the terms of service to workmen, to respond to inherent power imbalances that the pure contract principles would not adequately address. This framework seeks to have an equalizing effect, but because of misuse, including courts sometimes sustaining one-sided provisions in non-workmen contracts, it contributes to the creation of employment contract exceptionalism, which disfavours vulnerable employees, who may be in informal sectors or lacking union coverage.

To close these gaps, it is urgent to incorporate doctrines such as reasonableness (implied in Section 27 restraints), and implied fairness with the ongoing reforms under the four Labour Codes of 2019-2020, namely the Code on Wages, 2019; Industrial Relations Code, 2020; Occupational Safety, Health and Working Conditions Code, 2020; and Code on Social Security, 2020. The codes aim to unify 29 archaic laws into a simplified regime which will allow employers to be more flexible and protections such as social security and minimum wages to be better universalized. Nevertheless, by 2025, implementation is still incomplete and lagging behind because of political resistance, awaiting state regulations, and differences in coordination between central and state authorities[25]. Full implementation, which is expected in the 2025-26 financial year or phased over 2025, can potentially fix the doctrinal incoherence by adding the gig workers, streamlined dispute resolution provisions, and normative hiring/firing practices.

The harmonization of these reforms with constitutional requirements of Articles 14 (equality) and Article 21 (right to life and livelihood) should be proactively taken by courts and policymakers to promote coherence and equity. To inform evidence-based policy adaptation, future research must explore barriers to implementation, including state-level differences, the assimilation of the gig economy, and evidence-based effects on the mobility of workers and wages. This evolution will eventually deliver not just employment contracts that are legally enforceable under the ICA but fair, legally enforceable contracts that would empower the vast workforce of India, which has more than 500 million workers in an economy that is rapidly being modernized.

[25] R. Satish Babu, India's Labor Codes: Challenges to Nationwide Adoption, Rane WorldView, Aug 15, 2025, 16:45 https://worldview.stratfor.com/article/indias-labor-codes-challenges-nationwide-adoption